



Village of Goshen

Financial Condition

Report of Examination

Period Covered:

June 1, 2010 — December 18, 2013

2014M-75



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 Goshen, 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 New York State General Municipal Law.

This audit's results and recommendation 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 Goshen (Village) is located in Orange County, is approximately three square miles and serves approximately 5,400 residents. The Village Board (Board) is the legislative body responsible for managing Village operations, including establishing internal controls over financial operations, and for maintaining sound financial condition. The Village Mayor (Mayor) is a member of the Board and serves as the chief executive officer. The Treasurer is responsible for receiving, disbursing and maintaining the custody of Village moneys, maintaining accounting records, and providing financial reports to the Board. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Mayor and department heads share this responsibility.

As of November 2013, the Village had 69 employees. The Village's budgeted appropriations for the 2013-14 fiscal year were approximately \$11.5 million, which were funded primarily with real property taxes, user charges and State aid. The Village provides services for its residents, including police, water, sewer and general government support. Expenditures are accounted for in the general, community development, water, sewer and capital funds.

Objective

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

- Does the Village adopt realistic budgets that are structurally balanced and do Village officials adequately monitor the Village's financial operations to ensure fiscal stability?

Scope and Methodology

We examined the Village's financial condition for the period June 1, 2010 through December 18, 2013. We extended our review of monitoring through December 31, 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 is included in Appendix C of this report.

Comments of Village Officials and Corrective Action

The results of our audit and recommendation 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 recommendation and indicated they planned to take 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 finding and recommendation in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the New York State 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

Financial condition may be defined as a local government’s ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A local government in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a local government in fiscal stress usually struggles to balance its budget, suffers disruptive service level declines, has limited resources to finance future needs and may have cash flow difficulties. Village officials have a responsibility to develop reasonable budgets and manage fund balance responsibly.

Local government budgets must balance revenues and expenditures so that needed services are provided with available resources. An operating deficit can be planned for and financed by appropriating fund balance. An unplanned operating deficit results from overexpending appropriations, not receiving budgeted revenues or a combination of the two. It is sound practice for governing boards to adopt budgets that are based on realistic estimates of revenues and expenditures and to monitor and amend the budget so that fund balance can be maintained.

The Office of the State Comptroller’s Fiscal Stress Monitoring System evaluates counties, cities, towns, villages and school districts based on financial and environmental indicators to determine if these entities are in or nearing fiscal stress. The Village has been classified as susceptible to fiscal stress due to two years of operating deficits and low unassigned fund balance in its general fund.

The Board did adopt realistic and structurally balanced budgets based on historical trends. However, the Village ended 2011-12 with an unplanned net operating deficit of \$372,471, as illustrated below.

Figure 1: General Fund Results of Operations			
	2010-11	2011-12	2012-13
Revenues	\$6,394,553	\$6,719,891	\$6,948,481
Expenditures	\$6,783,840	\$7,172,362	\$6,965,020
Operating Surplus/(Deficit)	(\$389,287)	(\$452,471)	(\$16,539)
Appropriated Fund Balance	\$640,312	\$80,000	\$60,000
Net Operating Surplus/(Deficit)	\$251,025	(\$372,471)	\$43,461

The Village had planned operating deficits in 2010-11, 2011-12 and 2012-13. Although the 2011-12 adopted budget included the planned use of \$80,000 of fund balance, this was not enough to cover some significant unforeseen expenditures, including:

- Tax certiorari costs totaling \$110,000 more than budgeted
- Storm-related expenditures totaling \$227,783.

The unplanned operating deficit in 2011-12 has negatively impacted the Village’s financial condition. Although the Village did not experience an unplanned operating deficit in 2012-13, Village officials have not adequately monitored the budget. As a result, there is an increased risk that unplanned operating deficits could occur in the future.

Monitoring the Budget – According to New York State Village Law, no expenditure can be made unless an amount has been appropriated for that particular purpose and the amount is available. Prudent fiscal management requires the Board to continually monitor financial operations and amend the budget, when necessary, to ensure that appropriations are not overspent.

We compared the Village’s original budgets with the adjusted budgets for 2010-11 through 2013-14 (as of December 31, 2013) and found that Village officials did not monitor the budgets throughout the year. Budgets were not modified and budget line items were overspent. In 2010-11, budget modifications were done only at year-end and required over 90 percent of the budget to be modified. No budget modifications were done for 2011-12 through 2013-14 (as of December 31, 2013), except for three modifications in 2012-13 as shown in Figure 2.

	Number of Line Items	Number of Modifications	Percentage Modified	Number of Lines Overexpended	Percentage of Lines Overexpended
2010-11	74	67	90.5%	4	5.4%
2011-12	74	0	0.0%	24	32.4%
2012-13	74	3	4.1%	27	36.5%
2013-14	74	0	0.0%	6	8.1%

The Treasurer stated that Village officials used to perform budget modifications for expenditure accounts that were overexpended. However, they only did so at year-end and the Treasurer did not know why the Board no longer modifies its budget. The failure to perform budget modifications resulted in four expenditure accounts being overexpended in 2010-11, 24 overexpended in 2011-12, 27

overexpended in 2012-13 and six overexpended in 2013-14 (as of December 31, 2013). Overexpended budget lines could result in unplanned operating deficits which could negatively impact the Village's financial condition.

Village officials need to improve their oversight of the Village budget. Improved monitoring will enhance their ability to react to external influences such as economic downturns and emergencies and to accurately determine that the actual amounts that should be charged to each budget line are restricted.

Recommendation

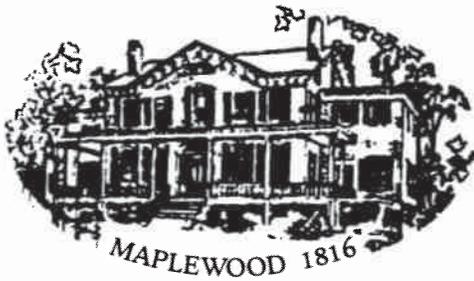
1. Village officials should monitor their budget during the course of the year and make any needed budgetary amendments.

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

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

Village officials submitted several attachments in support of their response. Because the Village's response contained sufficient detail, we did not include these attachments in the final report.



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September 4, 2014

Ms. Tenneh Blamah
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor NY 12553

Dear Ms. Blamah:

On Tuesday, September 2nd we held our exit conference with your office. During the meeting the Village stated that we are appreciative for the information our officials gained from the recent audit. We have already instituted many of the recommendations provided by the Comptroller's Office, as we will outline in our future response/corrective action plan.

During this meeting I expressed concern about some of the verbiage in your draft report. Specifically the draft states "Village officials have not adequately monitored the budget". It is the sentiment of the Village that this phrase is inaccurate and may be misunderstood by members of the public.

I must emphasize that in each year that your office audited, Village officials were actively monitoring the budget. The mistake that we made was not actively making budget transfers to cover the costs of unforeseen expenses. To say that "proper budget modifications were not made" would certainly be accurate, but officials were continuously monitoring the budget.

See
Note 1
Page 10

Attached to this message are the following documents which evidence this budget monitoring:

- The budgets from those years which were developed by the Treasurer, Department Heads, and Mayor, and approved through resolution by the Board of Trustees
- Examples of budget status reports. These are completed by the Treasurer and distributed to the Mayor and Board of Trustees each month. These show where certain budget line items are at that time and provide a way for officials to monitor the budget to determine if any items are at risk of going over budget. We have included five examples of these reports, but we could provide all 24 from those two years if requested.

- Resolutions from Village Board meetings showing payment for various large tax certioraris as voted on by the Board of Trustees. Within each resolution was the amount that was being expended. It is clear from these votes that the amount was more than the contingency line (again, the Village recognized this, but did not follow the practice of amending the budget as we do now, based on your feedback).
- Vouchers from the payment of these tax certs which have been audited and signed by the Treasurer and three members of the Board of Trustees
- Emails/memos from myself to other Village officials citing the cost of these items and specifically acknowledging that these items had run over budget
- Emails from myself to other Village officials citing the need to move to austerity spending mode

I trust that this is adequate to demonstrate that the Village of Goshen was continuously monitoring the budget during these past years.

It would be accurate to say that the Village did not amend the budget when necessary, but to characterize our officials as failing to monitor is not precise.

Please advise if you require any further information or documentation.

Best,

Kyle Roddey
Mayor, Village of Goshen

APPENDIX B

OSC COMMENT ON THE VILLAGE'S RESPONSE

Note 1

Part of monitoring the budget includes making adjustments as necessary, either by controlling expenditures or increasing the level of appropriations. Although the Board received monthly budget status reports, it did not take any actions in regard to overexpended accounts.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using the local government's annual update document¹ and information from the United States Census Bureau, the New York State Department of Labor and the New York State Education Department, among other sources. The Village has demonstrated signs of fiscal stress in several areas. Due in part to these fiscal stress indicators, we selected the Village for audit. Our overall goal was to assess the Village's financial condition. To accomplish this, our initial assessment included a comprehensive review of the Village's financial condition.

To achieve our financial condition objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.
- We interviewed Village officials to determine what processes were in place and gain an understanding of the Village's financial situation and budget.
- We analyzed three years of data filed with the Office of the State Comptroller to evaluate fund balance trends.
- We reviewed and analyzed the Village's financial records and reports for the general fund, including balance sheets, adopted budgets, budget reports and statements of revenues and expenditures.
- We compared budgeted-to-actual revenues and expenditures for the three-year period and investigated significant variances.

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.

¹ Required to be submitted annually by the Village to the Office of the State Comptroller

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