



Village of Bolivar

Financial Condition of Water and Sewer Funds

Report of Examination

Period Covered:

June 1, 2007 — March 15, 2013

2013M-125



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2013

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 Bolivar, entitled Financial Condition of 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 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 Bolivar (Village) is located in Allegany County in the southwestern part of New York State and has a population of 1,047. The Village provides various services to its residents including street maintenance, snow removal, water distribution, sewage collection and treatment, and general government administration. For the fiscal year ending May 31, 2013, budgeted appropriations totaled \$444,000 for the general fund, \$168,000 for the water fund, and \$183,000 for the sewer fund. Expenditures are funded primarily by real property taxes, sales tax, State aid, and user fees.

The Village is governed by a Board of Trustees (Board) consisting of 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, subject to the approval of the Board. The Clerk-Treasurer is the chief financial officer and is responsible for the custody and care of all Village moneys, maintaining the accounting records, and preparing reports and the annual operating budget for Board review and adoption.

Objective

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

- Are the Mayor and the Board adequately monitoring 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, 2007, through March 15, 2013.

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.

Comments of Local 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. Village officials generally agreed with our recommendations and indicated they plan to take 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 the 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-Treasurer's office.

Financial Condition of Water and Sewer Funds

The Board is responsible for adopting structurally balanced budgets for all operating funds that provide sufficient recurring revenues to finance recurring expenditures. Current billing rates should be reviewed to determine if they will generate the level of revenue estimated in the budget. Sound budgeting practices, together with prudent fund balance management, ensure that sufficient funding will be available to sustain operations, address unexpected occurrences, and satisfy long-term obligations or future expenditures. The Board should monitor activity by reviewing pertinent monthly financial reports and raise rates as needed.

We found that the Board has not adequately monitored the financial condition of the water and sewer funds. Adequate financial reports were not provided to the Board on a monthly basis. Therefore, the Board has not ensured that adequate cash balances are available to fund expenditures as they come due. Prior to May 31, 2008, the sewer fund borrowed a total of approximately \$64,000 and the water fund borrowed a total of approximately \$54,000 from other funds, principally from the general fund. The water and sewer funds do not presently have sufficient resources to repay the full amount of these interfund loans without affecting their operations.

Available Cash Assets		
	Water Fund	Sewer Fund
Unrestricted Cash as of May 31, 2012	\$67,689	\$52,266
Less: Net Amount Due to Other Funds	(\$54,313)	(\$64,443)
Balance Unrestricted Cash Assets	\$13,376	(\$12,177)

This lack of available funds resulted from Village officials not monitoring and adjusting water and sewer rates¹ to ensure resources were adequate to repay the loans. When we asked Board members if they thought the financial reports supplied to them were adequate, one Board member indicated that he thought he currently knew less about the Village’s financial condition than he did prior to the Village using external accountants to compile their financial reports. While he received the reports requested on a quarterly basis, he did not completely understand the contents of the reports. Although the Board increased sewer rates in 2013, primarily to address repairs to the system, it must continue to routinely monitor the adequacy of sewer rates to fund recurring expenditures.

¹ Prior to an increase in sewer rates for the April 2013 billing to finance repairs to the waste water treatment plant, water and sewer rates had not been formally reviewed and adjusted since 2009.

As a result of not adequately monitoring the financial condition of the water and sewer funds and not addressing the repayment of interfund loans, adequate resources may not be available to finance future operations, which also may affect the cash flow of the funds providing the loans. While cash balances in the Village's other operating funds appear to be adequate, their operations could become affected in the future if adequate resources do not become available in the water and sewer funds to repay these outstanding loans.

Recommendations

1. The Board should develop a plan to repay outstanding interfund loans or authorize interfund transfers to repay all or a portion of these loans.
2. The Board should use the financial reports provided to it to monitor financial operations of the Village.
3. The Board should adopt policies and procedures for monitoring the financial condition of the water and sewer funds to ensure that recurring revenues, including user rates, are adequate to fund recurring operating expenditures.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF BOLIVAR
252 MAIN STREET * BOLIVAR NY 14715
PHONE 585*928*2234 FAX 585*928*2045
TTY/VOICE 800*662*1220

August 2, 2013

Office of the State Comptroller
Robert Meller, Chief Examiner
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Sir:

We, the Bolivar Village Board, acknowledge the most recent results of the State Comptroller's audit. The Village Board is aware of the inter-loan transfers that were made during the time frame reported. Those transfers were made to cover the recurring expenses to our water/sewer systems. With that noted, we did adjust our rates to increase monies needed. That increase, however, was insufficient and did not allow for repayment procedures to move forward. We understand that not having a plausible repayment plan in place was an oversight and corrective procedures will need to be adopted.

We accept the findings of this audit and will adhere to the recommendations provided.

Respectfully submitted,

Daniel Fuller, Mayor
Village of Bolivar

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets and monitor financial activities. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed Village officials, performed limited tests of transactions, and reviewed pertinent documents such as Village policies and procedures manuals, Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected for further review the financial condition of the water and sewer funds.

For this review our audit procedures included the following:

- We reviewed adopted Board policies and procedures relating to the monitoring of financial condition and budgeting.
- We interviewed local officials responsible for Board oversight and Village financial governance to obtain an understanding of current financial monitoring procedures.
- We reviewed monthly and quarterly financial reports provided to the Board by the Clerk-Treasurer and the Village's certified public accounting firm.
- We reviewed bank statement data, including canceled checks and duplicate deposit slips, to ensure that the data used in our analysis were reliable.
- We analyzed submitted financial data for fiscal years 2007-08 through 2012-13.
- We reviewed adopted budgets and actual results of operations for fiscal years 2007-08 through 2012-13 to determine reasons for any financial stress.
- We analyzed user charge rates and rate structures for fiscal years 2007-08 through 2012-13 to determine how often rates were adjusted.

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.

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