



# Town of Colchester

## Financial Condition

### Report of Examination

Period Covered:

January 1, 2015 – August 31, 2016

2016M-376



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

February 2017

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Colchester, entitled Financial Condition. This audit was conducted 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.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*

# Introduction

## Background

The Town of Colchester (Town) is located in Delaware County and serves approximately 2,100 residents. The elected five-member Town Board (Board) is the legislative body responsible for managing Town operations, including maintaining a sound financial condition. The Town Supervisor is a member of the Board and serves as the Town's chief executive officer, chief fiscal officer and budget officer.

The Town provides a variety of services, including road maintenance and improvements, snow removal, police, code enforcement, fire protection, lighting, water and general government support. The Town's 2016 budgeted appropriations for the general and highway funds were approximately \$2.8 million, funded primarily with real property taxes and State aid.

## Objective

The objective of our audit was to assess the Town's financial condition. Our audit addressed the following related question:

- Did the Board effectively manage the Town's financial condition?

## Scope and Methodology

We examined the Town's general and highway funds' financial condition for the period January 1, 2015 through August 31, 2016. We extended our scope back to January 1, 2013 to analyze the Town's financial condition and trends. We also extended our scope forward to December 31, 2016 to project the fiscal year's ending fund balance.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. 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.

## Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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 forwarded 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 this plan available for public review in the Clerk's office.

## Financial Condition

A town in good financial condition is able to maintain adequate service levels during fiscal downturns and develops resources to meet future needs in financial upswings. The Board is responsible for providing oversight of all Town operations and making sound financial decisions that are in the best interest of the Town and the taxpayers who fund its operations. This includes developing policies and procedures to govern budgeting practices and reasonable levels of fund balance to be maintained to ensure that a financial cushion is available for unanticipated expenditures, revenue shortfalls or cash flow purposes. The Board should develop and adopt budgets that include reasonable estimates for revenues and expenditures.

Fund balance represents the cumulative residual resources from prior fiscal years. Towns are legally allowed to establish reserves and restrict funds for certain future purposes, such as capital projects. The unrestricted portion of fund balance<sup>1</sup> is the amount that may be appropriated to fund programs in the next year's budget or retained for cash flow purposes and to help finance future operations. Reasonable fund balance levels and accurate budget estimates help ensure that the amount of real property taxes levied is not greater than necessary.

The Board could improve its management of the Town's financial condition. The Board provides adequate oversight of Town operations through its bimonthly claims audit, quarterly Town finance review and annual audits of all departments receiving and disbursing money. Additionally, Town officials have replacement schedules for the roads and the Town's buildings and equipment appear to be in a good condition. However, conservative budgeting practices have contributed to substantial fund balance levels and the Town has no policies or procedures in place to ensure reasonable levels are maintained and residents are not unnecessarily burdened with taxes.

General Fund – From 2013 through 2015, on average, the Board underestimated revenues by 7 percent and overestimated expenditures by 18 percent. Additionally, while the Board budgeted to use \$355,000 of unrestricted fund balance to fund operations, it had operating surpluses totaling almost \$416,000, causing total fund balance to increase by 50 percent. The Board moved \$500,000 into a capital reserve in 2015 to lower unrestricted fund balance levels. However, it does not have any capital projects planned. The general

<sup>1</sup> Unrestricted fund balance is the total of committed, assigned and unassigned fund balance.

fund's unrestricted fund balance as of December 2015 was \$662,000, representing 73 percent of the actual expenditures for that year. We project that the general fund's available fund balance will increase by 2 percent, from \$662,000 at 2015 year-end to \$674,000 by 2016 year-end.

Highway Fund – The highway fund's unrestricted fund balance as of December 2015 was \$3.4 million, representing 106 percent of the actual expenditures for the same year. We project that the highway fund balance will increase by 4 percent, from \$3.4 million at 2015 year-end to \$3.5 million by 2016 year-end. Although this amounts to more than enough to pay for a whole year's expenditures, the Town has experienced 12 floods in the last 12 years and is continuously paying for recovery. In order to offset financial stress caused by the recovery efforts, Town officials keep large amounts of unrestricted fund balance on hand so they can immediately address needed repairs. Town officials are unable to determine when or how much aid they will receive from federal and State agencies for emergency disasters, causing the highway fund to incur large budget variances each year. Furthermore, the Town must pay for flood related expenditures and then often waits several years for federal and State emergency reimbursements. For example, it received reimbursement in 2015 for a 2007 flood.

The Board does not have a written fund balance policy that addresses reasonable levels of fund balance to be maintained or how to manage annual operating surpluses when they occur. Despite the significant accumulated fund balance, the Board continued to increase the tax levy, within the tax cap,<sup>2</sup> by an annual average of 1.3 percent, or a total of \$111,000 from 2013 through 2016. While it is prudent to maintain adequate fund balance or to budget conservatively to protect against unforeseen circumstances, doing both may result in taxes that are higher than necessary. Given the uncertainty of repeated flooding, it is reasonable for the Town to maintain a cushion in fund balance. However, it is important that the Board manage these funds by formally adopting a fund balance policy stating how much will be accumulated and when and how it will be used. Funds accumulated with the intent of providing a cushion in accordance with this plan should be accounted for as committed fund balance and, thereby, segregated from unassigned fund balance.

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<sup>2</sup> With some exceptions, the State's property tax cap limits the amount local governments can increase property taxes to the lower of two percent or the rate of inflation. Town boards may pass a local law to override the tax cap.

## Recommendations

The Board should:

1. Adopt a comprehensive fund balance policy that establishes reasonable levels of unassigned, committed and reserved fund balance and how and when committed and reserved funds will be used.
2. Adopt reasonable budgets that more accurately reflect historical trends in actual revenues and expenditures. If the Board intends to add to committed or reserved amounts, they should provide funding by including an appropriation for that purpose in the budget.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

The local officials' response to this audit can be found on the following page.

Please note that the local officials' response letter refers to page numbers that appeared in the draft report. The page numbers have been changed during the formatting of this final report.

# TOWN OF COLCHESTER

72 Tannery Road \* PO Box 321 \* Downsville, NY 13755 \* Phone (607) 363-7169  
Town Supervisor- Arthur Merrill      Town Clerk- Julie B. Townsend  
Town Council- Mark W. Mattson - Julie A. Markert - Janet Champlin – Gregory L. Lavorgna  
TDD - 1-800-662-1220

January 30, 2017

H. Todd Eames  
Chief Examiner  
State Office Building  
Suite 1702  
44 Hawley St.  
Binghamton, NY 13901-4417

Mr. Eames,

Herein is our Audit Response for

The Town of Colchester  
Financial Condition  
January 1, 2015 – August 31, 2016  
#2016M-376

We accept and agree with the Recommendations of the examiners referred to on page 7.

In our initial conference I mentioned that our independent auditors, who we have contracted with for well over 20 years had recommended we needed to establish assigned balances for reserve funds and we need to “fine tune” our budgets to more accurately reflect needed revenues and expenditures.

Our 2016 budget began to reflect some of those adjustments and our 2017 budget has further addressed the issues. Our Corrective Action Plan will delineate the specific funds and controls we are establishing.

Sincerely,

Arthur Merrill  
Supervisor, Town of Colchester

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## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Town officials and employees and reviewed Board meeting minutes to gain an understanding of the Board's oversight of financial operations and whether policies and procedures over budgeting practices and fund balance levels were in place.
- We reviewed the general and highway funds' fund balances for 2013 through 2015 to determine if fund balance levels were reasonable.
- We compared the general and highway funds' 2013 through 2015 budgeted revenues and appropriations to the actual revenues and expenditures, and we compared the results of operations for this same period to the budgeted appropriated fund balance to determine if the Board was adopting reasonable budgets.
- We used budget-to-actual reports as of August 31, 2016 for the general and highway funds to project the results of operations and year-end fund balance for the fiscal year ending December 31, 2016.
- We determined whether there were replacement schedules for the roads and equipment and gained an understanding of the flooding and its effect on the Town's financial condition. We also observed a sample of the Town's roads, the highway garage and the Town hall building to determine the general condition of the Town's infrastructure and assets.
- We reviewed the Town's tax levies for 2013 through 2016 to determine the trend in the taxes levied and to ensure the levies stayed within the tax cap limitations.
- We reviewed flooding documentation, including federal and State aid payments received, to determine the financial impact of flooding on the Town.

We conducted this performance audit in accordance with 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.

## APPENDIX C

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**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
Tracey Hitchen Boyd, Assistant Comptroller

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