



# Town of Butler

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## Financial Management

**2024M-119 | December 2024**

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# Report Highlights

## Town of Butler

### Audit Objective

Determine whether the Town of Butler (Town) Board (Board) effectively managed the Town's town-wide and town-outside-village (TOV) fund balances.

### Key Findings

The Board did not effectively manage the Town's fund balances. As a result, officials maintained an excessive unrestricted fund balance in the town-wide and TOV funds. As of December 31, 2023, the funds had a combined total of \$1.5 million, equaling 64 and 138 percent of each fund's upcoming year's budgeted appropriations.

The Board also adopted unrealistic budgets by consistently underestimating revenues and overestimating expenditures for the town-wide and TOV funds from 2021 through 2023. Furthermore, the Board did not adopt a comprehensive financial plan, reserve policy or an effective fund balance policy. As a result, the Board's ability to properly manage the Town's fund balance was impaired.

The audit also identified a \$250,000 encumbrance for a plow truck that was not recorded in the accounting records or reported on the 2023 Annual Financial Report (AFR), required to be filed with the Office of the New York State Comptroller (OSC).

### Key Recommendations

The audit report includes eight recommendations to help improve the Town's financial management.

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

### Audit Period

January 1, 2023 – April 30, 2024

We extended our audit period to January 1, 2021 to review historical budget trends.

### Background

The Town is located in Wayne County (County), and the village of Wolcott is partially located within the Town. The elected five-member Board, composed of the Town Supervisor and four Board members, is responsible for the general management and control of the Town's financial affairs, which includes adopting the annual budget and establishing financial policies. The elected Highway Superintendent (Superintendent) is responsible for managing the highway budget.

The Town has six operating funds including the town-wide general and highway funds and the TOV general and highway funds. The town-wide funds are funded primarily by real property taxes, while the TOV general fund is funded primarily by sales tax and the TOV highway fund is funded by real property taxes and Consolidated Local and Highway Improvement Program (CHIPs) revenues.

#### Quick Facts

Total 2024 Appropriations for Town-wide and TOV Funds	\$1.56 million
Total Fund Balance for Town-wide and TOV Funds as of December 31, 2023	\$1.95 million
Population	1,835

# Financial Management

## How Should a Board Manage Fund Balance?

A key measure of a town's financial condition is its level of fund balance, which represents the difference between revenues and expenditures accumulated over time. Maintaining a reasonable amount of unrestricted fund balance within operating funds is an important financial consideration for town officials because it is available for appropriation to reduce taxes, fund one-time expenditures and other uses. Accumulating funds in legally established reserves allows town officials to save for certain future expenditures.

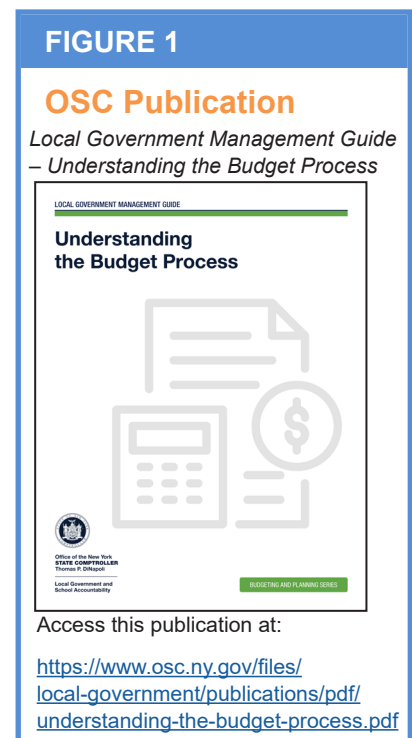
To properly manage fund balance, a town board should develop and adopt reasonably estimated and structurally balanced budgets based on historical trends and other known factors, in which recurring revenues finance recurring expenditures. To assist local officials, OSC provides various publications and training tools, including our Local Government Management Guide entitled *Understanding the Budget Process* (Figure 1). Budgetary estimates must be transparent and realistic. The total financing sources from estimated revenues, which can include other funding sources such as appropriated fund balance or reserves, must equal the town's budgeted appropriations for the fiscal year.

New York State Highway Law Section 284 requires a highway superintendent and board to annually agree, in writing, on expenditures related to the repair and improvement of highways, sluices, culverts, bridges and walks (Section 284 Agreement) which can serve as a useful tool in developing an accurate annual highway budget. Accurate budget estimates help ensure the tax levy is sufficient to meet needs and is not greater than necessary.

Additionally, New York State Town Law Section 107 requires that the preliminary budget show, by fund, proposed appropriations and estimated revenues, a fund balance estimate and the amount of taxes to be levied. The fund balance estimate is required to provide a breakdown of amounts encumbered, amounts set aside for reserves, amounts appropriated to finance the next year's budget and the remaining estimated unappropriated, unrestricted fund balance for each fund.

A town board must assess what would be considered reasonable for the town's situation and should adopt a written fund balance policy that addresses the appropriate levels of unrestricted fund balance to be maintained in each fund from year to year. The board should use the policy as a guideline during the budget process to properly manage fund balance. Combining a reasonable level of unrestricted fund balance with specific legally established reserve funds provides resources for both unanticipated events and other identified or planned needs.

Establishing reserve funds provides a mechanism for legally saving money to finance all or part of future infrastructure, equipment or other needs. The board should adopt a written reserve policy that communicates to taxpayers why the money was set aside, the intent for the reserves, and optimal



funding levels. Amounts to be placed in reserves should be included in the annual budget, as this increases transparency and allows taxpayers to know the board’s plans.

Comprehensive written multiyear financial and capital plans help the board assess long-term needs and alternative approaches to financial issues, such as accumulating or using fund balance to finance annual operations. Town officials can learn more about multiyear capital planning by reviewing OCS’s Local Government Management Guide entitled *Multiyear Capital Planning* (Figure 2). A comprehensive written multiyear financial plan projects revenues and expenditures for several years in the future to illustrate what will happen to the town’s ability to pay for and provide services. Written capital plans should have a clear mission to maintain and improve the town’s capital assets over time. Prudent financial planning helps ensure that sufficient funding will be available to finance operations and address unexpected occurrences without depleting fund balance or requiring borrowing, sudden tax increases or drastic budget cuts. Additionally, comprehensive written plans help residents and taxpayers better understand a board’s intentions for financing future capital improvements and maintaining the existing infrastructure and level of services.



### The Board Did Not Effectively Manage Town-wide and TOV Fund Balance

The town-wide and TOV funds’ unrestricted fund balance the last three years were sufficient to fund over half of the town-wide funds’ appropriations and approximately 1.5 times the TOV funds’ appropriations in each of the three years (Figure 3).

**Figure 3: Unrestricted Fund Balance as a Percentage of the Upcoming Year's Budget Appropriations**

Year Ended December 31 <sup>st</sup>	Town-Wide	Percent	TOV	Percent
2021	\$777,996	107%	\$745,596	161%
2022	\$578,694	56%	\$830,455	173%
2023 <sup>a</sup>	\$559,049	64%	\$935,416	138%

a)The Board appropriated \$250,000 of fund balance for a plow truck in the 2023 budget. However, due to supply chain issues, delivery/payment of the vehicle did not occur in 2023 and was not expected until 2024. Therefore, the Board passed a resolution at the end of 2023 to encumber the funds. However, the encumbrance was not reflected in the accounting records or in the 2023 AFR, resulting in an overstatement of unrestricted fund balance. We subtracted the amount from the overstated unrestricted fund balance to reflect the encumbrance of these funds.

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The accumulation of unrestricted fund balance occurred, in part, because the Board adopted unrealistic budgets for the town-wide and TOV funds from 2021 through 2023 by consistently underestimating revenues and overestimating expenditures. For example:

- Sales tax revenues were underestimated by \$168,000,
- The lack of meaningful Section 284 Agreements contributed to the consistent underestimation of CHIPs revenues by \$201,000, and
- Medical insurance appropriations were overestimated by \$130,000 for the three-year period.

The Board continued to unrealistically estimate revenues and appropriations in the 2024 budget, which will likely result in an operating surplus that will further increase the excessive fund balances.

The Board's fund balance policy established the minimum but not the maximum levels of fund balance and lacks the rationale for the balances maintained in the town-wide and TOV funds. In addition, the Board's preliminary budget did not include fund balance estimates with a breakdown as required. The Supervisor stated the Board mirrored its fund balance policy after the County's and he was not aware that the preliminary budget must contain fund balance estimates. As a result, the Board levied more real property tax revenue than was necessary, which resulted in excessive unrestricted fund balance levels.

In addition, the Board did not establish or use reserves in the town-wide and TOV funds. The Supervisor, two Board members and the Superintendent stated that the Board did not create reserves, so in case of an emergency, funds (unrestricted fund balance) could be used for any purpose.

The Board also did not develop comprehensive written multiyear financial and capital plans that set long-term objectives and goals. The Supervisor stated that the Board discussed multiyear financial planning but never formally documented their plan. The capital plan included the acquisition year and replacement cost for highway assets, such as trucks, loaders and mowers; road maintenance through 2032 and planned improvements to the Town Hall utilizing The American Rescue Plan Act (ARPA) funds.<sup>1</sup> However, the capital plan is not comprehensive as it does not include all the Town's major assets. Additionally, the plan does not address the impact on fund balance or future operating expenditures that the procurement and upkeep of these assets will have on the Town. For example, a 2023 plow truck was purchased for \$220,000 during our audit period using unrestricted fund balance but was not outlined in the capital plan or properly recorded in the accounting records or AFR.

Without comprehensive written multiyear financial plans, an adequate capital replacement plan and the funding and use of properly established reserves, it is difficult for the Board to properly manage the Town's fund balance. Also, without these plans, it would be difficult for the Board to assess alternative approaches to financial issues, such as accumulating unrestricted fund balance or using fund balance to finance annual operations.

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<sup>1</sup> The ARPA of 2021 provided \$350 billion in additional fiscal relief to address the continued impact of COVID-19 on the economy, public health, and the finances of state and local governments, individuals and businesses.

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## What Do We Recommend?

The Board should:

1. Amend the current fund balance policy to include a maximum level of unrestricted fund balance to maintain in each fund and address how unrestricted fund balance will be applied.
2. Develop a plan to reduce unrestricted fund balance in a manner that benefits Town taxpayers. For example, unrestricted fund balance can be used to:
  - Fund needed reserves,
  - Reduce real property taxes, and
  - Fund one-time expenditures such as capital improvements.
3. Develop and adopt budgets that contain realistic estimates based on current data and historical trends.
4. Develop and adopt comprehensive written multiyear financial and capital plans that set the goals and objectives for long-term operating and capital needs.
5. Plan for future equipment purchases by establishing a written reserve policy, properly creating appropriate reserves, and funding reserves transparently through the budget process.

The Supervisor should:

6. Prepare and attach a complete fund balance estimate to the proposed budget, per Town Law Section 107.
7. Make the necessary adjustments to the accounting records and AFR updates to correct the findings outlined in this report.

The Superintendent should:

8. Prepare a complete Section 284 Agreement that the Board can use during the budget process.

# Appendix A: Response From Town Officials

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**TOWN OF BUTLER**  
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Tommy Mettler  
Supervisor

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December 5, 2024

Rochester Regional Office – NYS Comptroller  
Attn: Stephanie Howes – Chief of Municipal Audits  
The Powers Building  
16 W. Main St – Suite 522  
Rochester, NY 14614

Via email to [muni-rochester@osc.ny.gov](mailto:muni-rochester@osc.ny.gov)

Re: Town of Butler, Wayne County – Preliminary Draft Findings Reply Letter

To Whom It May Concern,

In regards to the Town of Butler Financial Audit, the Town board Somewhat agrees and will do what is necessary to rectify your findings.

Sincerely

Tommy Mettler  
Town of Butler  
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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, included the following:

- We interviewed Town officials and reviewed Board meeting minutes and the Town's fund balance policy to gain an understanding of their financial management processes: including budgeting, fund balance maintenance and multiyear capital and financial planning.
- For fiscal years 2021 through 2023, we compared budget estimates to actual results to determine whether budgets were reasonable. We reviewed variances in the four main operating funds (town-wide general, town-wide highway, TOV general and TOV highway).
- We also reviewed the 2024 budget and year-to-date operating results, through May 31, 2024, and estimated what operating results would be at year end to determine whether the Town's budgeting practices were consistent for the current fiscal year.
- We reviewed the 2023 and 2024 preliminary budgets to determine whether fund balances were included in the preliminary budget.
- We reviewed the capital plan and discussed future capital needs with Town officials.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

The Board has the responsibility to initiate corrective action. 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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## Contact

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<https://www.osc.ny.gov/local-government>

Local Government and School Accountability Help Line: (866) 321-8503

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