



Village of Delhi

Financial Condition

Report of Examination

Period Covered:

June 1, 2011 — March 1, 2013

2013M-110



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Board of Trustees 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 Delhi, 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 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 Delhi (Village) is located in the Town of Delhi in Delaware County and is the County seat. The Village has approximately 3,100 residents and provides various services including public safety, road maintenance, snow removal, water distribution, sewage treatment, yard/brush removal and general government support. The Village's total general, sewer and water fund budgeted expenditures for the 2012-13 fiscal year are \$3.4 million, funded mainly by real property taxes, water and sewer fees, and State and Federal aid.

The Village is governed by an elected Board of Trustees (Board) consisting of a Mayor and four Trustees. The Board is responsible for the general management and control of the Village's finances and operations and the protection of Village assets. The Board also has the authority to adopt the budget and the responsibility to ensure services are delivered within the limits provided in the budget. The Mayor, who is a member of the Board, serves as the Village's chief executive officer.

Objective

The objective of our audit was to examine the Village's financial condition. Our audit addressed the following related questions:

- Did the Board and Mayor properly manage the Village's financial condition?

Scope and Methodology

We examined financial records and reports relating to the Village's budgeting for the period June 1, 2011, to March 1, 2013. We expanded our scope to review the Village's financial condition back to June 1, 2007.

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 findings and indicated they plan 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 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 Village Clerk's office.

Financial Condition

The Board has the authority and responsibility to adopt realistic, structurally balanced budgets, monitor the budget continually and manage fund balance responsibly. The Board is responsible for overseeing the Village's fiscal activities and safeguarding its resources. To fulfill this duty, it is essential that the Board develop budgets that include long-term planning for major capital asset additions. Planning on a multiyear basis allows Village officials to identify developing revenue and expenditure trends, set long-term priorities and goals, and avoid large fluctuations in tax rates. Reserve funds provide a mechanism for legally saving money to finance all or part of future infrastructure, equipment and other requirements. Reserve funds also can provide a degree of financial stability by reducing reliance on indebtedness to finance capital projects and acquisitions.

The Mayor and Board did not properly manage the Village's financial condition because they did not consistently develop sound budget estimates. Further, they did not adequately monitor actual results against the budget. As a result, the unexpended surplus fund balances¹ remained high while the Village's real property tax levy continued to increase slightly by 7 percent from 2007 to 2012. As of May 31, 2012, the general, water and sewer funds have accumulated significant unexpended surplus funds and have not established formal reserves for future repairs and capital needs, as illustrated below.

May 31, 2012	General	Water	Sewer
Ensuing Year's Budgeted Appropriations	\$1,363,238	\$640,736	\$1,372,756
Unexpended Surplus Funds	\$511,976	\$496,993	\$970,079
Unexpended Surplus Funds as a Percentage of the Ensuing Year's Budgeted Appropriations	37.5%	77.6%	70.7%

General Fund – Although at the end of the fiscal year 2007-08, the general fund reported unexpended surplus fund balance of nearly \$800,000, which was more than 60 percent of the following year's appropriations and more than the entire real property tax levy for that year, this significant excess has since been reduced.

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserve and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds.) The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

From the 2007-08 through 2011-12 fiscal years, the Board did not budget \$606,000 of net transfers,² which ultimately resulted in additional revenues for the general fund. This was offset to a certain degree because the Board also spent more than it had planned by \$310,000. Further, in the 2008-09 through 2011-12 fiscal year budgets, the Board had budgeted to use \$463,000 in unexpended surplus funds to finance operations, but only used \$256,000. While the Board's use of a portion of planned appropriations has reduced the amount of unexpended surplus fund balance, it was not to the extent the Board intended because of the budget variances over this five-year period.

Water Fund – As of the end of the fiscal year 2007-08, the water fund reported unexpended surplus fund balance of more than \$218,000, or more than 60 percent of the following year's appropriations. After generating additional surplus in 2008-09, the Board adopted a water fund budget for the 2009-10 fiscal year that included plans to use about 7 percent, or \$27,000, of unexpended surplus fund balance to fund operations. During the 2010-11 and 2011-12 fiscal years, the water fund continued to generate surpluses of more than \$92,000 because the Board spent about \$330,000 less than planned, while it received about \$237,000 less in revenues than estimated during this same time. The majority of appropriations variances occurred because the water fund transferred out \$306,000 less than was budgeted from the 2007-08 through 2011-12 fiscal years. These surpluses added to the already excessive unexpended surplus fund balance. At fiscal year-end 2011-12, the water fund's unexpended surplus fund balance of \$497,000 was more than three quarters of the ensuing year's appropriations and, therefore, excessive.

Sewer Fund – At the end of fiscal year 2007-08, the sewer fund reported an unexpended surplus fund balance of nearly \$560,000, or more than 55 percent of the following year's appropriations. In the years following, the Board budgeted to use much of this surplus fund balance to finance operations. However, the sewer fund generated operating surpluses of more than \$252,000 through the 2011-12 fiscal year. Again, these surpluses resulted from the Board adopting budgets that were not reflective of the actual results. For example, the actual expenditures from 2008-09 to 2011-12 were less than budgeted by approximately \$436,000; \$107,000 of this amount was due to budget variances in transfers from the sewer fund. The sewer fund also received less revenue than budgeted by a minimal amount during this time. At fiscal year-end 2011-12, the sewer fund's unexpended surplus fund balance of \$970,000 was 70 percent of the ensuing year's appropriations and, therefore, excessive.

² This figure includes transfers from the water and sewer funds to the general fund and transfer from the general fund to the capital fund.

Village officials told us that they review past year budget and actual results, along with actual to date results, while preparing their budgets. However, most of the budget differences found above related to the transfers between funds that were not properly budgeted. Additionally, the Mayor indicated that the Board was accumulating unexpended surplus fund balance in the water fund to help fund an ongoing capital project. He also said that the Board was maintaining the surplus in the sewer fund for future operations and upkeep, as well as to establish reserve funds. However, the Board did not formally document its long-term plans for unexpended surplus funds or set aside these moneys in formal reserves. Therefore, the Board's intent for the use of these funds is not transparent to Village residents or other concerned parties.

We reviewed the 2012-13 fiscal year budgets for each fund and project these same trends to continue in the 2012-13 fiscal year. Each fund likely will generate an operating surplus that will add to its unexpended surplus fund balance. The three funds combined are expected to generate over \$800,000 in operating surpluses. Poor budget estimates are not reflective of the Board's ability to manage the Village's financial position. The Village taxpayers and residents have paid slightly increased real property tax levies that – had the Board used historical results when developing the budgets – may not have been fully necessary.

Recommendations

1. The Board should consider historical trends, as well as identified current and future needs, when developing budget estimates that are consistent with the Village's actual revenues and expenditures. The Board also should set aside the financing for those future needs in formal reserves.
2. In conjunction with realistic budgeting practices, the Board should develop a plan to reduce the amount of unexpended surplus funds in a manner that benefits Village taxpayers. Such uses could include, but are not limited to:
 - Using surplus as a financing source
 - Funding reserves to finance future capital needs
 - Paying off debt
 - Funding one-time expenditures.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



VILLAGE OF DELHI

P.O. Box 328 - 9 Court Street
Delhi, New York 13753
(607) 746-2258 • FAX (607) 746-6771

To: Office of the State Comptroller
From: Richard Maxey, Mayor
Re: Audit
Date: July 15, 2013

I would like to thank the comptroller's office for reviewing our books again this year. The village for the past three years has authorized our auditors [REDACTED] to do complete audits of its books. It appears that the fault of the village board in your audit is having too much money in fund balances and not in reserves. The one question I must ask the comptroller, how much is too much when it comes to a municipality that is 73 – 75% tax exempt?

In the general fund budget we are dealing with a DPW garage about 75 years old within the flood plain that desperately needs replacing. We have a 20 year road replacement plan in which your office was very impressed with, requiring a means of paying for. Cost estimates of the plan are about \$1 million over a ten year period in which CHIPS is insufficient. In May we had a high water event causing at least \$20,000 in damages. That damage alone would be a 3% tax increase to our residents. The village has been and is currently dealing with a 207-C claim causing unanticipated expenses with in the police department. The village just received a new police vehicle with a price tag of \$28,042.26 that was not in a reserve in order to keep taxes stable. The village has been very fortunate to be recipient of a federal TEP grant of \$750,000. Unfortunately it has been in the works for 7 years and at one point \$300,000 over budget which would have fallen onto the tax payers. At this date it looks to be bid out this fall in which the village would finally know if any how much additional tax payer monies will be needed. The village has not raised taxes in three years and in six years has only been raised once. Some of our municipal lighting fixtures have been changed over to LED's as a cost effective measure and for public safety.

The water fund has seen a structural upgrade these past six years with a \$5.3 million USDA water improvement project. The project has not been completed as yet, therefore the village is working under a BAN. Until there is final completion of the project, searching for a new municipal well outside of the flood plain, we do not know what our

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final BOND payment will be annually from the water fund. The board is also conscious of the fact that if we proceed to develop the potential well, that we anticipate a short fall of at least \$500,000 for a new water facility. The village also had an incident at our current water facility. Just receiving our NYSDOH approval, 6/27/13, we plan to move forward with corrects, one estimated cost to do the improvements is up to \$100,000.

The sewer fund this past year created an I & I capital reserve account of \$300,000 but was not reflective in your audit because we do budget transfers at the end of our fiscal year. The repairs made to our collection system from this reserve have dropped our WWTP flow rate from 85% to 60% usage avoiding the village of investigating the possible expansion of our WWTP. Two of our local industries have plans for major expansion and SUNY Delhi is in the final planning stage of a subsurface water system using affluent from our WWTP that we are involved with. At this point in time the village does not know if any our cost involvement. In the new fiscal year the village board has agreed to replace our outdated water/sewer meters with a radio read system. Our intention is to replace 100 meters per year at an approximate cost of \$20,000 per year for the next 6 years.

Your comments are helpful to us and will be discussed by the board and considered.

Richard Maxey, Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

During our audit, we examined the Village's budgeting practices for the period June 1, 2011, to March 1, 2013. We expanded our scope to review the Village's financial condition back to June 1, 2007. In order to accomplish the objective of this audit, and to obtain relevant audit evidence, our procedures included the following:

- We interviewed Village officials to gain an understanding of the policies and procedures used to prepare and monitor the budget.
- We compared annual update document (AUD) figures to the Village's financial records and certified public accountant's report. We also compared budgets to actual results from fiscal years 2007-08 to 2011-12. We analyzed these results and determined how budget estimates were in relation to actual results.
- We documented the intended use of fund balance for the fiscal years 2007-08 to 2011-12 budgets. We reviewed actual results as reported on Village AUD filings to determine if the Village had indeed used the budgeted fund balance amounts. We compiled any over- or under-estimations during these years.
- We discussed with Village officials future projects and financial plans for the Village. We also inquired about whether formal long-term plans exist for unexpended surplus funds.
- We reviewed real property tax, sewer and water rates for the past five fiscal years and discussed with Village officials their process for determining the rates.

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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