

Village of Ballston Spa

Financial Condition

OCTOBER 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Financial Condition 2**
 - What Is Effective Financial Condition Management? 2
 - The Treasurer Does Not Maintain Adequate Accounting Records. . . 2
 - The General Fund’s Financial Condition Has Declined 5
 - What Do We Recommend? 7

- Appendix A – Response From Village Officials 8**

- Appendix B – Audit Methodology and Standards 9**

- Appendix C – Resources and Services. 10**

Report Highlights

Village of Ballston Spa

Audit Objective

Determine whether the Treasurer maintained adequate accounting records and the Board effectively monitored the Village's financial condition.

Key Findings

- The Treasurer did not maintain accurate accounting records and failed to file required annual financial reports for the last four fiscal years.
- The Board did not adequately monitor the Village's financial condition.
- The general fund's unrestricted fund balance decreased from \$213,327 as of fiscal year-end 2014 to \$30,487 as of fiscal year-end 2018.

Key Recommendations

- Maintain adequate accounting records in a timely manner.
- Monitor the Village's financial condition and ensure the Treasurer files timely financial reports.
- Develop a plan to address the general fund's declining fund balance and the Village's overall financial condition.

Village officials indicated that they plan to implement the recommendations in this report.

Background

The Village of Ballston Spa (Village) is located in Saratoga County.

The Village is governed by an elected Board of Trustees (Board), composed of a Mayor and four trustees. The Board is responsible for the general management and control of the Village's financial affairs. The Board-appointed Village Treasurer is the chief financial officer (CFO), responsible for maintaining the accounting records, processing collections, making deposits, disbursing Village money and preparing and filing financial reports.

Quick Facts

Population	5,375
2018-19 General Fund Budgeted Appropriations	\$4 million
Employees	83

Audit Period

June 1, 2014 - May 31, 2018

Financial Condition

What Is Effective Financial Condition Management?

Financial condition may be defined as a village's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A village in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a village in fiscal stress usually struggles to balance its budget, may have to reduce service levels, likely has limited resources to finance future needs and often has minimal cash available to pay current liabilities as they are due.

To maintain fiscal stability, it is important for the board to adopt realistic, structurally balanced budgets (recurring revenues finance recurring expenditures) and monitor actual results and budgeted estimates regularly throughout the year. Officials are also responsible for ensuring that the level of fund balance maintained is sufficient to provide adequate cash flow.

Additionally, the treasurer should maintain complete, accurate and timely records, using proper accounting procedures to accurately reflect the village's financial operations and financial condition. The board should use the records and reports each month to make sound financial decisions and effectively monitor the village's financial operations and financial condition. The board is also required to annually audit the books, records and documents of certain officers and employees responsible for receiving and disbursing money. This audit of the financial details should be thorough and when done properly can provide board members with an understanding of operations, which is essential to effective oversight. Financial reports should be prepared and filed timely with the applicable organizations¹ and effective monitoring should ensure that proper accounting procedures are used, which require a double entry accounting system² using the modified accrual basis of accounting.³

The Treasurer Does Not Maintain Adequate Accounting Records

In August 2006 and again in August 2012 the Office of the State Comptroller (OSC) issued audit reports that included findings that the Treasurer's financial records were incomplete and inaccurate and could not be relied on to make financial decisions. In 2012 OSC also reported the Treasurer was not using proper accounting procedures to record the financial transactions.

1 Villages are required to file an annual financial report with the New York State Office of the State Comptroller within 60 days following the close of the fiscal year and may be approved for a 60-day extension.

2 A system of bookkeeping requiring that for every entry made to the debit side of an account or accounts, an entry or entries be made for an equal amount to the credit side of another account or accounts.

3 The modified accrual basis of accounting recognizes revenues when they become available and measurable and expenditures at the time the expense is incurred. Both are recorded using a double entry accounting system.

Because the Village's operations are broken down into two distinct funds, it should require only a basic accounting system to record general⁴ and sewer fund transactions accurately and timely. The Treasurer maintains the Village's accounting records on a cash basis, using the bank statements to record transactions in spreadsheets.⁵ While the Village has an accounting software system with modules for processing payroll, paying vendors and billing water and sewer customers, the Treasurer does not properly record transactions when checks are issued or receipts are received or rely on the system.

The Treasurer cited unspecified concerns related to its capabilities and entries made by other users as the reason not to use the system to record transactions as they occurred. Although the Treasurer records the deposits to appropriate revenue codes and disbursements to appropriate expenditures codes, he does not maintain an appropriate general ledger reflecting accurate cash, payable and receivable balances. In addition, revenues and expenditures are not recorded timely. The Treasurer's practice of recording deposits and cleared checks as shown on bank statements and identifying accruals through a review of Board minutes at year-end or later, rather than from internal source documents of receipts and disbursements,⁶ continues to provide unreliable and inaccurate financial records and reports, including the monthly budget-to-actual reports provided to the Board.

Furthermore, because of his concerns with the accounting system and the lack of reliable financial records, the Treasurer has not filed⁷ the required annual financial report, known as the annual update document (AUD), with OSC for fiscal years 2014-15, 2015-16, 2016-17 and 2017-18, failing to meet his responsibility as CFO ensuring that all money and financial activities are accurately accounted for in a timely manner. The Board has also not ensured that the Treasurer filed the required reports and does not require the Treasurer to attend Board meetings as a measure of accountability.

The Treasurer, Mayor and two current Trustees have each held their respective positions since the time of the prior audits. Although corrective action plans were developed, based on the current state of the accounting records, officials did not take adequate action. The Treasurer indicated that he attended training related to his duties from 2005 to 2012, but stopped attending because he was not getting anything out of it. The Board also completed audits of the Treasurer's 2014-15 and 2015-16 records on June 21, 2016. However, the Board's conclusion that the

4 The Village's transactions related to water operations are accounted for within the general fund.

5 The Treasurer developed these spreadsheets to supplement the computerized system when he identified inaccurate balances while preparing the annual financial report for the fiscal year ended May 31, 2008.

6 Duplicate receipts or cash logs for money received as well as claims and warrants for approved and issued checks are more appropriate documents for entry into accounting records.

7 The Treasurer also filed the report for the 2013-14 fiscal year 117 days late.

audit was satisfactory was not based on sufficient reviews because the Treasurer did not provide his records for their review. Instead, the Treasurer completed and provided the Board with checklists from an OSC publication.⁸

In addition to the Treasurer, the Board annually appointed an internal control officer (ICO). The current ICO was also appointed as the Deputy Treasurer, personnel officer⁹ and compliance officer. The responsibilities of these positions include suggesting revisions to the Village's financial practices to address identified risks, working with other departments to address compliance issues that arise, performing the Treasurer's duties in his absence and other duties under the direction of the Mayor and the Board. Over the past three years, the average wages paid for these combined positions were \$71,055 per year.¹⁰ The Board authorizes the salary, which is allocated across various account codes in the salary schedule and included in the budget presented to the Board and taxpayers.

The ICO indicated that he generally performs reviews based on requests from the Mayor and provides verbal reports, as opposed to performing assessments to address the areas with the highest level of risk. An ICO should be focused on internal controls and be aware that reports should be documented in writing and be provided to the Board because the Board is responsible for oversight of the Village. Because these reports were given orally to the Mayor, instead of written reports to the Board, we could not assess them to determine if they provided appropriate suggestions for improvements to the Village's accounting procedures and internal controls. However, given the lack of corrective action in response to our prior reports, we question the value of the current ICO position. Given the duties outlined in the related job descriptions, this position could have been utilized to correct the inaccurate and untimely accounting records so that the Village could have completed its financial reports in a timely fashion and the Board could have been kept abreast of the Village's financial situation. However, the annual reports remain several years behind, which calls into question the benefit of the ICO position.

Without reliable financial records and reports, there is a risk that cash flow problems have been concealed and the Board's ability to manage the Village's financial condition and make sound financial decisions is limited. As a result, the transparency of Village financial operations is compromised and Village taxpayers

8 OSC's *Fiscal Oversight Responsibilities of the Governing Board Local Government Management Guide* provides guidance and additional information related to key fiscal oversight responsibilities of a governing board. One appendix addresses the general recordkeeping requirements for CFOs and includes a checklist that could be used to review a CFO's records. The checklist should be used in line with reviewing the CFO's actual records in order to verify the information under review.

9 Duties related to this appointment were outside of the financial scope.

10 The average cost was calculated using information from fiscal years 2016 through 2018. However, during fiscal year 2015, the ICO was paid \$106,050, which was \$74,050 above the budgeted amount and there was no allocation for Deputy Treasurer during this fiscal year. The ICO indicated that he was part-time during this fiscal year and was asked to perform additional duties.

lack the ability to ensure the Board is effectively monitoring Village operations and financial condition. It is crucial for the Board to have timely and accurate financial information to monitor Village finances. Given the Village's weakening financial condition, it is even more important for the Board to have useful financial information. However, even after repeated audits alerting the Board to significant problems with the accounting records, the Board has failed to resolve this problem.

Due to the Village Board's failure to take corrective action in response to our prior audits to address the inadequate accounting records maintained by the Treasurer, and the declining financial condition in the general fund, our office intends to visit the Village again in the future to perform an audit follow up service to assess the adequacy of the Village's corrective actions taken on the recommendations contained in this report.

The General Fund's Financial Condition Has Declined

In the AUD submitted for the 2013-14 fiscal year, the Treasurer reported general fund unrestricted fund balance of \$213,327. At the time of our audit field work, the Treasurer had not closed the accounting records for the four fiscal years ending May 31, 2015 to May 31, 2018. As a result, we calculated the level of fund balance at the end of each fiscal year using the Treasurer's budget-to-actual spreadsheets of revenues and expenditures. The Village's general fund balance decreased from the \$213,327 reported on the 2013-14 AUD to \$30,487 at the end of 2017-18 due to the fund realizing unplanned operating deficits each year, with the exception of the 2017-18 fiscal year.¹¹ Unplanned operating deficits ranged from \$18,378 to \$124,252. While budget-to-actual results were generally reasonable, deficits occurred in two fiscal years because revenues were overestimated and in 2014-15 the budgeted appropriations were overexpended. Because the Board was not properly monitoring Village finances during the year, budget amendments were not made to compensate for the overestimation of revenues and the expenditures that were not kept within amounts budgeted.

During fiscal years ended May 31, 2017 and May 31, 2018 the Board was forced to take actions as a result of deteriorating financial condition. Specifically:

- To address cash flow issues in both fiscal years, the Board approved short-term borrowing in an amount totaling almost \$1 million against future revenues.¹²

11 The Village had a deficit fund balance of \$47,191, as of May 31, 2017, based on operations per budget-to-actual spreadsheets. According to preliminary figures, the Village realized a surplus of \$77,678 in 2017-18, resulting in the \$30,487 fund balance noted.

12 For fiscal-year 2016-17, a \$392,120 revenue anticipation note (RAN) was approved in October 2016 to be repaid with revenues received between October and December 2016. For fiscal-year 2017-18, a \$600,000 RAN approved in January 2018 to be repaid with revenues received between February and June 2018.

-
- The Board approved local laws authorizing both the 2016-17 and 2018-19¹³ tax levies to exceed the real property tax cap limit¹⁴ and increased water rates in 2016-17 by 20 percent, and again in April 2018 by between 12.5 percent and 59 percent, depending on the usage.
 - The Board eliminated positions in the police department and department of public works and also eliminated funding for various Village-sponsored family events in the 2018-19 budget.

The use of short-term borrowing indicates that the Village is experiencing cash flow problems and is unable to meet its short-term obligations. The increase in short-term borrowing from about \$390,000 in 2016-17 to \$600,000 in 2017-18 shows that the cash flow problems grew significantly. Furthermore, the Village's preliminary unrestricted fund balance at the end of 2017-18 of \$30,487 represents less than 1 percent of the adopted appropriations for the 2018-19 fiscal year, limiting the Village's financial flexibility and impairing its ability to fund unexpected expenditures if they arise. Lastly, the need to override its tax levy limit indicates increasing financial problems to the extent that the Board is both significantly increasing taxes and water rents while still being unable to maintain existing service levels.

Because the Village is in poor financial condition and has little fund balance to act as a cushion against unforeseen events, it is even more important for the Board to monitor budgets and actual revenues throughout the year and take appropriate action in response to any unexpected events. However, because the records are inadequate, as we have reported repeatedly in prior audits, and the Board has not taken action to correct the records, the Board lacks the ability to perform this important monitoring function.

The Village also lacks multiyear financial or capital plans. A multiyear financial plan would provide a means to look at service levels and funding needs for future years to enable the Board to establish plans to maintain desired services over time. A multiyear capital plan would help assess the impact of capital decisions such as postponing capital acquisitions from one year to the next. Such decisions to defer capital expenditures may appear expedient when budgeted for one year but when looking more long-term may not be in the Village's best interests.

13 The Board increased the tax rate by 17.51 percent, partly to help create a contingency reserve fund in the amount of \$25,000.

14 With some exceptions, the New York State Property Tax Cap limits the amount local governments can increase property taxes to the lower of 2 percent or the rate of inflation. Local government boards must pass a local law or resolution by at least a 60 percent vote to override the tax cap. The Village Board adopted local laws in April 2016 and April 2018 to override the tax levy limit.

What Do We Recommend?

The Treasurer should:

1. Maintain adequate and timely accounting records on the modified accrual basis of accounting, including a general ledger that reflects accurate cash, payable and receivable balances.
2. Attend training for governmental accounting and recordkeeping. Appendix C has a link to available training offered by our office.
3. File accurate and timely financial reports with OSC.
4. Provide accurate and timely budget-to-actual comparisons for revenues and expenditures as well as general ledger account balances to the Board each month.

The Board should:

5. Ensure that the Treasurer's records are complete and accurate and that they enable him to file timely financial reports.
6. Require timely completion of the 2017-18 annual report and completion of the outstanding unfiled reports from prior years.
7. Monitor the Village's financial condition using monthly budget-to-actual comparisons and general ledger accounts.
8. Take appropriate action to amend the budget if revenues are less than budgeted or if budgeted appropriations for any purpose are not sufficient.
9. Complete thorough annual audits including inspection of the Treasurer's actual records, bank reconciliations and other documentation supporting the records.
10. Develop a plan to address the general fund's declining fund balance and the Village's overall financial condition.
11. Assess the value of continuing the ICO function as it currently operates and consider utilizing the position to assist with correcting the accounting records and completing financial reports.
12. Develop multiyear financial and capital plans for Village operations.
13. Develop a corrective action plan in response to this audit that includes actions to be taken and the timeline for implementation and monitor progress against the plan.

Appendix A: Response From Village Officials

SETTLED IN 1771

INCORPORATED IN 1807

Village of Ballston Spa

66 FRONT STREET

Ballston Spa, NY 12020

518-885-5711

From the Office of the Mayor

September 24, 2018

[REDACTED]

Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls NY 12801

Dear [REDACTED]

The Village will implement the recommendations contained in the Financial Condition Report of Examination – 2017M-256 – and will submit a Corrective Action Plan within 90 days

John P. Romano
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. To achieve the audit objective and obtain valid audit evidence, our audit included the following procedures:

- We interviewed Village officials and employees and reviewed source documents to gain an understanding of the accounting procedures and the cash receipts and disbursement process.
- We reviewed financial reports and accounting records to evaluate the Village's financial condition.
- We traced 25 water/sewer cash receipts and 10 months of sales tax distributions from source documents to bank deposits and accounting spreadsheets to verify accuracy.
- We compared the estimated revenues and appropriations to actual results to determine whether the Board adopted realistic budgets and to identify discrepancies.
- We reviewed the filing dates of the annual financial reports to determine whether they were filed timely.

We conducted this performance audit in accordance with GAGAS, generally accepted government auditing standards. 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 objectives.

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 Commission to make the CAP available for public review in the Village Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

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

www.osc.state.ny.us/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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Division of Local Government and School Accountability
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www.osc.state.ny.us/localgov/index.htm

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

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