



Village of Munnsville

Financial Operations

Report of Examination

Period Covered:

June 1, 2011 — May 31, 2012

2012M-239



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	4
FINANCIAL OPERATIONS	5
Fund Balance	5
Annual Financial Report	7
Annual Audit	7
Recommendations	8
APPENDIX A Response From Local Officials	9
APPENDIX B Audit Methodology and Standards	12
APPENDIX C How to Obtain Additional Copies of the Report	13
APPENDIX D Local Regional Office Listing	14

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 Munnsville, entitled Financial Operations. 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 Munnsville (Village) is located in the Town of Stockbridge (Town), Madison County, and has a population of approximately 470 residents. The Village is governed by an elected Board of Trustees (Board) comprising a Mayor and four Trustees. The Board is the legislative body responsible for the general management and control of the Village's financial affairs.

The Village offers a variety of services to its residents, including general administration, street maintenance, snow removal, and fire protection. Budgeted appropriations for the fiscal year ended May 31, 2012, were approximately \$157,000 in the general fund. The Village derives the majority of the moneys to finance these services from real property taxes, a fire protection contract with the Town, sales tax, and State aid.

The Mayor is the Village's chief executive officer. The Village Clerk-Treasurer (Clerk-Treasurer) is the chief fiscal officer and is responsible for the accounting records and reports including filing the Village's annual update document (AUD) with the Office of the State Comptroller (OSC). The Board is responsible for fiscal oversight which includes ensuring that the Village maintains an adequate amount of fund balance, conducting an annual audit of the Clerk-Treasurer's records, and ensuring the Clerk-Treasurer files the AUD in a timely manner.

Objective

The objective of our audit was to determine whether the Board properly monitored the Village's financial operations. Our audit addressed the following question:

- Did the Board ensure that the Village maintained adequate fund balance in the general fund, provide for an annual audit of the Clerk-Treasurer's records, and ensure that the AUD is filed in a timely manner?

Scope and Methodology

We examined the Board's oversight of the Clerk-Treasurer for the period June 1, 2011 to May 31, 2012. To analyze the Village's historical appropriation of fund balance and the Village's financial condition, we extended our audit period back to the 2008-09 fiscal year.

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 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 planned 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 Operations

The Board is responsible for oversight of the Village's operations and ensuring that policies and procedures are in place to safeguard financial resources. The Board's responsibility includes developing procedures to ensure an appropriate level of unassigned fund balance is maintained for unforeseen occurrences or cash flow issues. The Board also must make certain that the Clerk-Treasurer files required documents with OSC on a timely basis. Furthermore, the Board must annually audit, or cause to be audited, the Clerk-Treasurer's financial records and reports.

The Board has not maintained an adequate level of unassigned fund balance, which limits the Village's ability to manage emergencies and other unanticipated occurrences. The Board also has not exercised effective oversight of the Clerk-Treasurer. For example, the Clerk-Treasurer has not filed the required annual financial report with OSC on a timely basis. Further, the Board did not audit, or cause to be audited, the records and reports of the Clerk-Treasurer. As a result of these oversight weaknesses, the risk is increased that errors or irregularities could occur and remain undetected and uncorrected.

Fund Balance

A key measure of financial condition is the level of fund balance, which represents resources remaining from prior fiscal years. The unexpended amount is the available portion of fund balance that can be used to manage unexpected costs or unanticipated shortfalls in estimated revenues. Inadequate unexpended surplus fund balance¹ limits the Village's ability to manage emergencies and other unanticipated occurrences. To ensure the Village maintains a prudent level of financial resources and stability, the Board should adopt a fund balance policy. The Government Finance Officers Association (GFOA) recommends that local governments, at a minimum, maintain unexpended surplus fund balance in the general fund of no less than two months or 17 percent of regular revenues or expenditures.² However, the desired level of unexpended surplus

¹ The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved 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 unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

² GFOA of the US and Canada, Best Practice: "Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009)"

fund balance should be assessed based upon a local government's specific circumstances.

The Village's general fund is its sole operating fund. However, the Clerk-Treasurer included a HOME³ grant of \$15,200 and a bond anticipation note (BAN) of \$57,000 in the 2011-12 fiscal year general fund cash balance.⁴ These moneys should have been accounted for in separate funds: the HOME grant moneys in a special revenue fund and the BAN in the capital projects fund. We did not consider these cash amounts when analyzing the general fund's financial condition.

	2008-09	2009-10	2010-11	2011-12
Beginning Fund Balance	\$22,394	\$12,126	\$5,036	\$9,001
Operating Surplus/(Deficit)	(\$10,268)	(\$7,090)	\$3,965	\$13,938
Fund Balance Reported at Year End	\$12,126	\$5,036	\$9,001	\$22,939
Appropriated Fund Balance for Ensuing Year	\$14,000	\$4,000 ^a	\$10,000	\$20,000
Unexpended Surplus/(Deficit) Funds at May 31 ^b	(\$1,874)	\$1,036	(\$999)	\$2,939
Following Year's Budgeted Appropriations	\$150,627	\$148,927	\$157,127	\$175,327
Unexpended Funds as % of Following Year's Appropriations	(1%)	1%	(1%)	2%
^a The Board's intent was to appropriate \$4,000 but it actually appropriated \$5,025 due to a clerical error in the budget document.				
^b Prior to the 2010-11 fiscal year, referred to as "unreserved, unappropriated fund balance"				

In two of the last four fiscal years, Village officials appropriated more fund balance than was actually available. For the 2009-10 fiscal year the Board appropriated \$14,000 of fund balance to help fund the budget, but had only \$12,126 of unassigned fund balance in the general fund. As a result, Village officials appropriated \$1,874 of fund balance that they did not have. For the 2011-12 fiscal year, Village officials appropriated \$999 more in fund balance than they actually had on hand.

Although the Village had operating surpluses in the past two fiscal years, officials told us it is the Board's practice to appropriate as much fund balance as it can toward the ensuing year's budget. This practice

³ The HOME grant program, administered by New York State Housing Trust Fund Corporation (HTFC), assists low-income homeowners in completing necessary repairs and improvements to improve energy efficiency. One of the stipulations is that the homeowner retains possession of the property for a period of five years and a property lien is filed with the County.

⁴ The BAN was obtained in the 2011-12 fiscal year to finance a roof replacement project.

leaves very little fund balance as a financial cushion for emergencies or unforeseen circumstances.

Additionally, the Board does not have a fund balance policy, which is important to help ensure financial stability, manage financial resources, and ensure fund balance on hand is reasonable. The failure to maintain a reasonable amount of unexpended surplus funds places the Village at risk of potential fiscal stress that could jeopardize the delivery of services.

Annual Financial Report

Local governments are required by law to annually complete and file a detailed report of all financial activity for the preceding year (AUD) with OSC. This report provides the Board, OSC, and Village residents with a tool for monitoring financial operations. The Clerk-Treasurer is required to complete and submit the Village's AUD no later than 60 days after the close of the fiscal year. While it is the Clerk-Treasurer's responsibility to complete and file this report, the Board should have procedures in place to review this report for accuracy and ensure that the Clerk-Treasurer completes and submits it in a timely manner.

The Board did not have procedures in place to ensure that the Clerk-Treasurer filed the Village's AUD in a timely manner. While the Mayor was aware that the Clerk-Treasurer is required to complete and file an annual report with OSC, he did not know when the report was due. Further, Board members we interviewed were not aware that the Clerk-Treasurer was required to file annual reports with OSC. The Village's 2010-11 and 2011-12 fiscal year AUDs had not been filed as of August 13, 2012.⁵

Annual Audit

Village Law requires that the Board annually audit, or have a Village officer, employee, or an independent public accountant audit, the records and reports maintained by the Clerk-Treasurer on the Village's behalf. This annual audit serves as an important internal control over cash receipts and disbursements by providing independent verification that transactions have been properly recorded and that cash has been properly accounted for. It also provides Board members with an added measure of assurance that the financial records and reports contain reliable information on which to base financial decisions.

The Board did not audit, or contract with an independent auditor to audit, the Clerk-Treasurer's records for the 2009-10, 2010-11, and 2011-12 fiscal years.⁶ While the Mayor was aware that the Clerk-Treasurer's records should be audited annually, he did not believe

⁵ Subsequent to our fieldwork, the Village filed its 2010-11 AUD on September 23, 2012.

⁶ Two Clerk-Treasurers served during this period. The current Clerk-Treasurer replaced the former Clerk-Treasurer in May 2010.

there was a need for an audit because he had trust in her abilities. Further, Board members we interviewed said they were not aware of the annual audit requirement. Without an annual audit, the Board cannot have assurance that the Clerk-Treasurer properly accounted for all the Village's financial resources, and there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Recommendations

1. The Board should adopt a fund balance policy and develop procedures governing the level of unexpended surplus fund balance to be maintained for the Village's general fund.
2. The Clerk-Treasurer should account for the HOME grant and capital project in the proper funds.
3. The Board should ensure that the Clerk-Treasurer files the Village's annual financial reports within the prescribed statutory period.
4. The Board should perform annual audits⁷ of the Clerk-Treasurer's records and reports, or have an officer, employee, or independent public accountant do so.

⁷ Board members should refer to our publication entitled *Local Government Management Guide – Fiscal Oversight Responsibilities of the Governing Board*.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF MUNNSVILLE
P.O. Box 158
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(315) 886-6433

January 24, 2013

Office of the State Comptroller
Division of Local Government & School Accountability
Attn: Rebecca Wilcox, Chief Examiner
Syracuse Regional Office
State Office Building, Room 409
333 E. Washington St.
Syracuse, NY 13202-1428

RE: AUDIT RESPONSE & CORRECTIVE PLAN OF ACTION

Please consider this letter a formal response and Corrective Plan of Action (CAP) concerning the Report of Examination issued to the Village of Munnsville for the audit period covered from June 1, 2011-May 31, 2012.

The Village Board of Trustees and its officials appreciate the professionalism demonstrated by [REDACTED] during the audit process. The Board of Trustees has reviewed and concurs with the findings as a result of this examination. At the January 14, 2013 regularly scheduled Board meeting, the results were discussed and a Corrective Action Plan was drafted to be submitted in conjunction with this response letter:

AUDIT RECOMMENDATION #1:

"The Board should adopt a fund balance policy and develop procedures governing the level of unexpended surplus fund balance to be maintained for the village's general fund".

IMPLEMENTATION PLAN OF ACTION (S):

- At the 1/14/13 Board meeting, it was agreed that the Board of Trustees will formulate policy & procedures addressing Fund Balance at the February 2013 board meeting; conduct a draft review of said policy at its regularly scheduled March 2013 meeting; with a targeted date for formal adoption at the April 2013 meeting.

IMPLEMENTATION DATE: Formulate policy & procedures February 2013; draft review March 2013; formal adoption April 2013.

PERSON(S) RESPONSIBLE FOR IMPLEMENTATION: Mayor Richard Snider & Board of Trustees

AUDIT RECOMMENDATION #2:

"The Clerk/Treasurer should account for the HOME grant and capital project in the proper funds".

IMPLEMENTATION PLAN OF ACTION (S):

- Clerk/Treasurer will make recommended corrections so those funds are properly reflected in the village accounting records and subsequently on all required reports filed with the Comptroller's Office.

IMPLEMENTATION DATE: February 2013

PERSON(S) RESPONSIBLE FOR IMPLEMENTATION: Kelly Johnson, Clerk/Treasurer

AUDIT RECOMMENDATION #3:

"The Board should ensure that the Clerk-Treasurer files the Village's annual financial reports within the prescribed statutory period".

IMPLEMENTATION PLAN OF ACTION (S):

- On a yearly basis, the Board will request monthly progress updates from Clerk-Treasurer at all regularly scheduled board meetings held in June, July & August to ensure Clerk-Treasurer is in compliance with the August 31st filing deadline. Such progress updates will be documented in respective meeting minutes. Once AUD is filed and accepted by OSC, AUD will then be inspected by Board of Trustees and such review documented in regular meeting minutes.

IMPLEMENTATION DATE: Starting June 2013 and annually hereafter

PERSON(S) RESPONSIBLE FOR IMPLEMENTATION: Kelly Johnson, Clerk/Treasurer; Mayor Richard Snider; Board of Trustees

AUDIT RECOMMENDATION #4:

"The Board should perform annual audits of the Clerk-Treasurer's records and reports, or have an officer, employee, or independent public accountant to do so".

IMPLEMENTATION PLAN OF ACTION (S):

- After the close of each fiscal year, the Board of Trustees as a governing entity will review the Clerk-Treasurer's records and reports using the OSC's Local Government Management Guide "Fiscal Oversight Responsibilities of the Governing Board" Appendices C & E as a guideline. The internal audit review for this year is scheduled for June 10, 2013.

IMPLEMENTATION DATE: June 2013 and annually hereafter.

PERSON(S) RESPONSIBLE FOR IMPLEMENTATION: Mayor Richard Snider & Board of Trustees

All oral recommendations discussed at the Exit Conference have been taken under advisement and will be implemented as the Board of Trustees deems practical and necessary.

Sincerely,

Richard Snider
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Village officials, tested selected records, and examined pertinent documents for the period June 1, 2011 through May 31, 2012. To analyze the Village's historical appropriation of fund balance and financial condition we extended our audit period back to the 2008-09 fiscal year.

Our examination included the following:

- We performed an analysis of the Village's fund balance for the last four fiscal years using the Village's financial statements, AUDs submitted to OSC, and Board-adopted budgets. This included reviewing and analyzing reported fund balance levels in comparison to amounts appropriated in adopted budgets.
- We reviewed two year-end reports for the months of May 2011 and May 2012 and the monthly report for April 2012, provided to the Board by the Clerk-Treasurer, for accuracy and timeliness.
- We reviewed the minutes of the Board meetings during our audit period for evidence of the Board's budgeting and budget monitoring.
- We interviewed the Clerk-Treasurer, Mayor, and Board members to obtain an understanding of the budget development and monitoring process.
- We interviewed Board members to obtain an understanding of their oversight process for conducting an annual audit of the Clerk-Treasurer's records and also for their procedures for ensuring that the Clerk-Treasurer has filed the AUD in a timely manner.
- We reviewed AUD filings as submitted to OSC to determine if they were accurate, complete, and submitted in a timely manner.

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.

APPENDIX C

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