



Village of Ballston Spa Financial Condition and Records and Reports

Report of Examination

Period Covered:

June 1, 2009 — May 31, 2011

2012M-18



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2012

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 Ballston Spa, entitled Financial Condition and Records and Reports. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Village of Ballston Spa (Village) is located in Saratoga County and had a population of 5,800 as of the 2010 census. The Village provides a wide range of services to its residents including police and fire protection, street maintenance and improvements, and water and sewer services. The Mayor and Board of Trustees (Board) are responsible for the overall management of the Village. The adopted budget for the 2011-12 fiscal year¹ is approximately \$3.77 million.

Scope and Objective

The objective of our audit was to assess the Village's financial condition and review the Village's accounting records and reports for the period June 1, 2009 to May 31, 2011. We extended our review of financial condition back to 2006 for trend analysis and to September 2011 to document interfund loans outstanding. Our audit addressed the following related questions:

- Did the Board adopt realistic budgets, routinely monitor financial operations, and take appropriate action to maintain the Village's financial stability?
- Did the Village prepare and maintain adequate financial records and reports?

Audit Results

The Board did not adopt realistic budgets, have adequate records to monitor financial operations or take appropriate action to maintain financial stability. As a result, deficits in the sewer fund increased 287 percent from \$67,336 in 2005-06 to \$260,720 in 2009-10. As a result, Village officials had to increase interfund loans to the sewer fund to over \$270,000 to meet its cash flow needs.

The Treasurer did not properly account for and report cash by fund, or provide complete monthly financial reports to each Board member. As a result, the general fund balance was overstated by \$135,000 in 2010 and \$133,000 in 2011. Further, the Board was not aware it had to prevent the over expenditure of 50 individual account appropriations totaling \$492,119 during 2010 and another 55 accounts totaling \$393,739 during 2011. The Board's ability to monitor and manage financial resources has been diminished and there is an increased the risk that errors and irregularities may occur and go undetected and uncorrected.

¹ The Village's fiscal year was from June 1, 2011 to May 31, 2012.

Comments of Local Officials

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.

Introduction

Background

The Village of Ballston Spa (Village) is located in Saratoga County and had a population of 5,800 as of the 2010 census. The Village provides a wide range of services to its residents including police and fire protection, street maintenance and improvements, and water and sewer services.

The Mayor and Board of Trustees (Board) are responsible for overseeing the overall management of the Village. The adopted budget for the 2011-12 fiscal year² is approximately \$3.77 million. The Treasurer is the chief fiscal officer for the Village and as such is responsible for performing virtually all of the Village's financial duties. These duties include maintaining a record of all receipts, expenditures and account balances, reconciling the accounting records to the bank statements, filing annual reports with the Office of the State Comptroller (OSC), and providing the Board with timely, accurate and useful financial information. The Village provides water services to approximately 2,300 customers and sewer services to approximately 1,800 customers.

Objective

The objective of our audit was to assess the Village's financial condition and review the Village's accounting records and reports. Our audit addressed the following related questions:

- Did the Board adopt realistic budgets, routinely monitor financial operations, and take appropriate action to maintain the Village's financial stability?
- Did the Village prepare and maintain adequate financial records and reports?

Scope and Methodology

We examined the Village's financial condition and accounting records and reports for the period June 1, 2009 to May 31, 2011. We extended our review of financial condition back to 2006 for trend analysis and to September 2011 to document interfund loans outstanding.

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.

² The Village's fiscal year was from June 1, 2011 to May 31, 2012.

**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 Village 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 Village Board to make this plan available for public review in the Village Clerk's office.

Financial Condition

The Board is responsible for making sound financial decisions that are in the best interest of the Village and the taxpayers that fund its operations. This responsibility requires Board members to balance the level of services desired and expected by Village residents with the ability and willingness of the residents to pay for such services. The Board must adopt structurally balanced budgets for all operating funds that provide for sufficient recurring revenues to finance recurring expenditures. The annual budget for each fund is expected to provide a reasonable estimate of appropriations, revenues, and other financing sources. Additionally, Village officials must ensure that the level of fund balance remains at reasonable levels. Village officials must ensure that the Board is provided with sufficient financial information during the fiscal year to allow the Board to monitor Village operations and take action as warranted during the year.

The financial condition of the general fund has improved and the water fund has shown no signs of significant stress since August 2006. However, the Board has consistently overestimated revenues for the sewer fund in its annual budgets. As a result, reported deficits in the sewer fund have increased 287 percent from \$67,336 in 2005-06 to \$260,720 in 2009-10. Further, Village officials have increased interfund loans to the sewer fund since 2005-06 to meet its cash flow needs and have not paid them back in a timely manner. As a result, there is an increased risk that moneys will not be available for contingencies.

Budgeting – Village officials indicated that they reviewed historical information when preparing the annual budgets. However, we found that the adopted budgets for the sewer fund over the past several years have not been reasonable because the Board has consistently overestimated revenues contrary to historical information. For example, in 2009-10 and 2010-11, the sewer fund generated \$173,054 and \$169,616 in revenues, respectively; however, the Board estimated revenues of \$248,000 for the 2010-11 budget and \$263,000 for the 2011-12 budget. There was no justification for the increase. In fact, these estimates were increased even though the Board did not increase sewer rents or identify new sources of funding to justify the significant variance between actual revenues received and the estimated revenues for the subsequent years. Furthermore, the Board did not take into account the expected loss of revenue caused by a large water/sewer customer that moved away from the Village in 2010

when the Board adopted the 2011-12 budget.³ These poor budgetary practices resulted in the sewer fund realizing an operating deficit of \$42,767 in 2010-11. Unless corrective action is taken, the sewer fund operating deficits will continue and increase.

Financial Condition – Although the general fund balance is not accurately reported, the financial condition of the general fund has improved since our last audit was conducted in August 2006. The reported fund balance has increased from a deficit of \$196,366 in 2005-06 to a surplus of \$403,911⁴ in 2009-10. This improvement is due in part to a \$290,000⁵ transfer from the water fund in 2006-07. Although the transfer had a positive impact on the financial position of the general fund, it had a corresponding negative impact on the financial health of the water fund. As a result, the reported water fund balance decreased from \$334,207 prior to the transfer to \$44,081 after the transfer. Despite the transfer, the water fund has shown no signs of significant stress since our last audit, and its reported balance has increased to \$87,136 in 2009-10. Even though the general and water funds have reported positive trends over the past several years, the sewer fund continues to report deficit fund balances. Reported deficits in the sewer fund have increased 287 percent from \$67,336 in 2005-06 to \$260,720 in 2009-10. The escalating deficit position of the sewer fund is mainly attributable to the poor budgetary practices noted in the previous paragraph.

The sewer fund is also reporting a significant amount of interfund borrowings. The sewer fund has borrowed from other funds over the past several years as a means to finance unexpected capital costs and meet cash flow needs. These types of loans are intended to be short term and should be paid back by the end of the fiscal year in which the borrowings occur, with interest. However, the interfund loans were not paid back in a timely manner and no interest has been paid. In fact, the sewer fund's interfund borrowing has consistently increased. In 2005-06, the fund reported a balance due to other funds totaling \$60,893. That amount increased to \$258,715 in 2009-10. As of September 30, 2011, \$270,924 remained unpaid. As a result, there is an increased risk that cash will not be available in the general fund for contingencies.

³ The annual sewer billings for this customer ranged from \$11,000 to \$17,000 over the last four years.

⁴ The Village's reported general fund balance for 2009-10 was \$539,100. However, we found that balance to be inaccurate and identified adjustments to that fund balance in the next section of this report. The general fund balance should have been reported as \$403,911 in the 2009-10 annual financial report filed with the Office of the State Comptroller.

⁵ A transfer between the water fund and general fund is allowable, and if represented by the same tax base is not required to be paid back. According to Village officials, this transfer was not intended to be paid back.

The Board is in the process of discussing a plan to repay \$109,000 in unexpected capital costs incurred by the sewer fund in 2009.⁶ However, the Board has not developed a formal plan to address the deficit and poor financial condition of the sewer fund. Such a plan should include a determination as to the level of fund balance that must be maintained for sufficient cash flows and other purposes, and a method to repay the interfund borrowings with interest.

Recommendations

1. The Board should adopt budgets with reasonable estimates for revenues based on historical information.
2. The Board should develop a plan to address the deficit and poor financial condition of the sewer fund. Such a plan should include a determination as to the level of fund balance that must be maintained for sufficient cash flows and other purposes, and a method to repay the interfund borrowings with interest.
3. The Board should ensure that future interfund borrowings are paid back by the end of the fiscal year in which the borrowings occur, with appropriate interest if the funds have different tax bases.

⁶ The sewer fund borrowed from other funds to originally finance \$109,000 in capital expenditures.

Records and Reports

The Board is responsible for the overall financial management of the Village. Although the Mayor has primary responsibility for managing the Village's day-to-day activities, the entire Board shares responsibility for fiscal oversight and establishing a system of financial reporting. To facilitate this, the Village's financial data must be complete, accurate and up-to-date.

The Treasurer, as chief fiscal officer, is responsible for performing the core accounting functions for the Village, including maintaining current, accurate and detailed accounting records, providing monthly financial reports to the Board and filing the annual financial report with the Office of the State Comptroller (OSC). In addition, the Treasurer must properly account for cash balances of each fund and maintain sufficient detail to support account balances. To assist the Treasurer in maintaining the accounting records, the Village appointed an internal control officer to review the accounting records and provide guidance as needed. The internal control officer works at the Village for approximately six hours a week at a rate of \$100 per hour.

In August 2006, OSC issued an audit report that included findings stating that the Treasurer's financial records were incomplete and inaccurate, and could not be relied on to make financial decisions for the Village. In response to the audit, the Village implemented a new computerized accounting system. However, we found that the Village's accounting records are still not complete, accurate or up-to-date, and that the Board members do not receive complete monthly financial reports. As a result, the Board could not properly monitor and manage Village's fiscal operations or accurately evaluate the Village's financial condition.

Accounting Records

The Treasurer is responsible for maintaining complete and accurate accounting records. These records should be relevant and useful for the Mayor and Board to manage the Village and monitor the Village's financial operations. Accordingly, general ledgers, cash receipt and disbursement journals, and revenue and expenditure subsidiary ledgers must be maintained in a complete, accurate and timely manner.

We found that the Treasurer did not maintain all accounting records in a complete and accurate manner. Specifically, the Treasurer did not ensure account balances were accurate and supported, apply consistent accounting principles or adequately account for each fund's cash balances.

Inaccurate Account Balances – The Treasurer did not maintain accounting records that were accurate and supported. We examined the trial balances⁷ for 2009-10 and 2010-11 and found several account balances were inaccurate and/or unsupported, including the general fund’s real property tax revenue, taxes receivable and due from other government accounts, as follows:

- Real Property Tax Revenue – The Village provides water and sewer service for customers who reside inside the Village, and to customers who reside outside the Village in the towns of Malta, Milton and Ballston. At the beginning of the fiscal year, unpaid water and sewer bills are relieved on the tax rolls of the Village or Towns depending on where the customers reside. Although collections for unpaid accounts are obtained through the tax collection process, the revenues must ultimately be recorded in either the water fund or the sewer fund.

At the beginning of the 2009-10 and 2010-11 fiscal years, the Treasurer added unpaid water and sewer rents to the real property tax revenue account in the general fund and booked an identical amount in taxes receivable. However, the Treasurer did not record a liability in the general fund for amounts owed to the water and sewer fund for the relieves. As a result, the general fund real property tax revenues were overstated, and the water and sewer rent revenues⁸ were understated by \$65,261 in 2009-10 and \$63,022 in 2010-11.

Furthermore, we identified an error in the collection of unpaid water bills from users in the surrounding Towns. We traced unpaid bills totaling \$33,494 that the Village had requested the towns to relevy on the 2011 real property tax bills to their subsequent collection and found that only \$2,154⁹ had been received. The difference, \$31,340, was still due from the Town of Milton. According to the Treasurer, the Village did not maintain adequate records of the amounts due. The Treasurer

⁷ As of the completion of our fieldwork, the accounting records for the fiscal year ending May 31, 2011 were not closed. Once closed, no changes can be made to the accounting records.

⁸ Because the Treasurer incorrectly recorded water and sewer rents on the cash basis of accounting, the amounts relieved were never recorded as revenues in the water and sewer funds. Under the modified accrual method of accounting, which should have been used, the Treasurer should have recorded water and sewer rents as revenues when billed. The unpaid and relieved water and sewer rents should then have been recorded as a due from other (general) funds until collected by the general fund and remitted to the water and sewer funds.

⁹ The towns of Ballston and Malta remitted the water and sewer relieves to the Village on February 3, 2011.

did not record due from other government receivables at the time the Village requested the Towns to relevel unpaid charges. As a result, the Treasurer could not monitor the accounts to ensure timely collection. Had the Treasurer recorded the receivables and periodically reconciled collections with the billings, he would have found that he had not received all that was billed, and then investigated the difference. After we discussed this issue with the Treasurer, he rebilled the Town of Milton on September 28, 2011 for the amount still due.

- Taxes Receivable – Saratoga County enforces unpaid real property taxes for the Village and remits the full amount of the unpaid real property taxes to the Village prior to the end of the Village’s fiscal year. Therefore, the Village’s taxes receivable balance at the end of each fiscal year should be \$0 on the annual financial reports filed with OSC. However, the Treasurer reported a taxes receivable balance of approximately \$22,000 for 2008-09 and 2009-10 on the annual financial reports to OSC. The Treasurer could not provide support for the balances reported.
- Due From Other Governments – The balance reported as due from other governments in the general fund for 2009-10 was carried forward to 2010-2011 and not adjusted to reflect activity occurring during 2010-11. The account balance of \$209,611 that was reported at the end of 2009-10 was, according to the general ledger detail, for collections expected from the County in June and July 2009¹⁰ for sales tax and mortgage tax. The sales tax payment was expected to total \$144,661 and the mortgage tax payment was expected to total \$68,000. However, when the Village received the sales tax payments, the due from other governments balance was not reduced. Also, a review of the accounting detail found that the estimated mortgage tax due was overstated in 2007-08 and that this error has been carried forward to subsequent years and had not been corrected. The Village’s accounting practice is to record an estimated mortgage tax due for the two months of mortgage tax earned in the current fiscal year (for April and May), but not paid until November of the following fiscal year. The Village also records a corresponding entry to deferred revenue. However, in 2007-08, the Village recorded an estimate for the full year’s mortgage tax and carried it forward from year to year. Based on 2009-10 mortgage tax

¹⁰ Sales tax payments are remitted by Saratoga County to the Village on a quarterly basis. When the Village’s fiscal year ends on May 31, the Village is still due sales tax payments for April and May that it will receive in the subsequent year.

collections, the estimate should have been approximately \$13,000 for the two months. The Village should then have adjusted the account in the following year when the mortgage tax was received in November 2010.

The various recording and reporting errors have resulted in the general fund balance being over stated by at least \$135,000 for 2009-10 and by at least \$133,000 for the 2010-11, as follows:

Table 1: Adjustments to Correct General Fund Balance		
Fiscal Year Ending May 31	2010	2011
Fund balance	\$539,103 ^a	\$739,136 ^b
Less: Unpaid Water and Sewer Charges included in Real Property Tax Revenue	(\$65,261)	(\$63,022)
Less: Unpaid Real Property Taxes included in Taxes Receivable	(\$22,106)	(\$21,955)
Less: Mortgage Taxes Receivable Errors included in Due from Other Governments	(\$47,825)	(\$48,525)
Total Adjustments	(\$135,192)	(\$133,502)
Adjusted fund balance	\$ 403,911	\$ 605,634
^a As reported in the Village's annual financial report to OSC. ^b As recorded in the Village's accounting records. As of the completion of our fieldwork, the Village had not filed its annual financial report with OSC for 2010-11.		

Recording of Cash – The Treasurer is responsible for maintaining cash records for each fund showing the actual amount of cash on hand or in the bank at a particular point in time. Accurate cash records are necessary to facilitate the timely detection of cash flow problems or negative financial trends.

The Treasurer does not properly account for cash. All cash received or disbursed for the general fund is correctly posted to the general fund cash account. However, all cash received for the other Village funds is also posted to the general fund cash account, while the corresponding revenues and/or reductions to receivable balances are posted to the other funds. The Treasurer then records due to and due from amounts for the other funds to recognize the cash received and disbursed from the general fund on behalf of the other Village funds.

This is a poor accounting practice because it does not provide for an accurate accounting of how much cash each fund has available to meet its current obligations. In addition, it can conceal cash flow problems.

To calculate the cash available to each Village fund, we reviewed the reported cash balances as of May 31, 2011, then added the reported due from other funds and subtracted the reported due to other funds.

Table 2: Cash Balances				
Fund	Reported Cash Balance May 31, 2011^a	Due From Other Funds	Due To Other Funds	Actual Cash Available at Year End
General (A)	\$394,557	\$ 271,608	\$ 287,752	\$378,413
Special Grant (CD)	\$245,432	\$62,594	\$57,187	\$ 250,839
Water (FX)	\$ 0	\$196,770	\$30,893	\$165,877
Sewer (G)	\$ 0	\$0	\$258,715	(\$258,715)
Library (L)	\$10,065	\$23,821	\$0	\$ 33,886
Capital Projects (H)	\$ 0	\$ 45,272	\$6,418	\$ 38,854
Trust & Agency (TA)	\$3,860	40,900	\$0	\$ 44,760

^a Per the accounting records and the annual financial report filed with OSC

As indicated in Table 2, the reported cash for each fund was incorrect. For example, both the water and sewer funds had reported zero cash balances; however, a detailed review of the interfund activity indicated that the water fund had a net cash balance of \$165,877 and the sewer fund had a net cash deficit of \$258,715.

Financial Reports

Adequate accounting records and effective procedures are needed to properly account for and report the Village's financial activities. Properly prepared financial reports require that the financial records are accurate and maintained in a timely manner. The Treasurer should be providing periodic financial reports to the Board throughout the year including budget-to-actual reports, cash balances by fund, cash flow statements and proposed budgetary adjustments. These reports assist the Board in monitoring the balances of revenues and appropriations, and in taking action as warranted when revenues are not meeting projections or appropriation accounts are almost exhausted. If additional appropriations are necessary, the Board must approve budgetary adjustments before expenditures are charged against the accounts.

The Treasurer does not provide, and the Board has not requested, sufficient monthly reports. Although the Treasurer provides each Board member with monthly budget-to-actual reports, the Board members only receive the reports for the departments for which they serve as the liaisons.¹¹ Only the Mayor receives a Village-wide report. Furthermore, the Board members do not receive information on each fund's cash position, bank balances, cash flows or proposed budgetary adjustments.

¹¹ Each Board member is in charge of one or more Village departments and acts as the liaison between the Board and the respective department heads.

Board members did not receive this information because they had not established fiscal policies to address the frequency and content of interim financial reporting. Had they received adequate reports, they would have seen the extent of the interfund loans to the sewer fund.¹² They also would have seen that the sewer fund could not meet its monthly financial obligations during seven months in 2010-11, and that the accumulated borrowing from other funds was as much as \$310,664, with nearly \$52,000 accumulated in 2010-2011. Further, the Board would have realized that 50 individual account appropriations totaling \$492,119 during fiscal year 2010 and another 55 accounts totaling \$393,739 in fiscal year 2011 were going to be over-expended. As a result, the Board did not propose and approve budget amendments to prevent the over expenditures. Further, the unusual account balances in such reports could have indicated that the errors previously discussed existed within the accounting records.

The lack of adequate monthly reporting diminishes the Board's ability to monitor and manage financial resources and increases the risk that errors and irregularities may occur and go undetected and uncorrected. The combination of errors in the accounting records, and the lack of interim reporting resulted in the Board being unable to determine the true financial condition of the Village and take corrective action as necessary. In addition, the transparency of Village operations is compromised because the public does not have the opportunity to review the Village's operations and assess its financial condition.

Recommendations

4. The Board should implement fiscal policies to ensure the Treasurer's debit or credit balances in the accounting records are accurate and supported.
5. The Treasurer should record water and sewer receivables at the time services are billed. The receivable accounts should be periodically reconciled to the collections and differences should be investigated to ensure timely collection.
6. The Treasurer should discontinue the practice of recording cash transactions for the special grant, water, sewer, library, capital projects and trust and agency funds in the general fund with offsetting entries in the due from and due to accounts for those funds. The Treasurer should directly increase or decrease the cash account balances for those funds as moneys are received or disbursed.

¹² See related comment entitled "Financial Condition"

7. The Board should establish fiscal policies to ensure the Treasurer provides each Board member with monthly reports for each department/fund that include:
 - Budget-to-actual reports, including the original and modified budgets
 - Proposed budgetary adjustments
 - The cash position, bank balances and cash flows.
8. The Board should ensure expenditures are within the framework of the budget. As necessary, the Board should propose and approve budgetary modifications to avoid over-expenditures of appropriations.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Village of Ballston Spa

Saratoga County Seat

66 FRONT STREET

Ballston Spa, NY 12020

Phone: 518-885-5711

Fax: 518-885-0512

August 13, 2012

Mr. Jeffrey Leonard, Chief Examiner
Office of the State Comptroller
1 Broad Street Plaza
Glens Falls, New York 12801-4396

Dear Mr. Leonard,

The Board has reviewed the report of examination for the period covered June 1, 2009 – May 31, 2011 #2012M-18. We appreciate your findings have concluded, in part, the following:

- The financial condition of the general fund has improved since your last audit was conducted in August 2006.
- The water fund has shown no signs of significant stress since August 2006.

The Board has carefully considered the content of the report in preparing this response. The following are the Board's response to the recommendations:

Recommendation #1

The Treasurer/Budget Officer has prepared ten year studies of certain revenue and expenditure accounts. These studies and the Treasurer/Budget Officer's consideration for the future economic outlook, the operation of law and current circumstances are the basis for the budget presented to the Board each year. The Treasurer/Budget Officer will assist the Board in formally documenting their consideration of key assumptions in the approved budget. These budgetary principles will be represented in the record and demonstrate the application of the best practices of a corporate management accounting environment applied to Village government.

Recommendation #2

As of May 31, 2011 the sewer fund deficit was \$143,555, approximately less than half from its highest level. The Treasurer/Budget Officer's current estimates show the deficit has been eliminated. The level of fund balance to be maintained will be determined in the near future. The Treasurer/Budget Officer has been developing a capital replacement plan for the entire Village. When the capital plan is complete a budget strategy will be developed that will interface the plan with all operating budgets including the sewer fund. The Board's completed sewer fund deficit plan is providing sufficient cash flows to repay, without interest, the interfund loan from the general fund.

Mr. Leonard, Chief Examiner
 August 13, 2012
 Page 2

Recommendation #3

We agree the interfund borrowings should be paid back by the end of the fiscal year. As required, the Board will monitor the repayment. All funds of the Village have the same tax base. Therefore, none of the borrowings between the general fund, sewer fund, special grant fund and library fund require payment of interest.

Recommendation #4

The effects of the findings in the report have been substantially reduced by the Board's decision to combine the water fund with the general fund. The remaining adjusting entries will be recorded in the proper period and do not affect the financial condition of the funds involved. The Board will implement fiscal policies to ensue the Treasurer's debit and credit balances in the accounting records are accurate and supported.

Recommendation #5

The Village records water and sewer receivables at the time services are billed in the Village's Utility Billing Module. The Treasurer/Budget Officer will record the entries as described in the Comptroller's accounting manual. The receivable balance will be periodically reconciled to the collections and the differences investigated to ensure timely collection and relieved as appropriate. Inherent in the legal process of collecting water and sewer bills is the certainty of collection either by relevy onto the tax roll or by civil action.

Recommendation #6

The Treasure/Budget Officer will discontinue the practice of recording cash transactions for the sewer, library. Capital projects and trust and agency funds in the general fund with offsetting entries in the due from and due to accounts for those funds. The Treasure/Budget Officer will directly increase or decrease the cash account balances for those funds as moneys are received or disbursed.

We believe the responses given are adequate in addressing the findings of the report.

Sincerely,

 John P. Romano, Mayor

 Robert Cavanaugh, Trustee

 Stuart Hodson, Trustee and Deputy Mayor

 Richard Duffy, Trustee

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the Village's related records and reports. To accomplish this, we performed an initial assessment of the condition of the Village's accounting records and reports, so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed Village officials, performed limited tests of transactions, and reviewed pertinent documents such as Village policies and procedures, Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial condition and the records and reports maintained by the Treasurer for further testing.

During this audit, we examined the Village's records and reports for the period June 1, 2009 to May 31, 2011. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed Village officials responsible for financial oversight and maintaining accounting records, and reviewed Board minutes to obtain an understanding of the Village's policies and procedures.
- We reviewed the Treasurer's management of the Village's financial information and, on a test basis, reviewed the available accounting records including the general ledger, trial balance, journal entries, bank reconciliations and budget reports.
- We interviewed the Treasurer and reviewed the annual financial reports filed with the Office of the State Comptroller to determine if they were accurate and complete.
- We assessed the financial information provided to the Board and the Board's procedures to provide oversight of Villages finances.

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.

APPENDIX C

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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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