



Village of Catskill

Financial Oversight

Report of Examination

Period Covered:

June 1, 2012 — December 19, 2013

2014M-134



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2014

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 Catskill, entitled Financial Oversight. 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 Catskill (Village) is located in the Town of Catskill (Town) in Greene County and has a population of 4,100. The five-member Board of Trustees (Board) is the elected legislative body responsible for the general management and control of the Village's finances and operations. The Board's President (President) serves as the Village's chief executive officer. A Board-appointed Treasurer serves as chief fiscal officer and is responsible for the custody of all Village moneys, maintaining accounting records, filing required financial reports and signing checks. A Board-appointed clerk serves as tax collector, bills and receives water and sewer payments, assists in budget preparation and keeps a record of Board proceedings.

The Village provides services for its residents, including street maintenance and improvements, water distribution and sewage treatment, public safety and general government support. For the fiscal year ending May 31, 2013, the Village reported expenditures of \$4.2 million in its general fund, \$1.1 million in its water fund and \$872,000 in its sewer fund. The Village's annual budget for the 2013-14 fiscal year is \$4.3 million, funded mainly from real property taxes, user charges and State aid. The Village provides water and sewer service to Village and Town residents. The Village bills and collects the water and sewer rents and makes all repairs to the system.

Objective

The objective of our audit was to assess the financial oversight provided by the Board. Our audit addressed the following related question:

- Do Village officials adequately monitor the Village's financial operations to ensure fiscal stability?

Scope and Methodology

We examined the Village's financial oversight for the period June 1, 2012 through December 19, 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 planned 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 Oversight

The responsibility for adequately monitoring financial operations and ensuring fiscal stability rests with the Board. The Board must receive timely and accurate financial information from the Treasurer to prepare and monitor the annual budget, ensure compliance with relevant laws and policies and ensure that sufficient financial resources are available to maintain Village operations at an acceptable level. According to General Municipal Law and the Village's charter, the Treasurer is responsible for maintaining accurate and timely accounting records, performing monthly bank reconciliations and preparing and submitting annual financial statements to the Board and the Office of the State Comptroller (OSC).

Village officials have not adequately monitored the Village's financial operations to ensure fiscal stability. The Treasurer did not maintain accurate and timely accounting records, which caused the general ledger to be out of balance by nearly \$7 million and the annual financial reports for May 31, 2009 through 2012 to be filed nine or more months late. Village officials consistently overestimated expenditures in the water and sewer budgets by an average of \$80,860 and \$108,555 respectively. The Board has not developed a multiyear financial plan or capital plan. As a result, there is an increased risk that more user fees or taxes may be assessed than necessary.

Accounting Records and Reports

According to the Village's charter, the Treasurer is responsible for maintaining Village financial records. Accordingly, general ledgers, cash receipt and disbursement journals, and subsidiary revenue and appropriation ledgers must be maintained in a complete, accurate and timely manner. It also is important that Village officials perform monthly bank reconciliations of bank statement balances to the cash balances as recorded in the Village's records. To assist the Treasurer, the Village contracts with an independent certified public accounting firm (accountant) to perform certain consulting and accounting services, including monthly reconciliations of the general ledger to bank statements and the preparation and filing of the Village's annual financial report.

The Treasurer did not maintain complete, accurate and timely accounting records. For example, the Treasurer (and accountant) closed the year-end May 31, 2012 general ledger without ensuring the general ledger balanced. The general ledger was out of balance by over \$6.9 million as of December 19, 2013 because of an input error that occurred. Cash was reported as a \$6.9 million deficit instead of \$268,451. Furthermore, during our audit fieldwork, the Treasurer was

unable to produce an accurate statement of assets and liabilities from the accounting software.

In January 2014, the Treasurer received assistance from the software provider and accountant to correct the errors and balance the general ledger. The software provider reopened the May 31, 2012 ledger allowing the Treasurer to make the appropriate entries. The accountant is working with the Treasurer to balance the May 31, 2012 and May 31, 2013 ledgers. In addition, the accounting records showed deficit fund balances in the general fund for fiscal years 2011-12 and 2012-13 of \$133,332 and \$250,737, respectively. However, the deficit fund balances were actually positive fund balances of \$183,189 and \$66,414. The incorrect deficits in the accounting records were due to a recording error that was discovered by the accountant while preparing the May 31, 2013 financial statements.

Because the Village did not maintain complete and accurate financial records, the Board did not have reliable information on which to base its decisions. Without accurate reconciliations of assets and liabilities to general ledger records, recording errors and irregularities can occur and not be detected. When accounting records are untimely or inaccurate, the Board does not have a full understanding of the Village's current financial position. As a result, financial decisions made by the Board, including the creation of the budget, may not be sound.

Annual Financial Report – Local governments are required by Law to annually complete and file with OSC a detailed annual financial report (AFR) of all financial activity for the preceding year no later than 60 days after the close of their fiscal year. The Village's charter also requires the Treasurer prepare and submit annual financial statements to the Board and OSC. This report is needed for effective public oversight. It is important that the Village develops procedures to ensure that the report is prepared and filed in a timely manner.

The Village filed AFRs for years ended May 31, 2009 through 2012 10 to 22 months late.¹ The May 31, 2013 AFR was filed January 24, 2014 (6 months late). Village officials stated that the accountant is responsible for filing the AFR. When the year-end report is untimely, effective oversight and transparency are reduced.

Water and Sewer Funds

The Board is responsible for preparing and adopting budgets based on reasonable estimates of appropriations and revenues. The Village

¹ Fiscal year ended (FYE) May 31, 2012, filed May 16, 2013 = 10 months late; FYE May 31, 2011, filed May 18, 2012 = 10 months late; FYE May 31, 2010, filed July 25, 2011 = 12 months late; FYE May 31, 2009, filed May 18, 2011 = 22 months late

provides water and sewer service to users in both the Village and the Town. The Village is responsible for all functions of the water and sewer systems in the Town. It is essential that the Board and Village officials prepare and adopt structurally balanced budgets that provide for sufficient revenues to finance recurring expenditures and maintain a reasonable fund balance. It is important that the Board adopt budgets based on actual financial results from prior years along with other relevant available data and set water and sewer fees sufficient to cover budgeted appropriations.

Budgeted appropriations for the water fund and sewer fund were overestimated for the fiscal years 2010-11 through 2012-13 resulting in operating surpluses in each year. As a result, the fund balance for each fund increased. The water and sewer fund experienced operating surpluses each year because the Board did not adopt reasonable budgets. The operating surpluses were the result of overestimated expenditures in the three years, which averaged \$80,860 in the water fund and \$108,555 in the sewer fund.

Table 1: Overbudgeted Appropriations in Water and Sewer Funds and User Fees			
Fiscal Year	2010-11	2011-12	2012-13
Water Fund			
Estimated Appropriations	\$1,164,000	\$1,201,600	\$1,192,584
Actual Expenditures	\$1,062,884	\$1,163,480	\$1,089,240
Excess Budget Over Estimated	\$101,116	\$38,120	\$103,344
Operating Surplus	\$124,345	\$18,189	\$105,817
Year-End Fund Balance	\$237,354	\$255,543	\$361,360
Percent of Following Year's Appropriations	19.8%	21.4%	29.7%
User Fees	\$1,099,437	\$1,148,105	\$1,165,825
Sewer Fund			
Estimated Appropriations	\$852,000	\$901,000	\$929,128
Actual Expenditures	\$699,612	\$785,165	\$871,686
Excess Budget Over Estimated	\$152,388	\$115,835	\$57,442
Operating Surplus	\$105,904	\$79,810	\$15,852
Year-End Fund Balance	\$458,476	\$538,286	\$554,138
Percent of Following Year's Appropriations	50.9%	57.9%	59.6%
User Fees	\$795,812	\$830,325	\$858,756

As a result, the water fund fund balance has increased from 19.8 percent to 29.7 percent of the next year's appropriations and the sewer fund balance has increased from 50.9 percent to 59.6 percent of

the next year's appropriations. Despite the increases in fund balance, water fund charges have increased from \$1,099,437 to \$1,165,825 and sewer fund charges have increased from \$795,812 to \$858,756 during this three-year period. While it is good business practice to have sufficient available fund balances, when the amounts represent a significant portion of the operating budgets, taxpayers could be incurring unnecessary user fees.

Multiyear Financial Planning

An important Board oversight responsibility is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important for Village officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three-year to five-year period and allow Village officials to identify developing revenue and expenditure trends, set long-term priorities and goals and avoid large fluctuations in tax rates. The practice of planning ahead and saving incrementally for expected future events is prudent management and helps local governments reduce or eliminate interest and other costs associated with debt issuances. Multiyear plans also allow Village officials to assess the impact, effect and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations and the accumulation of money in reserve funds. Long-term financial plans work in conjunction with Board-adopted policies and procedures to provide necessary guidance to employees on the Board's financial priorities. The Board can establish (and fund) reserve funds to accumulate cash for future capital outlays and other nonrecurring expenditures and should establish a reasonable target fund balance. It is essential that long-term financial plans be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop a comprehensive, multiyear financial and capital plan and it did not have any other mechanism to adequately address the Village's long-term operational and capital needs. The water and sewer funds have substantial fund balances of \$361,360 and \$554,138, respectively, as of May 31, 2013, without plans for reserves or use of the funds. Such plans would be a useful tool for the Board to address the need to make essential repairs and replacements to water and sewer infrastructure and ensure that no more user fees are assessed than necessary.

Recommendations

1. The Treasurer should maintain complete, accurate and timely accounting records.

2. The Board and Treasurer should ensure that the accounting records are properly adjusted to reflect correct account balances.
3. The Board should ensure that the required annual financial report is filed with OSC within 60 days after the close of the fiscal year.
4. The Board should establish written policies and procedures governing the budgeting process, which include defining reasonable amounts of fund balance and reserves that the Village should maintain.
5. The Board should develop a comprehensive multiyear financial and capital plan to address long-term operational and capital needs.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TRUSTEES:

Vincent J. Seeley
Patrick A. McCulloch
James P. Chewens
Richard Paolino
Stanley R. Dushane



VINCENT J. SEELEY
President

JAMES P. CHEWENS
Vice President

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Clerk

ATTORNEY FOR VILLAGE

Wilson, Eisler, Moskowitz, Edelman & Dickar

VILLAGE OF CATSKILL

442 MAIN STREET
CATSKILL, NEW YORK 12414

Tel. (518) 943-3830
FAX (518) 943-7606
TTY 1-800-421-1220

July 24, 2014

Office of the State Comptroller
33 Airport Center Drive
Suite 103
New Windsor, NY

RE: VILLAGE OF CATSKILL

To Whom It May Concern:

Please be advised that the Board of Trustees thanks the Office of the State Comptroller for its recent examination of the Village of Catskill. We have reviewed your findings and offer our comments and plans to remedy your recommendations. Our interaction during this audit was exemplary and the Village personnel feels that a lot was learned.

The Village's financial records and reports for all funds were reviewed and the Board informed the auditors that the Clerk's office has been dealing with changing software three different times during the course of the last 4 years, as well as having improper beginning balances put into the new software system as the old systems were never properly converted to the new system. After extensive work with our accountant, we have fixed the software issues as best as possible. The Village is restructuring our relationship with our accountant and implementing new and better practices between the parties. The annual report is the responsibility of our CPA and we have impressed upon them the need for a timely filing.

The Audit also wanted to determine what processes were in place as to allow the Village Board to understand the Village's financial situation and budget. The Board receives and reviews operating statements bi-weekly from the Treasurer for review. Each department budget is tracked by said Department Head and reported to the Board.

As to the unassigned unappropriated fund balances in water and sewer, the Village has implemented a Water Reserve and a Sewer Reserve. Said Water Reserve is to be used for new water lines and hydrants on Broad and Henry Streets, as well as a large valve for the water storage tank at the water treatment plant. The Sewer Reserve is to be used for a new roof, parking lot repairs, three new

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pumps, flood control walls and new control panels for the sewer system lift stations. The Village also made a final payment on a sewer system separation bond.

The Village has also reduced their debt on numerous BANS, and has maintained the 2% tax cap for several years. The Village's future plans are to continue to pay down our debt as well as remaining focused to improving the Village of Catskill's infrastructure as well as equipment.

Due to the uncertainties of the unfunded mandates and tax cap rules, the Village Board finds it very difficult to properly project and manage more than a one to two year fiscal plan.

The changes and upgrades referred to herein will be implemented immediately and the Board of Trustees will review them often to ensure they continue. Again, we thank you for your time and recommendations in this regard.

Very truly yours,

VINCENT J. SEELEY

VJS:hs

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Village's financial oversight and identify areas where the Village could realize efficiencies and protect assets from loss or misuse. To achieve our financial oversight objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the Village's policies and procedures for developing and reporting information relevant to financial and budgeting activities. This included gathering information on the fiscal responsibilities of Village officials.
- We interviewed Village officials to determine what processes were in place and gain an understanding of the Village's financial situation and budget.
- We reviewed and analyzed the Village's financial records and reports for all funds, including balance sheets, budget reports, and statements of revenues and expenditures.
- We calculated the fund balance in the water and sewer funds as a percentage of the ensuing year's budgeted appropriations for the audit period.
- We inquired to determine if the Village's multiyear financial plan existed.

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 C

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