

Town of Lloyd

Financial Condition

AUGUST 2019



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

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Report Highlights

Town of Lloyd

Audit Objective

Determine whether the Board and Town officials effectively managed financial condition.

Key Findings

- Budgeting practices resulted in an increase in fund balance from \$2.4 million in 2014 to \$4.1 million in 2018.
- The Board appropriated fund balance totaling \$1.4 million of which only \$340,000 (25 percent) was used to finance appropriations from 2014 through 2018.
- The Board underestimated revenues and overestimated expenditures in the general, water and sewer funds each year.

Key Recommendations

- Include more realistic estimates of revenues and expenditures when adopting the annual budget.
- Discontinue the practice of adopting budgets with appropriation of fund balance that will not be used to fund operations.
- Develop and adopt a fund balance policy to ensure levels of fund balance are reasonable.

Town officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action. Appendix B includes our comments on issues that were raised in the Town's response letter.

Background

The Town of Lloyd (Town) is located in Ulster County (County).

The Town is governed by an elected five-member Town Board (Board), composed of the 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 day-to-day management. The bookkeeper maintains the accounting records and assists the independent accountant in preparing and filing annual financial reports. The Board appointed the confidential secretary to the Supervisor as Budget Officer.

Quick Facts

| | |
|---------------------|----------------|
| Population | 11,000 |
| Square Miles | 33.4 |
| Employees | 88 |
| 2019 Appropriations | \$11.5 Million |

Audit Period

January 1, 2017 – January 15, 2019. We extended our audit period back to January 1, 2014 to analyze financial trends.

Financial Condition

How Should the Board Effectively Manage Financial Condition?

A board is responsible for making sound financial decisions that are in the best interests of the town and its taxpayers. This includes accurately estimating revenues and appropriations in the annual budget. The budget should be monitored and amended on an ongoing basis.

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.

However, a board should not exceed a reasonable amount of fund balance consistent with prudent budgeting practices to ensure sufficient cash flow. Adopting a fund balance policy that addresses the appropriate levels of fund balance to be maintained from year-to-year provides the board with guidelines during the budget process. If fund balance levels become excessive, funds that could benefit the town are not being used, thereby placing an unnecessary burden on town taxpayers.

Additionally, the board should create multiyear financial and capital plans.¹ 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.

The Board Adopted Unrealistic Budget Estimates

We compared estimated revenues and appropriations to actual revenues and expenditures for the last five years (2014 through 2018). We found that the Board consistently underestimated revenues and overestimated expenditures in the general, water and sewer funds. We found the following examples of significant revenue underestimated and appropriation lines that were overestimated:

General Fund – Revenues were underestimated in two budget lines in each of the last five years. The County sales tax budget line was underestimated by an average of \$37,994 and the mortgage tax budget line was underestimated by an average of \$41,009 resulting in excess funds over the five years of \$395,015.

¹ Refer to our publications Multiyear Financial Planning and Multiyear Capital Planning available on our website. www.osc.state.ny.us/localgov/pubs/lgmg/multiyear.pdf
www.osc.state.ny.us/localgov/pubs/lgmg/capital_planning.pdf

Appropriations were overestimated in the contingency budget line by an average of \$182,000 in each of the last five years and resulted in \$910,000 being budgeted but not expended. While it is prudent to have an ample contingency provided in the budget, having a substantial contingency and high appropriation estimates, low revenue estimates and substantial cushion provided by fund balance budget estimates results in tax levies that are higher than necessary.

Water Fund – Town officials overestimated the metered water sales budget line by approximately \$23,000 in 2014 and \$2,800 in 2015. However, in 2016, 2017 and 2018 they underestimated these revenues by an average of \$66,411 each year resulting in \$173,693 of excess revenues over the last three years. In addition, officials budgeted for a future bond anticipation note expenditure in each of the last three years (2016, 2017 and 2018) resulting in \$640,250 not being expended. Officials included this appropriation in the budget even though there was no note outstanding.

Sewer Fund – Revenues were underestimated in the sewer rents budget line by an average of \$48,369 in each of the last five years resulting in excess revenues of \$241,845. Appropriations were overestimated in multiple lines throughout the audit period including sewage system inflow, equipment and administration budget lines resulting in \$245,860 not being expended.

Town officials told us that revenues were underestimated due to the timing of payments and appropriations were overestimated due to anticipated upcoming projects. As a result of revenues being underestimated and appropriations being overestimated the fund balance of each fund increased over the last five years.

Although the Board receives and reviews the budget-to-actual reports provided throughout the year, two Board members told us that they did not believe the Supervisor or bookkeeper were responsive to their questions and one Board member told us that he did not review these reports. However, the Supervisor told us that there are monthly workshop meetings with the bookkeeper and department heads and questions are not asked. Without proper monitoring, the Board cannot be certain about the amount of revenues received to date or the amount expended from each appropriation to date. Furthermore, without an understanding of the Town's finances, Board members are not in a position to evaluate the proposed budget before adoption.

The Board Did Not Effectively Manage Fund Balance

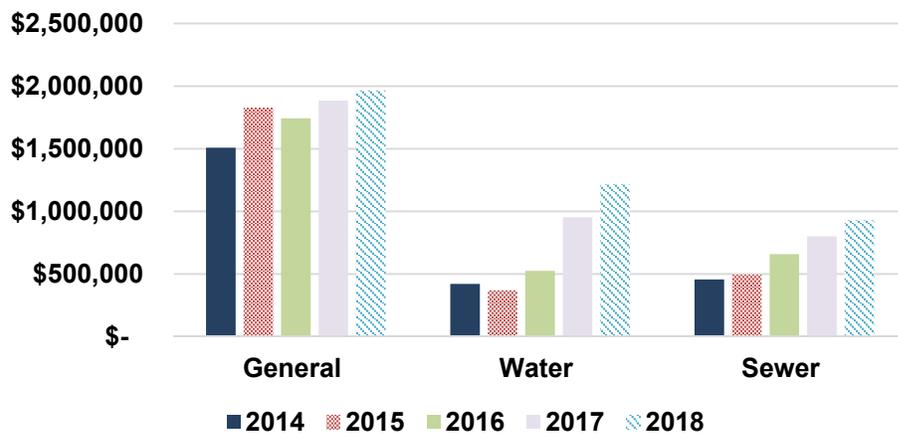
The total combined fund balance among the general, water and sewer funds increased from \$2.4 million at the end of 2014 to \$4.1 million at the end of 2018. The Town's total combined fund balance for the general, water and sewer funds as a percentage of 2019 appropriations exceeded 53 percent.

Figure 1: Total Fund Balance Year End Analysis

| Fund | 2018 Total Fund Balance | 2019 Appropriations | Fund Balance as a Percentage of Appropriations |
|----------------|-------------------------|---------------------|--|
| General | \$1,965,369 | \$5,027,712 | 39% |
| Water | \$1,217,081 | \$1,406,467 | 87% |
| Sewer | \$929,271 | \$1,395,561 | 67% |
| Totals | \$4,111,721 | \$7,829,740 | 53% |

FIGURE 2

Total Fund Balance Trends



Town officials appropriated fund balance totaling approximately \$1.4 million between 2014 through 2018. However, only \$340,000 (25 percent) was actually used to fund operations. Furthermore, officials increased the real property tax levy in each of the five completed years reviewed while experiencing operating surpluses totaling approximately \$2.0 million. For the 2019 budget, officials continued the practice of increasing real property taxes and appropriating fund balance by offsetting the appropriation of fund balance with underestimated revenues and overestimated appropriations.

Figure 3: Tax Levy Details

| Year | Tax Levy | Real Property Tax Increase from Prior Year | Real Property Tax Increase Percentage |
|------|--------------------|--|---------------------------------------|
| 2014 | \$5,971,372 | \$144,781 | 2.48% |
| 2015 | \$6,119,591 | \$148,219 | 2.48% |
| 2016 | \$6,125,506 | \$5,915 | 0.10% |
| 2017 | \$6,185,365 | \$59,859 | 0.98% |
| 2018 | \$6,301,631 | \$116,266 | 1.88% |
| 2019 | \$6,561,109 | \$259,479 | 4.12% |

The increases in fund balances occurred because of Town officials' budgeting practices, which resulted in these funds generating operating surpluses each year. In addition, officials have not adopted a fund balance policy to establish reasonable levels of fund balance to be maintained for each fund.

Officials told us that the Board has discussed establishing a fund balance policy, but never formalized one. Therefore, officials and staff do not have guidance to make consistent financial decisions in accordance with Board directives and in the best interest of taxpayers.

As a result of the Town's budgeting practices, the general, water and sewer fund balances have increased significantly and taxpayers may be paying more real property taxes than necessary.

The Board Did Not Adopt Multiyear Financial and Capital Plans

The Board has not developed comprehensive written multiyear financial and capital plans. Such plans would be a useful tool for the Board to determine future capital needs and how they will be financed, address the use of fund balance and reserve funds 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.

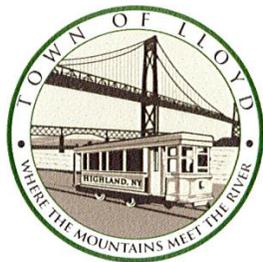
Town officials told us that multiyear financial plans and capital plans have not been established because they have limited staff and have not had the opportunity to do so. As a result, the Town does not have a plan outlining its ability to pay for and provide services. Without a plan, the Board cannot assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital investments.

What Do We Recommend?

The Board should:

1. Adopt more realistic estimates of revenues and expenditures when adopting the annual budget and monitor and amend the budget as needed.
2. Discontinue the practice of adopting budgets with appropriation of fund balance that will not be used to fund operations.
3. Develop and adopt a fund balance policy to ensure levels of fund balance are reasonable.
4. Reduce the amounts of fund balance and use the excess funds as a financing source in a manner that benefits taxpayers. Such uses could include, but are not limited to:
 - Funding one-time expenditures
 - Funding needed reserves
 - Paying off debt
 - Reducing real property taxes.
5. Develop and adopt multiyear financial and capital plans to establish the goals and objectives for funding long-term operating and capital need. Monitor and update these plans regularly.

Appendix A: Response From Town Officials



Town of Lloyd, 12 Church Street, Highland, New York 12528

845-691-2144 Town Clerk, Supervisor, Assessor, Building/Planning/Zoning
Court 845-691-7544 Highway 845-691-7631 Police 845-691-6102 Water/Sewer 845-691-2400

July 23, 2019

State of New York
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, suite 103
New Windsor, NY 12553

Dear Chief Examiner Tenneh Blamah:

We are in receipt of the recent draft audit report concerning the Financial Conditions of the Town of Lloyd. This response will also act as our Corrective Action Plan. We appreciate the time expended to review the Town's records and procedures. The Town has reviewed your findings and recommendations and has taken each suggestion seriously.

The Town has tried to take a conservative approach to budgeting. In particular, the water and sewer rents, are calculated and reviewed with the Engineer for the water and sewer districts to try to come up with a realistic number, these budgeted amounts have also increased each year. We will increase these estimates for future budgets.

See
Note 1
Page 9

The Town Board will be made aware that they should implement a Fund Balance Policy that will ensure the reasonable level of fund balance, we hope to have this done by October 2019.

The Town has used the fund balance in the General fund to fund grant projects that otherwise would have had to be borrowed. It has been the opinion of previous Town Boards that it is better for the taxpayers to use funds accessible to the Town rather than borrow funds and have to pay closing costs and interest payments. Some of these projects come up with little notice to be able to budget for them, so it is beneficial to keep a certain amount available. This will be addressed in the Fund Balance Policy.

See
Note 2
Page 9

The Town recognizes its positive fund balance and has undocumented plans for the Water District. There have been discussions about funding reserve accounts, but they have not been set up yet. These reserves will be set up by Town Board resolution by September 2019. This will also be addressed in the Fund Balance Policy.

The Town Board will also be made aware that they should develop and adopt a multiyear financial and capital plan to create goals and objectives for funding long-term operating and capital needs.

We would like to commend the Auditors, they were very helpful while working in house to answer questions about existing policies and procedures.

Sincerely,

Paul J. Hansut
Town Supervisor

Appendix B: OSC Comments on the Town's Response

Note 1

Town officials adopted unrealistic budget estimates, which resulted in operating surpluses over the audit period totaling \$846,385 in the water fund and \$472,714 in the sewer fund.

Note 2

We acknowledge that operating surpluses and excess fund balance reduce the cost and need for borrowing. However, without a fund balance policy or funding reserves there is a lack of transparency to the taxpayers.

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 the following:

- 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 and annual reports provided to Board members to determine the extent of financial information received.
- We reviewed the budget-to-actual reports for 2014 through 2018 for the general, water and sewer funds to determine whether specific revenue and expenditure accounts were over or under estimated.
- We calculated operating results and fund balance for the general, water and sewer funds to assess financial condition.
- We analyzed the amount of fund balance appropriated in the general, water and sewer funds each year (2014 through 2018) to determine whether fund balance was appropriated and used to fund operations.
- We calculated fund balance as a percentage of the year's actual expenditures for the general, water and sewer funds for 2014 through 2018.
- We calculated the amount and percentage of tax levy increase from 2014 through 2019.

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.

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 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#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

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

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

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

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