

# Town of Locke

## Financial Condition

---

**NOVEMBER 2020**

---



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

# Contents

---

- Report Highlights . . . . . 1**
  
- Financial Management. . . . . 2**
  - What Is Proper Financial Management?. . . . . 2
  - The Board Did Not Effectively Manage Financial Condition . . . . . 2
  - The Board Did Not Adopt Formal Multiyear Plans . . . . . 4
  - What Do We Recommend? . . . . . 4
  
- Appendix A – Response From Town Officials . . . . . 6**
  
- Appendix B – OSC Comment on the Town’s Response . . . . . 9**
  
- Appendix C – Audit Methodology and Standards . . . . . 10**
  
- Appendix D – Resources and Services. . . . . 11**

# Report Highlights

## Town of Locke

### Audit Objective

Determine whether the Town Board (Board) effectively managed the Town of Locke's (Town's) financial condition.

### Key Findings

The Board did not effectively manage the Town's financial condition. As a result, it levied more taxes than necessary to sustain operations.

- The Board did not adopt budgets with sound estimates, nor did it monitor budgetary results during the year.
- Unrestricted fund balances as of December 31, 2019 in the general and highway funds and water district were excessive, ranging from 89 percent to 536 percent of actual expenditures.
- The Board did not adopt formal fund balance, reserve and budgeting policies, along with multiyear financial and capital plans.

### Key Recommendations

- Include more realistic estimates of revenues and expenditures when developing and adopting the annual budgets.
- Use surplus funds as a financing source for funding one-time expenditures, needed reserves and/or reducing property taxes.
- Establish budgeting, fund balance and reserve policies and develop multiyear financial and capital plans.

Town officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comment on an issue Town officials raised in their response.

### Subsequent Event

Our audit fieldwork was completed during the COVID-19 pandemic (pandemic). The Town's 2020 projections and our audit work do not factor in the pandemic's financial effects.

### Background

The Town is located in Cayuga County. The Town is governed by an elected Board composed of four Board members and the Town Supervisor (Supervisor).

The Town provides services to its residents, including street maintenance and improvements, snow removal, street lighting, water service, justice court and general government support. These activities are accounted for within the town-wide general (general) and highway (highway) funds and water district. The Board is responsible for the general management and control of the Town's financial affairs, including adopting the annual budget and establishing financial policies. The Supervisor serves as the chief executive and fiscal officer.

#### Quick Facts

2019 Appropriations	
General Fund	\$338,756
Highway Fund	\$539,965
Water District	\$64,250
Population	1,951

### Audit Period

January 1, 2017 – July 14, 2020

# Financial Management

---

## What Is Proper Financial Management?

A board is responsible for making financial decisions that are in the best interest of the town and its residents. This requires the board to balance the level of services desired and expected by town residents with the ability and willingness of the residents to pay for such services. A board should ensure that budget estimates of revenues and expenditures are reasonable and based on historical or known trends. Once the budget is adopted, the board should monitor year-to-date revenues and expenditures against budget estimates and make timely budget modifications as necessary.

A reasonable portion of fund balance may be retained for unforeseen circumstances and to provide cash flow – for example, to compensate for timing differences between when revenues are received and expenditures are made. A board can also legally set aside, or reserve, a portion of fund balance to finance future costs for specific purposes (e.g., capital improvements or vehicle replacements). Properly funded reserves can reduce reliance on debt to finance capital projects and other acquisitions and can help town officials finance the costs of capital expenditures.

Prudent fiscal management requires the board to establish long-term financial and capital plans. 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 budget decisions on future fiscal years. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Continually monitoring and updating these plans provides a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.<sup>1</sup>

---

Prudent fiscal management requires the board to establish long-term financial and capital plans.

---

## The Board Did Not Effectively Manage Financial Condition

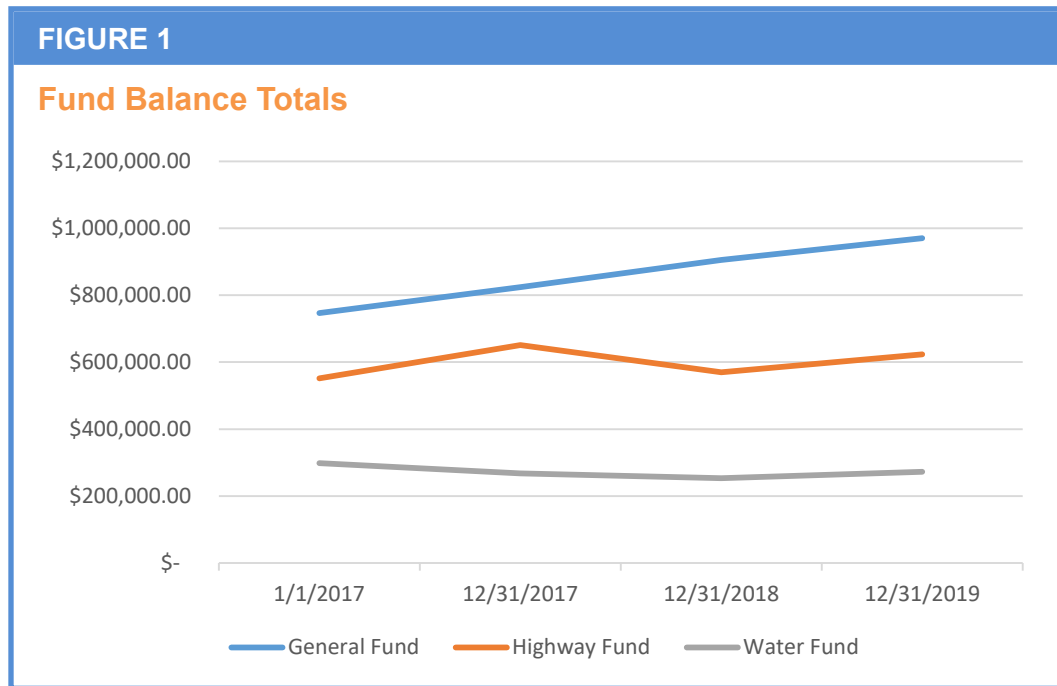
The Board adopted unrealistic budgets for each of its funds for the 2017 through 2019 years. The Board consistently underestimated revenues and overestimated appropriations in the general fund. It also conservatively estimated revenues and overestimated appropriations in the highway fund and water district. Because the Board did not receive or regularly request budget-to-actual reports, it was unable to actively monitor the budget and make necessary amendments and transfers as periodically needed throughout the year.

As a result, from January 1, 2017 through December 31, 2019, fund balance in the general fund grew by \$223,595 or 30 percent. During the same period,

---

<sup>1</sup> Refer to our publications *Multiyear Financial Planning* and *Multiyear Capital Planning* available on our website. [www.osc.state.ny.us/files/local-government/publications/pdf/multiyear.pdf](http://www.osc.state.ny.us/files/local-government/publications/pdf/multiyear.pdf)  
[www.osc.state.ny.us/files/local-government/publications/pdf/capital\\_planning.pdf](http://www.osc.state.ny.us/files/local-government/publications/pdf/capital_planning.pdf)

the highway fund experienced a net operating surplus of \$71,586 and the water district a net operating deficit of \$26,018 (Figure 1). The water district incurred a net operating deficit because of unbudgeted repairs to the water tower and extra debt service payments.



In addition, unrestricted fund balance as of December 31, 2019 was excessive, totaling \$881,182, or 208 percent of actual expenditures for the general fund, \$623,618 (89 percent) of the highway fund and \$272,218 (536 percent) of the water district.

The Board did not adopt a fund balance policy that established the levels of, and the rationale for, fund balance to be maintained within each fund. In addition, the Board did not establish a reserve plan that detailed the purpose of each reserve, maximum or targeted funding levels and conditions for use and replenishment. As of December 31, 2019, officials reported four reserves totaling \$216,367 within the three operating funds.<sup>2</sup> Officials informed us that these reserves were established many years ago, and current officials or employees were not able to locate the documentation formally establishing each reserve.

We reviewed the Town’s operating results through June 30, 2020 and determined that the Board took some action to address prior years’ budgeting inaccuracies

The Board did not adopt a fund balance policy that established the levels of, and the rationale for, fund balance to be maintained within each fund.

<sup>2</sup> Reserves totaled: general fund: \$88,746 (9 percent), highway fund: \$127,246 (20 percent) and water district: \$375 (less than 1 percent).

---

in the general fund by removing unnecessary appropriations and reducing the contingency appropriation to \$25,000. However, the Board continued to overestimate appropriations in the 2020 budgets for the highway fund and water district. By including unrealistic estimates in its adopted budgets, the Board missed opportunities to effectively manage the high levels of fund balance in its operating funds.

### **The Board Did Not Adopt Formal Multiyear Plans**

The Board did not develop written comprehensive multiyear financial and capital plans or equipment replacement schedules that set long-term objectives and goals. Such plans would be useful to address the large fund balances in the Town's operating funds and to maintain a reasonable level of unexpended surplus funds at year-end. The plans could outline the Board's intentions for financing future capital improvements and maintaining the existing infrastructure.

For example, the Board could outline plans for equipment replacement. Officials told us that in the past, equipment was replaced on an informal three-year schedule, but is now replaced as needed. Board members also informed us of the need for extensive improvements to the Town municipal building, including safety upgrades to the Town court. Further, officials mentioned that improvements to the highway barn would be necessary in the future as well.

Without developing formal multiyear financial and capital plans, along with an equipment replacement plan, and establishing reserve funds which correlate with these plans, the Board cannot adequately plan for the future and there is a risk that the Board's intentions for the Town will not be fulfilled.

Our fieldwork was completed in July 2020, after the start of the pandemic. Given the negative financial effect of the pandemic, it is even more important for Town officials to develop and monitor appropriate annual budgets and begin multiyear financial and capital planning.

### **What Do We Recommend?**

The Board should:

1. Establish written policies and procedures governing the budgeting process, which include defining the amounts of fund balance that the Town should reasonably maintain.
2. Adopt budget estimates that are based on available current data and historical trends.

- 
3. Request monthly reports from the supervisor that allow it to periodically monitor adopted budgets and make necessary amendments and transfers as needed.
  4. Develop a plan to reduce the amounts of fund balance in a manner that benefits Town taxpayers. Surplus funds can be used as a financing source for:
    - Funding one-time expenditures;
    - Funding needed reserves;
    - Paying off debt; and/or
    - Reducing property taxes.
  5. Ensure reserve funds are properly established, and develop a reserve plan that communicates the intention of each reserve, optimal funding levels and conditions under which the assets will be utilized.
  6. Develop comprehensive multiyear financial and capital plans that set long-term objectives and goals. These plans should be monitored and updated on an ongoing basis.

# Appendix A: Response From Town Officials

---

**Town of Locke  
900 Main Street PO Box 237  
Locke, NY 13092**

29 September 2020

Town of Locke, NY formal response to findings from the Office of the State Comptroller

Key finding 1:

The board did not effectively manage the town's financial condition. As a result, it levied more taxes than necessary to sustain operations.

Key recommendation:

Include more realistic estimates of revenues and expenditures when developing and adopting annual budgets.

Key response:

The board recognized this issue. The town board is now taking a more realistic approach to our revenues and expenses. The town continues to try to limit its expenses as much as possible. The town board now has a process in place whereby the budget is given much more scrutiny and the town board is committed to only levying the amount of taxes necessary in order to cover expected expenses. Budget estimates for 2020 were more closely aligned with past history and current funding requirements, as noted elsewhere in this report. However, restrictions due to COVID-19 response rendered some projections inaccurate. The current board is working closely with the OSC department heads, surrounding towns, and Cayuga County to accurately estimate revenues and expenditures for 2021 and subsequent years.



---

Key finding 2:

Unrestricted fund balances in the General, Highway, and Water District Funds as of 31 December 2019 were excessive.

Key recommendation:

Use surplus funds to finance one-time expenditures, needed reserves, and/or reducing property taxes.

Key response:

In 2020 the board moved unrestricted funds from the General Fund into an existing building fund in anticipation of replacing the existing outdated, not secure, not energy-efficient, or fully code compliant town hall. Unrestricted funds in the Highway Department Fund were moved to an existing equipment reserve fund in anticipation of appropriate equipment upgrades. The board prepaid on the Water District Bond to reduce both current principal and future interest. We are currently (Sept. 2020) appraising the Water District reserve accounts to support repainting the water tower inside and out as per 2020 inspection recommendations.

Key finding 3:

The board did not adopt formal fund balance, reserve, and budgeting policies; along with multi-year financial and capital plans.

Key recommendation:

Establish fund balance reserve and budgeting policies. Develop multi-year capital and reserve plans.

Key response:

Concur. The Town of Locke has recognized deficiencies in our financial management process. Action to remedy and improve is ongoing as evidenced by our 2020 budget and fund transfers.

---

The current town board is committed to scrutinizing each of our reserve accounts in order to determine which reserves are needed and which reserves can be utilized in order to reduce property taxes.

We will develop a formal course of corrective action as required by the OSC within the timeline specified.

Please note a correction:

In the “Background” section, it is stated the Town of Locke provides fire protection for town residents. This is not correct. The Town of Locke has a separate and distinct ‘Fire District’. The Fire District Board of Directors are responsible for the operation, maintenance, and funding of the Fire District.

See Note 1 Page 9
-------------------------

The Town of Locke Town Board welcomes the audit recommendations from the Office of the State Comptroller. We look forward to continuing cooperation and support from the OSC in our endeavors to improve our financial management.

Respectfully,

Thane Benson  
Acting Supervisor  
Town of Locke, NY

## Appendix B: OSC Comment on the Town's Response

---

### Note 1

We updated the background section of the report to remove fire protection from the list of services provided by the Town.

## 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 and reviewed Board meeting minutes to gain an understanding of the budget process and to determine whether the Board adopted relevant policies and multiyear plans.
- We compared the general and highway funds' and water district's budgeted revenues and appropriations to the actual revenues and expenditures for 2017 through 2019 to determine whether budgets were realistic.
- We compared the 2020 general and highway funds' and water district's budgeted revenues and appropriations to the year-to-date actual results to determine whether the 2020 budget was realistic.
- We reviewed the general and highway funds' and water district's fund balances for 2017 through 2019 to determine whether balances were reasonable.
- We reviewed reserve balances and activity for the period January 1, 2017 through December 31, 2019 to determine whether reserves were appropriately established, balances were reasonable and whether reserves were used for intended purposes.

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 Board to make the CAP available for public review in the Clerk's office.

## Appendix D: Resources and Services

---

### **Regional Office Directory**

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional\\_directory.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263196&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://www.osc.state.ny.us/local-government/fiscal-monitoring)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263206&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/local-government/resources/planning-resources](http://www.osc.state.ny.us/local-government/resources/planning-resources)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/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/local-government/required-reporting](http://www.osc.state.ny.us/local-government/required-reporting)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263211&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

## Contact

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

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.ny.gov](mailto:localgov@osc.ny.gov)

[www.osc.state.ny.us/local-government](http://www.osc.state.ny.us/local-government)

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

---

**ROCHESTER REGIONAL OFFICE** – Edward V. Grant Jr., Chief Examiner

The Powers Building • 16 West Main Street – Suite 522 • Rochester, New York 14614-1608

Tel (585) 454-2460 • Fax (585) 454-3545 • Email: [Muni-Rochester@osc.ny.gov](mailto:Muni-Rochester@osc.ny.gov)

Serving: Cayuga, Chemung, Livingston, Monroe, Ontario, Schuyler, Seneca, Steuben, Wayne, Yates counties



Like us on Facebook at [facebook.com/nyscomptroller](https://facebook.com/nyscomptroller)

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)