



Village of Holley

Financial Condition of the Water and Sewer Funds

Report of Examination

Period Covered:

June 1, 2009 — September 12, 2014

2014M-334



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Village Officials and Corrective Action	2
WATER AND SEWER FUNDS	4
Recommendations	6
APPENDIX A Response From Village Officials	7
APPENDIX B OSC Comment on the Village's Response	10
APPENDIX C Audit Methodology and Standards	11
APPENDIX D How to Obtain Additional Copies of the Report	12
APPENDIX E Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2015

Dear Village 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 Village 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 Village of Holley, entitled Financial Condition of the Water and Sewer Funds. 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 Village of Holley (Village) is located in the Town of Murray in Orleans County and has a population of approximately 1,810. The Village provides various services to its residents including street maintenance, snow removal, electric, water, sewer and general government administration. The Village's 2014-15 budgeted appropriations total \$1.78 million, funded primarily by real property taxes, user fees, sales tax and State aid.

The Village is governed by a Board of Trustees (Board) comprising a Village Mayor (Mayor) and four Trustees who are responsible for the general oversight of Village operations. The Mayor is the chief executive officer for the Village and is responsible for, among other duties, appointing the Village Clerk-Treasurer (Clerk-Treasurer), subject to Board approval. The Clerk-Treasurer is the chief financial officer and is responsible for the custody of all Village funds, maintaining the accounting records, and preparing reports and the annual operating budget for Board review and adoption.

The Village bills approximately 670 water accounts and 640 sewer accounts within the Village. The water fund accounts for the production and distribution of water, while the sewer fund accounts for the processing and disposal of sewage. Both funds are financed primarily with charges to customers based on water usage. The 2014-15 budget totaled approximately \$426,000 for the water fund and \$185,000 for the sewer fund.

Objective

The objective of our audit was to evaluate the financial condition of the water and sewer funds. Our audit addressed the following related question:

- Has the Board adequately monitored the financial condition of the water and sewer funds?

Scope and Methodology

We examined the financial condition of the water and sewer funds for the period June 1, 2009 through September 12, 2014.

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 is included in Appendix C of this report.

Comments of Village Officials and Corrective Action

The results of our audit and recommendations have been discussed with Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, Village officials generally agreed with our

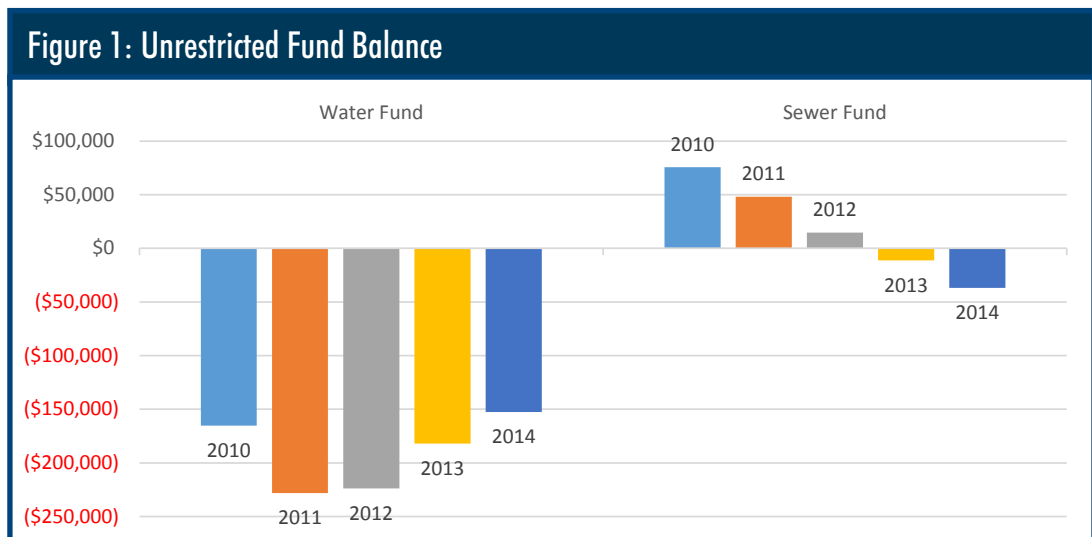
recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue raised in the Village's response letter.

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 the General Municipal Law (GML). 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-Treasurer's office.

Water and Sewer Funds

The Board is responsible for monitoring that is necessary to maintain the water and sewer funds' financial health. Such monitoring includes ensuring that the Board adopts realistic budgets and establishes appropriate rates for water and sewer usage. When the Village provides fee-based services, the Board should ensure that the established rates generate sufficient revenues to cover the costs to operate such services. The Board must audit, or cause to be audited, the Clerk-Treasurer's annual financial report and supporting records. In addition, having a long-term financial plan would allow Village officials to make more informed decisions based on future needs.

The Board did not adequately monitor the financial condition of the water and sewer funds. It did not adopt realistic budgets or establish sufficient user rates for water and sewer fund operations. Additionally, both funds relied on interfund advances from the general fund to help finance operations.¹ As a result, the water and sewer funds had deficit unrestricted fund balances of \$153,000 and \$37,000 as of May 31, 2014. Figure 1 shows the fund balance trends in the water and sewer funds during the last five years.



Water Fund – The water fund's financial problems also affect the general fund. The water fund owes the general fund a cumulative total of \$169,000 from interfund advances recorded prior² to our

¹ GML allows municipalities to temporarily advance money from one fund to another. Repayment of the borrowed cash must be made as soon as funds are available, but no later than the close of the fiscal year in which the advance was made. While the use of interfund advances is a permissible form of short-term borrowing to meet current cash flow needs, it is not intended to be used as a long-term approach to provide financial resources from one operating fund to another.

² Fiscal year ending 2006

audit period; however, in its current deficit position, the water fund is unable to repay this amount. Although the water fund's financial condition has improved over the last three years, as of May 31, 2014 it reported an unrestricted fund balance deficit of \$153,000 and no available cash. Therefore, the water fund does not have sufficient resources to repay the interfund advances.

The Board recognized the lack of available fund balance and included in the 2014-15 budget an estimated revenue of \$16,942 for a meter assessment fee and an appropriation for a one-time permanent transfer from the general fund to the water fund. The revenues generated would be used to repay the interfund advances. However, as of September 9, 2014, Village officials had not started to levy or collect the fee. As of May 30, 2014, the general fund had approximately \$164,000³ in unrestricted fund balance which, if applied as a one-time permanent transfer to the water fund, would eliminate 97 percent of the amount owed. However, this transfer would essentially eliminate the general fund's unrestricted fund balance. As a result, as of September 2014 (prior to adoption of the 2015-16 budget), Village officials indicated that the Board was contemplating whether to levy the \$16,942 meter assessment fee annually over an anticipated 10-year period or make a one-time transfer from the general fund to the water fund to satisfy the interfund advances.

Sewer Fund – The sewer fund's financial condition has shown a negative trend for the last five years. The Board did not ensure that sewer rates generated sufficient revenues to cover the fund's planned expenditures, but has maintained the rates at the same level since 1991. As a result, the sewer fund has consistently generated annual operating losses. To balance the budget, the Board appropriated fund balance in four of the last five years, causing unrestricted fund balance to drop from \$139,550 as of June 1, 2009 to a deficit balance of \$36,805 as of May 31, 2014. In addition, for 2012-13 the Board appropriated fund balance of \$24,795 which did not exist because the sewer fund's available fund balance totaled \$14,768 as of May 31, 2012.

We also found that 16 properties were not billed for sewer use. As a result, for 2013-14 the Village did not collect \$2,569 in sewer revenues.

These deficiencies occurred because of insufficient Board monitoring and oversight. We found no evidence that the Board annually audited, or provided for an audit of, the Clerk-Treasurer's books and records as required.⁴ Board members confirmed that an audit was not conducted

³ As of May 30, 2014, the general fund also reported approximately \$56,000 in restricted fund balance and appropriated fund balance of \$102,000.

⁴ New York State Village Law

during any of the years in our audit period. Also, the Board did not develop realistic budgets and failed to adjust water and sewer rates to ensure revenues were adequate to cover the budgeted expenditures and, in the water fund, to repay interfund loans. In addition, the Board has not created a multiyear financial plan. Without a useful multiyear financial plan, the Board's ability to effectively monitor the Village's water and sewer funds' financial health is diminished.

Recommendations

The Board should:

1. Develop a plan to either repay outstanding interfund loans or authorize transfers to close out all, or a portion of, these loans.
2. Evaluate water and sewer fund operation results and establish proper water and sewer rates accordingly to ensure that those funds are self-sustainable.
3. Audit, or provide for an audit of, the Clerk-Treasurer's books and records, including those of the water and sewer funds.
4. Develop and adopt realistic budgets, and monitor compliance.
5. Develop a multiyear financial plan and periodically review and update it as needed.

Village officials should:

6. Ensure that all water and sewer customers are properly billed.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

The Village officials' response to this audit can be found on the following pages.

Mayor
John W. Kenney, Jr.
Trustees
Kevin Lynch
Connie Nenni
Brian Sorochty
Stanley Carpenter

VILLAGE OF HOLLEY
72 Public Square
Holley, New York 14470
(585) 638-6367
Fax: (585) 638-7540
TDD 1-800-662-1220
Email: strowbridge@villageofholley.org

Clerk Treasurer
Sarah Trowbridge
Deputy Clerk Treasurer
Mary Ellen Ridley
Attorney
John S. Sansone, Esq.

March 12, 2015

To Whom it May Concern:

Village of Holley, NY response to audit of the financial condition of the water and sewer funds by the Office of the State Comptroller is as follows:

Recommendation 1: Regarding outstanding interfund loans

Response: A ten year repayment plan to start in the 2014-15 fiscal year using a surcharge to generate approximately \$16,870 per year OR using the advice from NYCOM representative Barbara Epps to draw up a resolution to forgive the total debt. Mrs. Epps is part of NYCOM legal staff.

Recommendation 2: Regarding Self-Sustainability

Response: A shared service agreement with the Village of Albion, NY is currently in place to reduce the expenditures by approximately \$35 thousand dollars the first year of the agreement (2014-2015). Anticipate a savings of \$20 thousand dollars as unencumbered. Currently extending the time of the agreement to five (5) years and exploring a rate increase to be implemented for water and sewer services increasing anticipated revenue. Said action should enable infrastructure improvements. The possibility of a grant and/or low interest loan research is in progress, contacting Assemblyman Hawley and Rural Development of NY representative Dawn Kuras.

Recommendation 3: Regarding audit of books and records related to financial funds

Response: Audit of the Clerk/Treasurer books and records including those of the water and sewer funds is currently in place (internally) and by Baldwin Associates. Each month of the fiscal year the books and records are monitored and evaluated. Corrective measures are discussed and implemented. Additional shared services in the process of being explored and put in place. We are also working with the Rural Development Agency regarding compliance.

See
Note 1
Page 10

"This institution is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov."

Recommendation 4: Regarding realistic budgets

Response: The Board has committee reviewing rules, regulations, and rates, an on-going goal of the budget process (November – March) each year. We are exploring shared services with neighboring towns and villages in Orleans County. i.e. Village of Albion and Town of Murray.

Recommendation 5: Regarding Multi-year financial plan

Response: Currently in research mode to accomplish needed changes and updates. Work sessions and public meeting dates under discussion. A finished product not in hard copy form except for a comprehensive plan. (Guidelines) At this time the village is using rules, regulations, and rates established or recently amended.

Recommendation 6: Regarding customer billing

Response: Efforts by the Village has identified and corrected more than thirty (30) customers from a list of forty seven (47) thus far. Anticipate working with landlords to complete the task.

Respectfully Submitted: _____

John Kenney Jr.
Mayor

Cc: Board of Trustees

"This institution is an equal opportunity provider and employer.

If you wish to file a Civil Rights program complaint of discrimination, complete the USDA Program Discrimination Complaint Form, found online at http://www.ascr.usda.gov/complaint_filing_cust.html, or at any USDA office, or call (866) 632-9992 to request the form. You may also write a letter containing all of the information requested in the form. Send your completed complaint form or letter to us by mail at U.S. Department of Agriculture, Director, Office of Adjudication, 1400 Independence Avenue, S.W., Washington, D.C. 20250-9410, by fax (202) 690-7442 or email at program.intake@usda.gov."

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

We question this firm's independence to audit the Clerk-Treasurer's books and records, because it provides bookkeeping services to the Village. To satisfy independence requirements and professional auditing standards, a firm hired for an audit function is to maintain independence from the Village's business operations. An auditor's acceptance of responsibility for the preparation and fair presentation of financial statements that the same auditor will subsequently audit would impair that auditor's independence. In essence, the firm would be auditing its own work which violates the independence auditing standard.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the financial condition of the Village's water and sewer funds. To accomplish this, we interviewed appropriate Village officials, tested selected records and examined pertinent documents for the period June 1, 2009 through September 12, 2014. Our procedures included the following:

- We interviewed the Mayor, Board members and Village officials to obtain an understanding of current financial monitoring procedures.
- We compared the adopted budgets for the water and sewer funds for fiscal years 2009-10 through 2013-14 with the actual results of operations to determine if the budgets were realistic.
- We analyzed the Village's financial records for the water and sewer funds for fiscal years 2009-10 through 2013-14 to determine if these funds' financial condition had declined. We also interviewed Village officials and evaluated any factors contributing to the declines.
- We used a risk-based judgmental selection process to obtain a sample of property owners from the 2013-14 tax roll and traced the meter readings to the individual bills (the usage billed and the rates used) to determine whether they were calculated correctly and based on the rates established by the Board.
- We compared the number of properties listed on the tax roll to the number of meter-reading records to identify any properties listed on the tax roll that were not being billed for water or sewer usage and investigated the reasons.
- We reviewed all interfund transfers and loans for the period June 1, 2009 through May 31, 2014 to assist in analyzing the financial condition of the water and sewer funds.

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 D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

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

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313