



# Village of Shortsville

## Board Oversight

### Report of Examination

Period Covered:

June 1, 2013 — October 31, 2014

2015M-5



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

May 2015

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 Shortsville, entitled Board 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 New York State 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 Shortsville (Village) is located in the Town of Manchester in Ontario County and has a population of approximately 1,440. The Village provides various services to its residents, including water and sewer service, fire and police protection, street maintenance, snow and brush removal and general government support. Budgeted appropriations for the 2014-15 fiscal year were \$1,093,045 for the general fund, funded primarily with property taxes and County sales tax distributions. Budgeted appropriations for the 2014-15 fiscal year were \$270,470 for the water fund and \$236,900 for the sewer fund, funded primarily with user charges.

The Village is governed by an elected Board of Trustees (Board) which comprises a Mayor, who is the chief executive officer, and two Trustees. The Board is the legislative body responsible for the general oversight of the Village's operations, including establishing internal controls over financial operations and maintaining sound financial condition. The Mayor appoints all non-elective officers subject to the Board's approval, including the Clerk-Treasurer, who serves as chief fiscal officer, and the Deputy Clerk-Treasurer.

## **Objective**

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

- Is the Board providing adequate oversight and management of the Village's financial operations?

## **Scope and Methodology**

We examined the Board's oversight and management of the Village's financial operations for the period June 1, 2013 through October 31, 2014. We extended the scope of our audit back to June 1, 2011 to perform a trend analysis of the fund balances in the general, water and sewer funds.

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 recommendations have been discussed with Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as indicated in Appendix A, Village officials generally agreed with our recommendations and indicated they have initiated, or plan to

initiate, 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 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.

## Board Oversight

The Board's responsibility of financial oversight includes instituting internal controls to safeguard cash and other resources. Such controls should help ensure that transactions are properly authorized and recorded and that financial records and reports are accurate, timely and reliable. In addition, the Board must ensure that an annual audit of records and reports prepared and maintained by the Clerk-Treasurer is performed.

To maintain the Village's fiscal health, the Board has to make sound financial decisions that are in the best interest of the Village and the taxpayers who fund its operations. Therefore, it is essential that the Board adopt realistic, balanced budgets with sufficient recurring revenues to finance recurring expenditures without either depleting fund balance or unnecessarily accumulating excess funds.

The Board did not provide adequate oversight and management of the Village's financial operations. It did not conduct or provide for an annual audit of the Clerk-Treasurer's books and reports, which places the Village at an increased risk of errors and irregularities that go undetected and uncorrected. In addition, the Board did not adequately monitor the financial condition of the Village's funds. As a result, at the end of the 2013-14 fiscal year, unrestricted fund balance in the main operating funds was excessive, equivalent to 90 percent of budgeted appropriations in the general fund, 137 percent in the water fund and 110 percent in the sewer fund.

### Annual Audit

New York State Village Law requires the Board to annually audit, or have a Village officer, employee or an independent public accountant audit, the records and reports maintained by the Clerk-Treasurer. An annual audit is an important internal control over cash receipts and disbursements, 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 financial records and reports contain reliable information on which to base financial decisions. The Board should ensure that the completion and results of the audit are included in the minutes of its proceedings. The minutes should also include documentation explaining how the audit was performed and specifying the records reviewed during the audit.

The Board did not complete an adequate, documented annual audit of the records of the Clerk-Treasurer. Although the Clerk-Treasurer provided the Board with the annual financial report, the Board could not provide documentation of any additional review of the Village's

financial records. Additionally, the Clerk-Treasurer did not perform monthly bank reconciliations or include the Village’s cash position on the monthly reports to the Board. These deficiencies would have been discovered during the course of a proper audit. The Board’s failure to perform an annual audit of the Clerk-Treasurer’s records diminishes its ability to effectively monitor the Village’s financial operations.

**Excessive Fund Balance**

A basic component of local government budgeting is the prudent use of fund balance, which is the difference between revenues and expenditures accumulated over time. Village officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specific purpose and may also appropriate a portion of fund balance to help finance the ensuing year’s budget. In addition, the Village may retain a reasonable portion of fund balance to use as a financial cushion in the event of unforeseen circumstances. This amount depends on factors such as timing of receipts and disbursements, volatility of revenues and expenditures, and contingency appropriations. If fund balance is kept at excessively high levels, money that could benefit the Village is not being used, placing an unnecessary burden on taxpayers and water and sewer customers. It is, therefore, important that the Board adopt long-term financial plans establishing the Village’s objectives and goals and written policies and procedures to govern the level of fund balance maintained in each fund.

The Board has not adopted long-term financial plans or policies and procedures governing the level of fund balance to be maintained in each of the three Village funds. As a result, fund balance has either significantly increased or remained at an excessively high percentage of the ensuing year’s budget, as shown in Figure 1.

**Figure 1: Unrestricted Fund Balance at Year End as a Percentage of the Next Year’s Budget**

| Fiscal Year | General Fund |      | Water Fund |      | Sewer Fund |      |
|-------------|--------------|------|------------|------|------------|------|
| 2011-12     | \$1,196,472  | 123% | \$272,235  | 119% | \$142,464  | 60%  |
| 2012-13     | \$1,029,020  | 99%  | \$331,947  | 150% | \$219,571  | 92%  |
| 2013-14     | \$981,036    | 90%  | \$371,609  | 137% | \$261,038  | 110% |

General Fund – Over the three fiscal years, the Board adopted general fund budgets that appropriated fund balance totaling approximately \$652,000<sup>1</sup> to fund the ensuing year’s operations, which should have resulted in significant planned operating deficits.<sup>2</sup> However, total

<sup>1</sup> \$272,328 from unrestricted fund balance and \$380,000 from capital reserves

<sup>2</sup> A planned operating deficit occurs when a board purposely adopts a budget in which appropriations are greater than planned revenues, with the difference to be funded with appropriated fund balance.

fund balance declined by less than \$30,000 since fiscal year 2011-12.<sup>3</sup> Village officials underestimated revenues by a total of \$352,143 (15 percent) and overestimated appropriations by a total of \$270,587 (9 percent), which resulted in positive budget-to-actual variances over the three fiscal years.

The excessive level of unrestricted fund balance had been an ongoing problem prior to our audit period. While the Board has made efforts to reduce the unrestricted fund balance,<sup>4</sup> it remains unnecessarily high due to the consistent positive budget-to-actual variances. Unless Village officials develop and adopt realistic budgets, the Village will continue to retain and accumulate excessive funds that should be put to productive use for the taxpayers' benefit.

Water Fund – The Board's unrealistic budgeting practices for the water fund resulted in an excessive amount of unrestricted fund balance accumulated over the years. Rather than budgeting based on actual results, the Board routinely adopted budgets that greatly overestimated expenditures. For example, the Board budgeted \$150,000 annually for the "water source of supply, power and pumping – contractual" account even though related expenditures amounted to a net total of \$359,564 over the three years,<sup>5</sup> falling significantly short of the cumulative \$450,000 budgeted. These budgets also did not consider the decreasing expenditures over the three years. Similarly, the Board repeatedly over-budgeted for "transmission and distribution – contractual" purposes, spending just \$21,180 of the \$110,270 budgeted total. These budgeting practices resulted in operating surpluses and caused the water fund's unrestricted fund balance to grow to \$371,609 by the 2013-14 fiscal year end (137 percent of the ensuing year's budgeted appropriations).

Sewer Fund – The unrestricted fund balance has steadily increased since 2011-12. The Board routinely adopted unrealistic budgets with overestimated expenditures, resulting in operating surpluses. These surpluses were primarily attributable to three appropriation accounts. The "sanitary sewers – equipment and capital outlay" account had no expenditures over the three-year period, but the Board continued to budget about \$26,000 annually. Similarly, the Board budgeted \$25,000 annually for "sanitary sewers – contractual appropriations," totaling \$75,000 over three years, even though less than \$3,900 was charged to that account during this period. Lastly, the "sewage treatment and disposal – contractual appropriations" were overestimated by about

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<sup>3</sup> The 2011-12 beginning fund balance was approximately \$1,411,600; the 2013-14 ending fund balance was approximately \$1,382,000.

<sup>4</sup> These efforts consisted primarily of making transfers to restricted fund balance.

<sup>5</sup> \$154,773 in 2012, \$111,393 in 2013 and \$93,398 in 2014



\$25,300 annually for a total budget variance of nearly \$76,000. Because of the Board's poor budgeting practices, the sewer fund's unrestricted fund balance increased by \$192,752<sup>6</sup> (282 percent) over the three years. At the end of 2013-14 it was \$261,038, or 110 percent of the ensuing year's budgeted appropriations.

While it is important to be prepared for unexpected events by maintaining a reasonable amount of unrestricted fund balance, an excessive amount of unrestricted fund balance unnecessarily burdens property owners with unnecessarily high user charges. A formal long-term plan could help Village officials identify revenue and expenditure trends and budget accordingly.

## **Multiyear Financial Planning**

A multiyear financial plan projects revenues and expenditures for several years into the future. Unlike annual budgets, it does not authorize expenditures (although it should be linked to the current budget). Instead, it projects a municipality's ability to pay for and provide services given certain policy and economic assumptions. These projections help the Board assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital improvements. A good financial plan includes revenue and expenditure projections, potential shortfalls and surpluses along with planned actions, and the funding and use of legal reserves.

The Board has not developed a formal, comprehensive long-term financial plan to guide its budgeting decisions or to address the excessive unrestricted fund balance in the three Village funds. Although Village officials described plans for highway equipment purchases and other capital improvements related to the water and sewer funds, they do not have long-term operating plans to define the use of operating funds, surplus fund balance or reserve funds. Such plans would help maintain the Village in sound financial condition and provide transparent disclosure to taxpayers. Combined with operating plans, a comprehensive financial plan for the Village over a three- to-five year period will enable officials to assess various approaches to financial issues such as the use of surplus fund balance to finance operations or fund reserves for future expenditures.

The Board should monitor and update any long-term financial plan to provide a framework for preparing budgets and ensure that decisions are guided by the most accurate and current information available. This will help the Board effectively use and reduce the excessive unrestricted fund balances in the three Village funds in a manner that benefits the taxpayers.

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<sup>6</sup> Unrestricted fund balance was \$68,286 at the beginning of the 2011-12 fiscal year.

## Recommendations

The Board should:

1. Audit the Village's annual financial report and the supporting books and records annually, or engage the services of an independent public accountant to conduct the audit.<sup>7</sup>
2. Request that monthly financial reports, used by the Board to monitor the Village's financial condition, report the cash balance for each Village fund.
3. Develop and adopt annual budgets with realistic estimates that reflect anticipated revenues and expenditures, and which are supported by historical data, trends and other applicable sources of information.
4. Develop comprehensive long-term financial plans for all Village funds.
5. Use the excessive unrestricted fund balance identified in this report in a manner that benefits property taxpayers and water and sewer customers. Such uses could include reducing property taxes, reducing water and sewer rates, funding legally established reserves or financing one-time expenditures.

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<sup>7</sup> Guidance is available in the OSC publication entitled *Fiscal Oversight Responsibilities of the Governing Board* at [https://www.osc.state.ny.us/localgov/pubs/lmgm/fiscal\\_oversight.pdf](https://www.osc.state.ny.us/localgov/pubs/lmgm/fiscal_oversight.pdf).

## **APPENDIX A**

### **RESPONSE FROM VILLAGE OFFICIALS**

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



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April 27, 2015

Office of the State Comptroller  
Division of Local Government and School Accountability  
Edward V. Grant, Jr., Chief Examiner  
The Powers Buildings  
16 West Main Street- Suit 522  
Rochester, NY 14614

Dear Mr. Grant:

Please accept this letter as our official acknowledgement of the Draft Audit Report for the period June 1, 2013-October 31, 2014, as prepared by your staff. The Shortsville Village Board have received copies of the draft report and reviewed, this is their response to the auditors preliminary draft findings.

1. The Board has always received the AUD, and a year-end statement of all the funds, but now from this point forward, the Village Clerk/Treasurer will actually review the AUD with the board with all the supporting documents used to prepare it with. The Board reviews these documents monthly now.
2. Before receiving the draft audit report, the auditor discussed with the Clerk/Treasurer the couple of Board oversights. These have already been corrected. There were reports that were available to the board, which are now being brought to the board meeting, including the bank statements and the reconciliation.
3. The Board disagrees with the auditors findings on how the budget is developed. The village budget is developed with realistic estimates revenues and expenses supported by historical data and future plans. There are quotes received for future plans in all funds. Past expenses are always used for expenses that are not in the village's control. Mandated expenses are always taken into consideration.
4. When it comes to the long term financial plan, the Village has plans for all its funds in place; it just needs to be more detailed. The General Fund is an equipment plan to keep our equipment on a five to seven year rotation. The Water Fund is to replace water lines that keep having leaks over and over, these have already been engineered. Also, work is being done on our water tower that has to be done. The Sewer Fund has to maintain our sewer lines and also we are joint owners of a Sewer Plant that has to be kept updated. The village also has to replace water meters every 10 years which is a financial future plan.
5. The excessive unrestricted fund balance was explained to the auditor. There really isn't an excessive amount that is unrestrictive after all the planned projects are done that have been planned for during the last few years. They are in the 2015-2016 Budget year.

See  
Note 1  
Page 11

In conclusion, the Shortsville Village Board feels the audit was useful in pointing out our plans for future long-term financial plans need more detail documented.

The Village will be submitting a proposed Corrective Action Plan upon receipt of the final audit plan in 90 days.

Respectfully,

Fred Mink  
Mayor

## **APPENDIX B**

### **OSC COMMENT ON THE VILLAGE'S RESPONSE**

Note 1

If it is the Board's intention to use fund balance for future projects, the Board should establish appropriate reserve funds to formalize these plans.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the Board's oversight of the Village's financial operations and financial condition for the period June 1, 2013 through October 31, 2014. We extended the scope of our audit back to June 1, 2011 to perform a trend analysis of the fund balances in the general, water and sewer funds. To accomplish our audit objective and obtain valid audit evidence, we performed the following steps:

- We interviewed appropriate Village officials to gain an understanding of the Village's financial management policies and procedures.
- We reviewed Board minutes for actions relevant to annual audits, budget monitoring and financial condition.
- We reviewed Annual Update Document filings for fiscal years 2012-13 and 2013-14 submitted to the Office of the State Comptroller to determine if they were timely, accurate and complete.
- For fiscal years 2010-11 through 2013-14, we compared the adopted budgeted revenues to actual revenues for the general, water and sewer funds and noted line items with significant variances. We then summarized totals to determine if budgeted revenues were underestimated or overestimated.
- For fiscal years 2010-11 through 2013-14, we compared the adopted budgeted appropriations to the actual expenditures for the general, water and sewer funds and noted line items with significant variances. We then summarized totals to determine if budgeted appropriations were underestimated or overestimated.
- For fiscal years 2010-11 through 2013-14, we compared actual revenues to actual expenditures for the general, water and sewer funds to determine if there were operating surpluses or deficits. We also determined if any of the funds demonstrated significant trends over the years.
- For fiscal years 2010-11 through 2013-14, we performed an analysis of fund balance to determine the amount of unrestricted fund balance at year end for the general, water and sewer funds. We also performed a calculation to determine unrestricted fund balance as a percentage of the ensuing year's appropriations.
- For a randomly selected month (using a random sample generator), we traced all cash receipts, including water and sewer bills, from the cash receipts to the Village's daily receipt register reports and to the bank statements to ensure that all cash receipts were properly recorded and deposited. We also verified that the amount of cash received was properly reported on the monthly budget status report.

- For a randomly selected month (using a random sample generator), we reviewed all claim vouchers to determine if there was adequate supporting documentation for the cash disbursements, that the disbursements were for the correct amounts and that the purchases of goods and services were for valid Village purposes. We traced the cash disbursements to the bank statements and reviewed images of the canceled checks to determine whether the checks had been made for the correct amounts and were made payable to the correct payees.

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 D

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