



# Village of Mexico

---

## Financial Management

2023M-170 | February 2024

# Contents

---

- Report Highlights . . . . . 1**
  
- Financial Management. . . . . 2**
  - What is Effective Financial Management?. . . . . 2
  - The Board Underestimated Revenues and Overestimated Appropriations . . . . . 2
  - The Board Maintained a High Level of Unassigned Fund Balance . . . 5
  - The Budget Officer Did Not Include Fund Balance Schedules In Proposed Budgets . . . . . 6
  - What Do We Recommend? . . . . . 7
  
- Appendix A – Response From Village Officials . . . . . 8**
  
- Appendix B – Audit Methodology and Standards . . . . . 9**
  
- Appendix D – Resources and Services. . . . . 11**

# Report Highlights

## Village of Mexico

### Audit Objective

Determine whether the Village of Mexico (Village) Board of Trustees (Board) adopted realistic budgets and managed fund balance.

### Key Findings

The Board did not adopt realistic budgets or manage fund balance. As a result, more taxes were levied than needed to fund operations. For the four fiscal years reviewed (2019-20 through 2022-23), the Board:

- Did not establish a fund balance policy and maintained an excessive level of unassigned surplus fund balance in the general fund; balances ranged between \$839,530 and \$1.1 million, or between 109 and 124 percent of the ensuing year's budget.
- Did not consider historical or known trends of revenues and expenditures when developing the budgets. As a result, revenues were underestimated by a total of \$439,767 and expenditures were overestimated by a total of \$287,238 for the audit period.
- Appropriated fund balance of \$216,780 that was not needed to fund operations due to operating surpluses. This practice contributed to the accumulation of surplus fund balance.

Additionally, the property tax levy for 2023-24 was \$509,000 while the Village had over \$1.1 million in surplus funds available at the end of 2022-23 to use toward supplementing next year's budget.

### Key Recommendations

- Adopt a fund balance policy and realistic budgets based on historical trends and maintain a reasonable fund balance level.

Village officials agreed with our recommendations and indicated they will take corrective action.

### Audit Period

June 1, 2019 – May 31, 2023

### Background

The Village is located in the Town of Mexico in Oswego County and is governed by the elected Board, composed of a Village Mayor (Mayor), Deputy Mayor and three Trustees.

The Board appointed the Village Clerk-Treasurer (Clerk-Treasurer) to serve as the budget officer. The budget officer, Mayor, and Village Public Works Administrator (Administrator) work together to develop the budget.

The Clerk-Treasurer serves as the chief fiscal officer and the Mayor and Administrator oversee day-to-day operations.

#### 2022-23 Quick Facts

Expenditures	
Budgeted	\$850,102
Less: Actual	736,248
<b>Total Overestimated</b>	<b>\$113,854</b>
Revenues	
Estimated	\$791,509
Less: Actual	889,519
<b>Total Underestimated</b>	<b>\$98,010</b>
Surplus Fund Balance	
Unassigned Fund Balance	\$1,114,244
Next Year's Budget	\$899,608
Unassigned Fund Balance as a Percentage of Next Year's Budget	124%

# Financial Management

---

## **What is Effective Financial Management?**

Officials must ensure budgeted revenues and appropriations are accurately estimated. Once the budget is adopted, officials should closely monitor the progress of actual revenues and expenditures throughout the year and identify any variances that might cause to end the year with a significant surplus or deficit. The preparation of budget status reports (showing original budgets, amendments, actual transactions to date, and the variances between amended budget and actual transactions) facilitates the monitoring of the adopted and amended budget. Budget reports should be prepared and reviewed as of the end of each month during the fiscal year. Accurate budget estimates help ensure the tax levy is sufficient to meet needs, and is not greater than necessary.

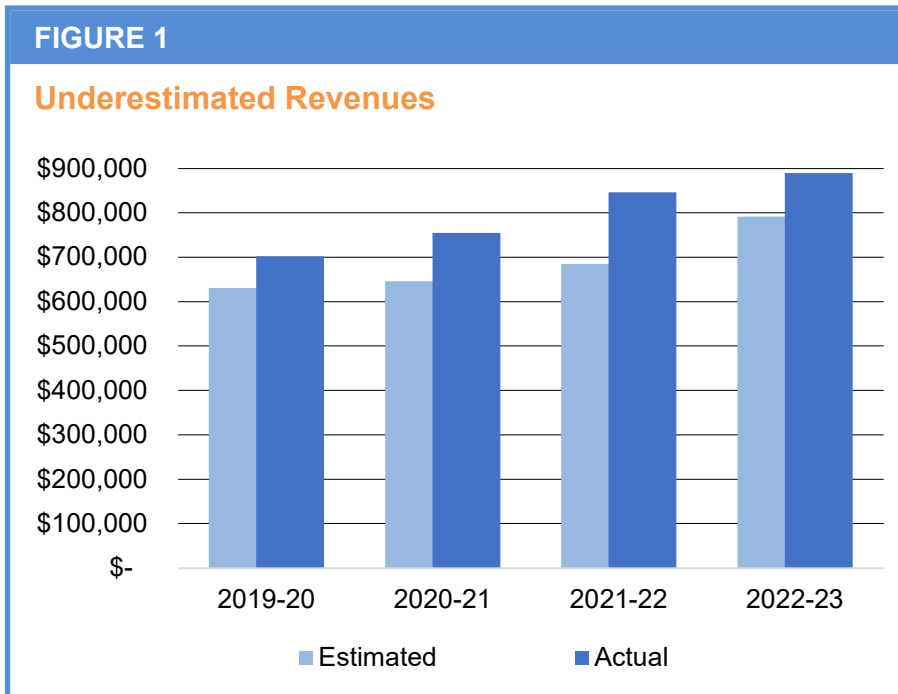
Officials may also appropriate a portion of fund balance to help finance the next year's budget. For example, fund balance may be appropriated to finance a planned operating deficit (expenditures exceeding revenues). The appropriation will result in a reduction in surplus fund balance if expenditures do exceed revenues. Surplus fund balance should compensate for cash flow fluctuations and provide a cushion against unforeseen events but should not exceed a reasonable amount, consistent with prudent budgeting practices. This can be achieved with a fund balance policy that establishes a minimum and maximum amount of unassigned fund balance to be maintained and procedures that provide guidelines on how to accomplish this.

The budget officer is responsible for preparing the proposed budget and presenting it to the board. Village Law section 5-506 requires that the proposed budget include a schedule of fund balance estimated to be on hand at the close of the current year, classified by funds, together with a breakdown of fund balance estimated for encumbrances, amounts appropriated for the ensuing fiscal year's budget, amounts reserved for stated purposes, including reserve funds, and the remaining unassigned fund balance.

## **The Board Underestimated Revenues and Overestimated Appropriations**

Village officials did not use historical or known trends of revenues and expenditures when developing the budget. As a result, the Board consistently adopted budgets that underestimated revenues and overestimated appropriations. Between 2019-20 and 2022-23, revenues were underestimated each year with the total underestimation for the years totaling \$439,767.

Underestimated Revenues – Although the Village only estimated average revenues of \$688,214 over the four-year period, the actual realized revenues for those same years averaged \$798,156 (Figure 1).



Several revenue estimates contributed to the variance, including:

- Federal aid, (underestimated by \$156,102 or 100 percent). The Clerk-Treasurer and the Mayor said that the Village only anticipated receiving American Rescue Plan Act (ARPA) funds in 2022 and were surprised to have received additional ARPA money in 2023.
- Sale of equipment, (underestimated by \$125,568 or 100 percent). Although Board members and the Clerk-Treasurer receive estimates for the sale of equipment during budget meetings, the Clerk-Treasurer told us she does not budget for these revenues because she is not sure whether the item will sell.
- Sales tax (underestimated by \$89,373 or 28 percent). The Clerk-Treasurer told us that she budgets conservatively for the receipt of sales tax.

Although officials offered explanations for why these specific revenue variances occurred, utilizing historical trends could have helped budget estimates be more realistic. For example, actual sales tax revenue averaged \$101,093 over our audit period, yet the Clerk-Treasurer underestimated sales tax on average by \$22,343 each year. Although the ARPA funds received in 2023 were unanticipated by officials, equipment sales could have been included in the budget and adjusted accordingly as the actual sale occurred. Understanding the operations more

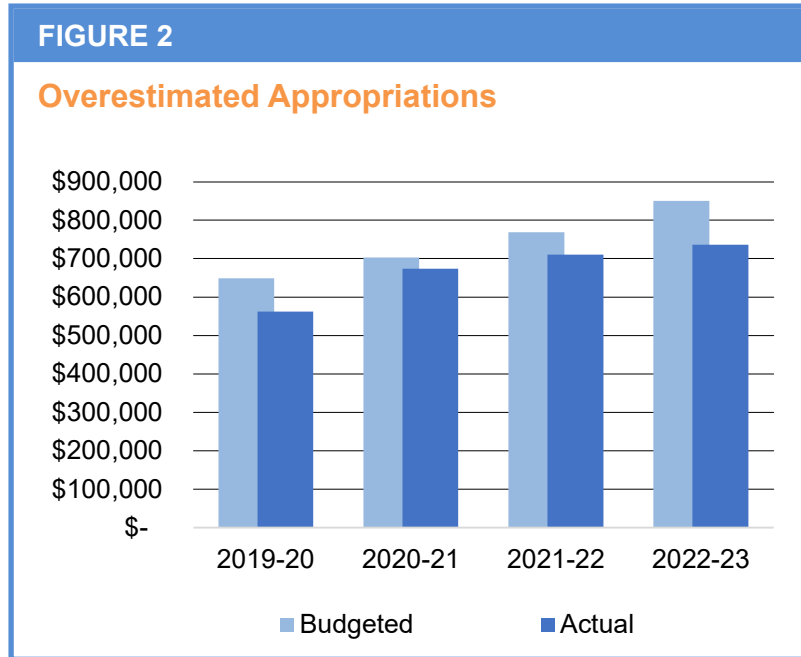
fully could have provided further insight for budget estimates. Underestimating revenues can necessitate increases in real property taxes to aid in filling the budgetary financing gap.

Overestimated Appropriations – In addition, appropriations were overestimated by a total of \$287,238 (ten percent) for the 2019-20 through 2022-23 fiscal years (Figure 2).

Several appropriations contributed to the variance, the largest being:

- Highway improvements (overestimated by \$108,352 or 40 percent). The Administrator explained that none of the \$104,000 budgeted for highway improvements in the 2022-23 fiscal year was used because it was not known during the budget development process whether the Village would proceed with a major water project which would delay street repaving.
- Bond principal and interest (overestimated by \$80,894 or 51 percent). The Clerk-Treasurer explained that the Village spent less on bond principal and interest than budgeted because of a delay in the purchase of a plow truck that the Village had anticipated financing.
- Certain employee benefits (overestimated by \$41,860 or 62 percent). The Clerk-Treasurer stated she budgets conservatively.

Utilizing historical trends could have resulted in more accurate estimates. For example, the average annual expenditure for the noted employee benefits was roughly \$6,300 during our audit period. However, the annual budgetary estimate averaged around \$16,800. This resulted in an overestimation of approximately \$10,500 each fiscal year, amounting to approximately 2 percent of the total tax levy for each of those years. Improved budgeting practices may have led to lower tax levies during this period. Additionally, a better understanding of Village



operations could have helped with determining the likelihood of the water project's impact on the street paving, and the timing of the purchase of the truck could have been better planned.

The Clerk-Treasurer did not provide budget status reports to the Board because she did not realize they would be useful for the Board to use to monitor the budget. Instead, the Mayor and two Trustees told us they relied on the Clerk-Treasurer to monitor the budget during the year and offer recommendations for budget transfers and amendments for Board approval.

Although positive budget variances are normally desirable for local governments, consistently underestimating revenues and overestimating appropriations, along with significant budget variances, diminishes transparency and may unnecessarily increase taxes. Moreover, it is difficult for the Board to effectively manage financial operations without budget status reports.

### The Board Maintained a High Level of Unassigned Fund Balance

The Board maintained a high level of unassigned fund balance in the general fund from 2019-20 through 2022-23 ranging between \$786,377 in 2019-20 and \$1,114,244 in 2022-23 (Figure 3).

**Figure 3: Summary of Fund Balance As A Percentage of Next Year's Budget**

	2019-20	2020-21	2021-22	2022-23
<b>Total Beginning Fund Balance</b>	\$702,628	\$842,939	\$923,408	\$1,059,582
<b>Add: Operating Surplus</b>	140,312	80,468	136,174	153,271
<b>Total Year-End Fund Balance</b>	\$842,939	\$923,408	\$1,059,582	\$1,212,853
<b>Less: Appropriated Fund Balance for Next Year</b>	56,562	83,878	58,593	98,609
<b>Total Unassigned Fund Balance at Year-End</b>	\$786,377	\$839,530	\$1,000,989	\$1,114,244
<b>Next Year's Budget</b>	\$702,516	\$768,415	\$850,102	\$899,608
<b>Unassigned Fund Balance as Percentage of Next Year's Budget</b>	112%	109%	118%	124%

Between 2019-20 and 2022-23, the Board adopted budgets that included spending portions of the available surplus fund balance to finance the respective budgets. During the same years, the adopted real property tax levy increased by nearly 14 percent and Village officials exceeded the tax cap to finance the budgets by a cumulative total of approximately \$50,400. However, because of the poor practices noted in developing budget estimates, there was no need to use available fund balance to finance the operations. Instead, operating surpluses occurred in each year resulting in the available fund balance to offset increases in the tax levy.

---

The Mayor, two Trustees and the Clerk-Treasurer told us that, in addition to maintaining fund balance for unexpected events, the Village wanted to increase fund balance to use on major capital projects such as storm drains, street repaving, and equipment purchases which they expect will significantly reduce surplus fund balance. However, the Village does not have multiyear capital plans in place to support this statement and did not further restrict money in its capital reserve for these purposes.

The Village's poor budgeting practices, lack of a defined fund balance policy and written procedures for managing an appropriate level of fund balance has led to the accumulation of an excessive unassigned fund balance, and resulted in unnecessarily higher taxes. Despite having a substantial surplus fund balance, the Village's annual tax levy remained relatively consistent, averaging about \$463,000 from 2019-20 through 2022-23, and increasing to \$509,005 for 2023-24. Because the Village had the means to reduce the tax levy using surplus fund balance, it may not have been necessary to increase the tax levy or override the limitation, thereby assessing more property taxes than necessary.

While it is understandable the Board would not eliminate the real property tax levy in one year, the Board could have reduced its tax levy over the four-year period without having a detrimental impact on the Village's financial position.

### **The Budget Officer Did Not Include Fund Balance Schedules In Proposed Budgets**

The proposed budget documents presented to the Board for 2019-20 through 2022-23 did not include a schedule of fund balance as required. Instead, the schedules provided to the Board included only the budget officer's recommendation for appropriated surplus fund balance.

The Clerk-Treasurer and Mayor said that Village officials had no knowledge of the requirement to present a fund balance schedule with the proposed budget. During our fieldwork, when we presented Village records to the Board showing the increased levels of surplus balance, one Trustee told us he was surprised by how much had accumulated.

Without the fund balance schedule, the Board and taxpayers did not know how much surplus fund balance was on hand or observe any upward or downward trend in fund balance, and the Board's ability to effectively manage fund balance and appropriately inform taxpayers of the Village's use of fund balance was limited. This led to a lack of transparency for taxpayers and contributed to the unnoticed accumulation of excessive fund balances.

---

Because the Village had the means to reduce the tax levy using surplus fund balance, it may not have been necessary to increase the tax levy or override the limitation, thereby assessing more property taxes than necessary.

---



---

## What Do We Recommend?

The Board should:

1. Ensure adopted budgets contain realistic estimates that are based on historical trends and discontinue the practice of appropriating fund balance that will not be used to fund operations.
2. Establish a fund balance policy to define reasonable levels of fund balance to be maintained and include procedures on how to maintain it effectively.
3. Develop a plan to reduce the amounts of unrestricted fund balance in a manner that benefits taxpayers. Surplus funds can be used as a financing source for:
  - Funding one-time expenditures,
  - Funding needed reserves,
  - Paying off debt, and
  - Reducing Village property taxes.
4. Ensure that the budget officer provides a fund balance schedule, as required.

The budget officer should:

5. Provide the Board with budget-to-actual reports to assist with developing and monitoring the budget as well as monthly budget status reports to aid monitoring financial operations.
6. Prepare and attach a complete fund balance schedule to the proposed budget and ensure that the schedule includes the fund balance estimated to be on hand at the close of the current year, amounts appropriated for the ensuing fiscal year's budget, amounts reserved for stated purposes, and the remaining unassigned fund balance, as required.

# Appendix A: Response From Village Officials

---

## **VILLAGE OF MEXICO**

**P.O. BOX 309, MEXICO, N.Y. 13114 \*(315) 963-7564 \*FAX (315) 963-0971 \*TDD 1-800-662-1220**

**TERRY E. GRIMSHAW, MAYOR**

February 9, 2024

Office of the New York State Comptroller  
Division of Local Government & School Accountability  
110 State Street, 12<sup>th</sup> Floor  
Albany, NY 12236

Re: draft findings of audit

To whom it may concern:

The village officials would like to take this opportunity to thank you for your recommendations on our budgeting practices and adoption of a fund balance policy, we will take these recommendations into account beginning with our 2024-2025 fiscal year and adopt a fund balance policy and a more realistic budget using the previous few years actual figures.

Thank you again for taking the time to meet with us.

Respectfully,



Terry Grimshaw  
Village of Mexico, Mayor

## Appendix B: Audit Methodology and Standards

---

We conducted this audit 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. We obtained an understanding of internal controls that we deemed significant within the context of the audit objective and assessed those controls. Information related to the scope of our work on internal controls, as well as the work performed in our audit procedures to achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We reviewed Board minutes and interviewed the Mayor, Clerk-Treasurer, Administrator and two Trustees to gain an understanding of the Village's financial operations, budget development process and budget monitoring practices.
- We obtained and reviewed supporting documents used to create preliminary budgets for 2019-20 through 2022-23.
- We compared the adopted budgets and actual results of operation for 2019-20 through 2022-23, to determine whether budgets were realistic. We interviewed the Clerk-Treasurer, Mayor, and Administrator to identify reasons for significant budget variances. We also determined whether planned deficits matched actual operating results.
- We reviewed fund balance for 2019-20 through 2022-23 to determine whether balances were reasonable by calculating unassigned fund balance as a percentage of the next year's budget.
- We reviewed the Clerk-Treasurer's capital project fund accounting records and bank statements to identify the reserve amounts applicable to the general fund.
- We compared estimated revenues and appropriations in the current 2023-24 budget with the trends in actual revenues and expenditures for the last four completed years.
- We reviewed the real property tax levy, and tax cap submissions, from 2019-20 through 2022-23 to determine the amount of taxes the Village raised each year and the amounts exceeding the tax cap limitation.

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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning

---

the value and/or size of the relevant population and the sample selected for examination.

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 provided to our office within 90 days, pursuant to Section 35 of 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 the CAP available for public review in the Clerk-Treasurer's office.

## Appendix C: Resources and Services

---

### **Regional Office Directory**

[www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf](http://www.osc.ny.gov/files/local-government/pdf/regional-directory.pdf)

**Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

**Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.ny.gov/local-government/fiscal-monitoring](http://www.osc.ny.gov/local-government/fiscal-monitoring)

**Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

**Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.ny.gov/local-government/resources/planning-resources](http://www.osc.ny.gov/local-government/resources/planning-resources)

**Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf](http://www.osc.ny.gov/files/local-government/publications/pdf/cyber-security-guide.pdf)

**Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.ny.gov/local-government/required-reporting](http://www.osc.ny.gov/local-government/required-reporting)

**Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.ny.gov/local-government/publications](http://www.osc.ny.gov/local-government/publications)

**Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.ny.gov/local-government/academy](http://www.osc.ny.gov/local-government/academy)

## Contact

Office of the New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.ny.gov](mailto:localgov@osc.ny.gov)

<https://www.osc.ny.gov/local-government>

Local Government and School Accountability Help Line: (866) 321-8503

**STATEWIDE AUDITS** – Dina M.L. Thompson, Chief of Municipal Audits

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: [Muni-Statewide@osc.ny.gov](mailto:Muni-Statewide@osc.ny.gov)

[osc.ny.gov](https://www.osc.ny.gov)

