



Village of Highland Falls Financial Condition and Purchasing Practices

Report of Examination

Period Covered:

June 1, 2010 — September 29, 2011

2012M-57



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of Local Officials and Corrective Action	6
FINANCIAL CONDITION	7
Multiyear Planning and Debt Issuance	7
Inter-Fund Transfers	11
Financial Reporting	12
Treasurer	13
Recommendations	13
PURCHASING PRACTICES	14
Professional Services	14
Competitive Quotations	15
Recommendations	15
APPENDIX A Response From Local Officials	16
APPENDIX B Audit Methodology and Standards	20
APPENDIX C How to Obtain Additional Copies of the Report	21
APPENDIX D Local Regional Office Listing	22

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Highland Falls, entitled Financial Condition and Purchasing Practices. 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 Highland Falls (Village) is located in the Town of Highlands, Orange County, and serves approximately 3,900 residents. The Village provides various services to its residents, including street maintenance, snow removal, street lighting and general government support.

The Board of Trustees (Board) is the legislative body responsible for managing Village operations. The Mayor, who is a member of the Board, serves as the Village's chief executive officer. The Treasurer is the chief fiscal officer and is responsible for the receipt, disbursement and custody of Village moneys, and for maintaining the Village's accounting records.

The Village's total general fund appropriations for fiscal years 2010-11 and 2011-12 were approximately \$4.0 million and \$4.3 million, respectively. The water fund appropriations were \$723,000 and \$801,000, and the sewer fund appropriations were \$925,000 and \$977,000 for fiscal years 2010-11 and 2011-12, respectively.

Scope and Objective

The objective of our audit was to review the Village's financial condition and purchasing practices for the period June 1, 2010 through September 29, 2011. Our audit addressed the following related questions:

- Did the Board implement a comprehensive financial plan, monitor the Village's financial condition and take appropriate action to ensure financial stability?
- Did Village officials procure the desired quality and quantity of goods and services at the most favorable cost?

Audit Results

The Board needs to develop, and/or ensure compliance with existing, policies and procedures. We found that policies and procedures were lacking in the areas of financial management, and Village employees did not adhere to the Village's purchasing policies and procedures.

The Board did not develop and implement a multi-year financial or capital plan, causing the Village to borrow for expenditures which could have been included in the annual budget. We determined that as of May 31, 2011, the Village had seven bond anticipation notes outstanding totaling \$752,800, and Village taxpayers have incurred short-term interest expenses of \$234,000 since June 2006. The

issuance of debt for purposes that are usually financed with cash, such as routine maintenance of buildings, signifies growing fiscal stress and places an unnecessary burden on taxpayers. In addition, the Village has outstanding long-term debt of approximately \$8 million, which ranks the Village the 40th highest among villages in the State for debt as a percentage of real property value.

The Treasurer does not record financial transactions consistently from year to year, making it difficult for the Board to estimate revenues and expenditures when developing budgets, and hindering the Board's ability to monitor the Village's finances throughout the year. Inter-fund transfers were not approved by the Board, and repayments of these transfers were not made by the end of the fiscal year as required by law. The water and sewer funds owe approximately \$150,000 in unpaid annual administrative costs to the general fund. Furthermore, the Board hired an independent contractor to perform the duties of Treasurer, which is not permitted by law.

Village officials did not always follow the Village's purchasing policy when acquiring professional services and goods. As a result, the Village obtained professional services for \$345,000 without the benefit of a request for proposals process or competition, and purchased goods totaling \$57,000 without obtaining the required quotes. Without a consistent use of competition for purchases, Village officials cannot assure taxpayers that they are obtaining goods and services at the most favorable terms.

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 that they planned to take corrective action.

Introduction

Background

The Village of Highland Falls (Village) is located in the Town of Highlands in Orange County, serves approximately 3,900 residents, and encompasses approximately one square mile. The Village provides various services to its residents, including street maintenance, snow removal, street lighting and general government support. These services are financed primarily with real property taxes and State aid. The Village also provides water and sewer services that are financed by user fees.

The Board of Trustees (Board) is the legislative body responsible for managing Village operations. The Mayor, who is a member of the Board, serves as the Village's chief executive officer. The Treasurer is the chief financial officer and is responsible for the receipt, disbursement and custody of Village moneys in addition to the maintenance of accounting records.

The Village's total general fund appropriations for fiscal years 2010-11 and 2011-12 were approximately \$4.0 million and \$4.3 million, respectively. The water fund appropriations were \$723,000 and \$801,000, and the sewer fund appropriations were \$925,000 and \$977,000 for fiscal years 2010-11 and 2011-12, respectively.

Objective

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

- Did the Board implement a comprehensive financial plan, monitor the Village's financial condition and take appropriate action to ensure financial stability?
- Did Village officials procure the desired quality and quantity of goods and services at the most favorable cost?

Scope and Methodology

We examined the Village's financial condition and purchasing practices for the period June 1, 2010 through September 29, 2011. We extended our examination to fiscal year 2005-06 to demonstrate trends in financial condition.

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.

**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 that they planned to take corrective action.

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

Financial Condition

The Board is responsible for overseeing the Village's fiscal health and financial resources. An important oversight responsibility of the Board is to plan for the future by setting adequate long-term priorities and goals. To address this responsibility, it is important for management to develop comprehensive, multi-year financial and capital plans to estimate the future costs of ongoing services and future capital needs. The Board also must manage the Village's debt. Well-managed debt is integral to the financial health of a local government and to the economic prosperity of the community it serves. In addition, the Board is responsible for ensuring that accounting records are accurate and inter-fund loans are approved and repaid in accordance with legal requirements.

The Board has not developed a multi-year financial or capital plan. As of May 31, 2011, the Village had seven bond anticipation notes (BANs) outstanding totaling \$752,800. Many, if not all, of the expenditures made through BANs could have been planned for and included in the annual budget. The Village also reported long-term outstanding debt of approximately \$8 million as of May 31, 2011, and the Board approved an additional \$1 million in the current fiscal year, which resulted in the Village ranking in the top 8 percent of all villages in New York State for debt as a percentage of property values. The Treasurer did not report financial transactions consistently from year to year, which made it difficult for the Board to estimate revenues and expenditures when developing budgets. The Board did not approve inter-fund transfers, and inter-fund loans were not repaid by the end of the fiscal year as required by law. Finally, the Board hired an independent contractor to perform the Treasurer's duties, which is not permitted by law. As a public officer, the Treasurer would be bonded to ensure that Village funds would be protected if misappropriation of funds should occur. This is not possible with a private contractor.

Multiyear Planning and Debt Issuance

Long-term planning for capital assets can provide local officials with benefits beyond the assured continuance of municipal services. Multi-year capital planning allows a local government to coordinate projects and acquisitions, and schedule orderly replacement or rehabilitation of existing assets. Failure to develop a plan can result in resources being allocated by crisis, while essential buildings, equipment and infrastructure are neglected and deteriorate.

After formulating appropriate projections, the Board can use this information to make well-reasoned and supported decisions regarding

services to be provided and how best to provide for identified capital needs. The practice of planning ahead and saving incrementally for expected future events is prudent management and helps local governments reduce or eliminate interest and other costs associated with debt issuances. The Board can establish (and fund) reserve funds to accumulate cash for future capital outlays and other nonrecurring expenditures.

The Board neither developed a comprehensive multiyear financial or capital plan, nor had any other mechanism in place to adequately address the Village's long-term operational and capital needs. Village officials provided us with their multiyear plan, which consisted of department heads' lists of items and repairs they deemed necessary in the next five years. The Board did not indicate how these items could or would be financed, did not prioritize projects, and did not have any cohesive plan to accomplish any of the requests. Further, we found that, prior to fiscal year 2010-11, Village officials had not established reserve funds to use for saving money to finance future infrastructure, equipment purchases, and other capital improvements. As a result, the Village incurred short- and long-term debt that could have been avoided, as detailed below.

Short-Term Debt – The Board issued BANs to finance capital expenditures for up to five years. As of May 31, 2011, the Village had seven BANs outstanding totaling \$752,800. Many, if not all, of the expenditures made through BANs could have been planned for and included in the annual budget. For example, a BAN issued for \$50,000 in 2010 for pool improvements had an outstanding balance of \$24,600 as of May 31, 2011.

Further, we found that the Village issued a BAN for \$92,000 in 2008 to pay legal fees; this BAN had \$55,200 outstanding as of May 31, 2011. Legal fees generally are considered an operating expense, and the Village is not authorized by law to issue debt to pay for operating expenses. Village officials told us that the labor attorney they hired in 2005 to negotiate the Police (2004-09) and Highway Department (2007-11) contracts charged the Village approximately \$142,000, which was a much higher fee than officials had anticipated. In 2006 and 2008, the Village paid \$41,300 and \$7,700, respectively, of this fee from the general fund.

Village officials told us that, on the advice of their general attorney, if they were able to negotiate a settlement amount with the labor attorney, they could issue a BAN for the settlement amount. Village officials then negotiated a \$92,000 settlement and issued a BAN for this amount. While the Village was legally authorized to issue a BAN resulting from a settlement, Village officials failed to appropriately

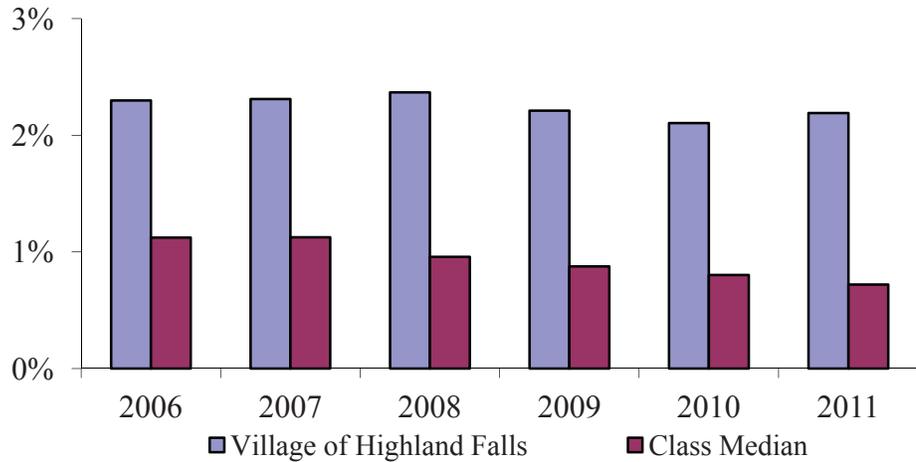
plan for this expense. Contract negotiations must be completed when the current contract expires. As such, any associated legal expenses must be negotiated and planned for before they are incurred, not on an emergency basis.

While BANs provide the means for local governments to finance capital expenditures, complete and consistent reliance on debt as a financing source is not the most prudent fiscal management. Because the Board has not developed a comprehensive multi-year financial or capital plan, the Village has incurred avoidable interest on short-term debt. The Village has paid \$234,000 in interest and \$673,000 in principal on BANs since June 2006. The issuance of debt for purposes that are usually financed with cash, such as routine maintenance of buildings, can signify growing fiscal stress and places an unnecessary burden on taxpayers.

Long-Term Debt – As of May 31, 2011, the Village had \$7,925,300 outstanding in long-term debt and paid approximately \$892,000 in debt service payments for long-term debt in the 2010-11 fiscal year. This included approximately \$317,000 in principal payments and \$575,000 in interest payments. Furthermore, the Board authorized an additional \$1 million in borrowing in the 2011-12 fiscal year. The Village's long-term debt included two bonds for water district improvements totaling \$805,000, two bonds for sewer district improvements totaling \$1,625,000, and a bond for a bridge totaling \$92,500.

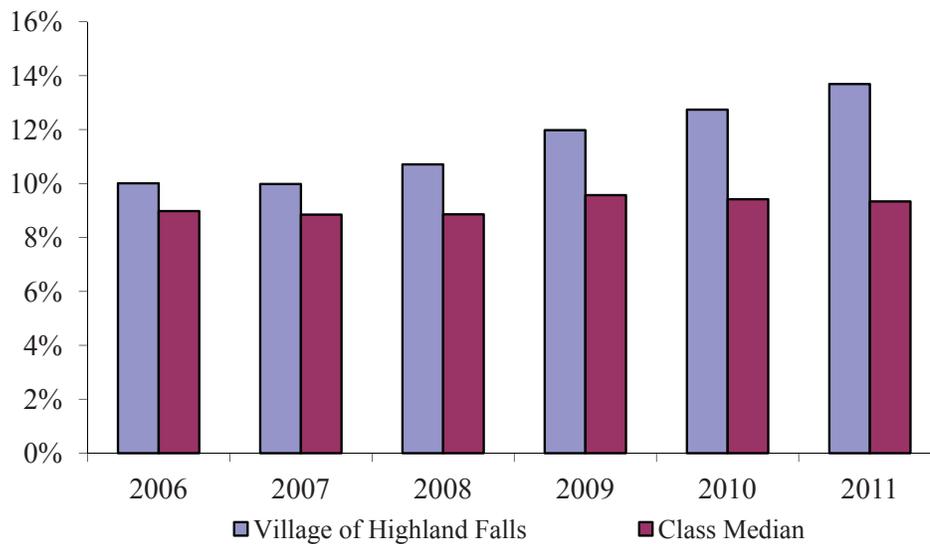
Over the last six completed fiscal years, the Village's long-term outstanding debt has grown about 34 percent, with debt service payments increasing by about 60 percent. We compared the Village's long-term debt to the 551 other villages in New York State (State). Since property tax has historically been the primary source of revenue for local governments, debt as a percent of full market value (FMV) of real property is a commonly used measure of indebtedness. Table 1 illustrates the Village's long-term debt as a percentage of FMV compared to all other villages in the State. The Statewide median of long-term outstanding debt as a percentage of FMV is 0.72 percent. As of May 31, 2011, the Village's long-term outstanding debt as a percentage of FMV was 2.9 percent. This ranks the Village as the 40th highest among villages in the State for debt as a percentage of FMV.

Table 1: Long-Term Outstanding Debt as a Percentage of Full Market Value



Debt affordability is a measure of a local government’s ability to repay its debt and still meet its current and future capital, operating and other needs. Since debt is essentially a fixed cost, debt affordability depends on the long-term fiscal health of the municipality. The Village’s debt service for fiscal year 2010-11 was about 14 percent of the revenue it received. The median for all villages in the State was about 9 percent. As Table 2 shows, the Village’s debt as a percentage of revenue has outpaced the statewide median over the last six fiscal years reviewed.

Table 2: Debt Service as a Percentage of Revenue



Finally, we calculated the per capita costs of debt based on the 2010 census. Using the Village’s population of 3,900, debt per resident has increased from \$1,683 in 2006 to \$2,032 in 2011, an increase of 21 percent.

The Village's high amount of long-term debt requires debt service payments of approximately \$900,000 annually. The Village's 2011-12 annual budget is approximately \$6.1 million, 15 percent of which can be attributed to long-term debt service payments. The Board is placing an extra burden on its current and future taxpayers by acquiring excessive long-term debt.

Inter-Fund Transfers

General Municipal Law (GML) allows the Treasurer to temporarily loan moneys from one fund to another to address budget shortfalls when available cash is not sufficient to pay current obligations. The Board must authorize each loan, ensure that suitable records are maintained, and ensure that repayment is made no later than the close of the fiscal year in which the advance was made.

The Treasurer did not follow proper inter-fund loan procedures and transferred moneys from one fund to another, when needed, without Board approval. Furthermore, all transfers were not paid back by the end of the fiscal year. The Treasurer did not maintain a record of transfers throughout the year. However, upon request, he created spreadsheets of inter-fund transfers as of May 31, 2011 for our review. We found that these spreadsheets were inaccurate and did not balance with the Village's year-end financial data. For example, the Treasurer recorded \$110,000 due from the water fund to the general fund, but we determined that the correct amount was \$58,522, a difference of \$51,478. Because of these inaccuracies, we could not rely on the information included in the Treasurer's spreadsheets and had to perform our own calculations of inter-fund activity.

We calculated that total outstanding funds due to the general fund at year-end were approximately \$216,000. The Treasurer continued to make inter-fund transfers in 2011-12. Although repayments totaling \$219,000 were subsequently made to the general fund in fiscal year 2011-12, there was \$22,000 still outstanding as of February 24, 2012, the end of our fieldwork. In addition, as of May 31, 2011, there were outstanding inter-fund loans of \$58,000 and \$121,000 to the water and sewer funds, respectively; all but \$24,000 to the sewer fund was subsequently repaid in the following fiscal year.

In addition to inter-fund loans, the general fund annually charged the water and sewer funds administrative costs of \$30,000¹ each. This fee was for salaries of clerical and administrative staff that performed tasks for the water and sewer funds throughout the year, such as handling the billing and receipt of fees. However, the funds did not always make the payments to the general fund. We found that the water fund did not pay the administrative costs in two of the last five

¹ The amount of administrative costs was \$39,500 in 2006-07 but was reduced to \$30,000 in 2010-11.

fiscal years and the sewer fund did not pay the costs in three of the last five fiscal years. Therefore, these funds owe a total of approximately \$150,000 in administrative costs to the general fund. The Treasurer stated that he only paid the general fund the administrative costs when the water and sewer funds had enough moneys left over at year-end to do so.

By not keeping accurate account records and obtaining Board approval for all inter-fund transfers, the Board and Village officials are not aware of the correct financial position of any of the Village's funds. Also, failure to reimburse one fund for loans to another fund by the end of the fiscal year is a violation of GML. Furthermore, by not paying the administrative charges for the water and sewer funds, the Treasurer is masking potential deficits in those funds. Finally, failure to provide the Board with an accurate accounting of funds impedes the Board's ability to make informed decisions concerning the water and sewer funds.

Financial Reporting

Generally Accepted Accounting Principles (GAAP) are uniform minimum standards and guidelines for financial accounting and reporting. They are the framework within which financial transactions are recorded and reported, resulting in financial statements that provide comparability between governmental entities, consistency between accounting periods and reliability for internal and external users of financial statements. Once a method for the accounting treatment of an item has been established, it is important to use the same method each time so that the financial statements are consistent.

We performed a five-year financial trend analysis on revenues and expenditures in the Village's general, water and sewer funds and found numerous instances of inconsistent recording and reporting of financial transactions. Specifically, line items have been miscoded and major discrepancies in revenue and expenditures were actually charged to different line items year after year. The Treasurer told us that it did not matter how he coded revenues as long as they were included in the revenue account. However, without consistently recording and reporting revenues using the same method year after year, the Board is not be able to determine if revenues for items were not received, or were lower or higher than anticipated. Likewise, expenditures were miscoded; the Treasurer stated that department heads code the expenditures and he did not have time to check the accuracy of the codes. Again, without accurate information, the Board cannot make informed decisions on the Village's budget.

Although we did not find any invalid or improper Village expenditures and unexplained shortfalls in revenue, without consistent recording and reporting of transactions, moneys could go missing and remain

undetected. Also, inconsistent accounting records diminish the comparability, usefulness, and reliability of financial reports produced and provided for the Board and other stakeholders to assess the Village's financial condition and make informed financial decisions.

Treasurer

The Treasurer is a public officer and the Village's chief financial officer. As such, the Treasurer is responsible for maintaining custody of all Village moneys, and keeping accounts of all receipts and expenditures in conformance with a uniform system of accounts. GML does not allow the Village to contract with private individuals to perform the duties and responsibilities of public officers. Moreover, there is no provision in GML which would permit the Village to abolish the office of Treasurer and transfer the Treasurer's statutory functions to a private contractor.

The Village has contracted with an independent contractor for the Treasurer's position. Although the Board was not aware that this was not permissible, it has entrusted all Village funds to a private individual. As a public officer, the Treasurer would be bonded to ensure that Village funds would be protected if misappropriation of funds should occur. This is not possible with a private contractor. Therefore, the Board has placed Village funds at risk by not appointing a Treasurer who is employed by the Village, as required by GML.

Recommendations

1. The Board should develop a multiyear financial/capital plan, which includes the Board's goals and objectives, outlines criteria for projects and/or purchases, and includes financing for the projects and/or purchases.
2. The Board should evaluate the Village's debt and develop a comprehensive plan to reduce the outstanding debt.
3. If it becomes necessary to advance moneys between funds in the future, the Board should specifically authorize each advance, ensure that suitable records are maintained, and that repayment is made no later than the close of the fiscal year in which the advance was made.
4. Village officials should ensure that the water and sewer funds pay appropriate administrative costs to the general fund every year.
5. The Board should require the Treasurer to review all accounting entries and verify that line items are properly and consistently coded and reported in the accounting records.
6. The Board should appoint a Treasurer that is a public officer of the Village.

Purchasing Practices

The Board is responsible for ensuring that the Village purchases the desired quality and quantity of goods and services at the most favorable terms or lowest cost. The Board has adopted a purchasing policy, but Village officials did not consistently follow it when procuring professional services or goods subject to competitive quotations. As a result, the Village contracted with five professional service providers for approximately \$345,000 without seeking competition. In addition, the Village purchased goods totaling approximately \$57,000 without requesting quotes, as required by the Village's purchasing policy. Without a consistent use of competition when procuring goods and/or services, Village officials cannot assure taxpayers that they are obtaining goods and services at the most favorable terms and without favoritism.

Professional Services

Competitive bidding is not required for the procurement of professional services that require special or technical skill, training, or expertise. However, the Board's adopted procurement policy requires that the Village seek competition when acquiring professional services. A request for proposals (RFP) is one of the methods that can be used when soliciting competition and is meant to ensure that the Village receives the desired services at the most beneficial terms and conditions.

During our audit period, seven professional service providers received payments totaling approximately \$1.3 million. We examined all of these vendors and found that Village officials did not use RFPs when selecting five vendors, who received a total of \$345,000. The services procured without using a competitive process included insurance, legal, auditing and engineering services. For example, the Village paid \$228,000 for liability, vehicle and building insurance; \$56,000 for legal fees; and \$44,000 for auditing services without seeking competition to ensure that the Village received the desired services at the most beneficial terms and conditions and in the best interest of Village taxpayers.

The Village Clerk stated that the Village has been using these vendors for at least 15 years, Village officials are happy with the services rendered, and the prices charged by these vendors did not increase significantly over the years. However, seeking competition could provide an opportunity to control the cost of services and generate cost savings. In the absence of a competitive process when procuring professional services, Village officials cannot be sure that they obtained these services at the most favorable terms in the best interest of taxpayers.

Competitive Quotations

The Village's purchasing policy requires Village officials and employees to obtain two verbal quotations for purchases ranging from \$250 to \$2,999 and two written or faxed quotes for purchases between \$3,000 and \$19,999. For public work contracts, the policy requires two verbal quotations for amounts from \$250 to \$4,999, and two written or faxed quotations or written requests for proposals for amounts from \$5,000 to \$34,999. The policy also requires that, if the purchaser is unable to obtain the required number of proposals or quotations, the purchaser must document the attempts made at obtaining the proposals.

We identified 31 vendors with payments totaling approximately \$182,000 that were subject to the Village's competitive quotations requirement. Of the 31 vendors, we judgmentally selected the 13 vendors with the highest payments totaling \$82,000 to determine whether Village employees obtained the appropriate quotes. Village employees did not obtain quotes for 10 payments totaling \$57,000. The Village Clerk explained that sometimes department heads use vendors that they know from past dealings or use open purchase orders for items they purchase frequently.

Village officials' failure to ensure that Village employees obtained quotes in accordance with the Village's policy may have resulted in the Village incurring higher costs than necessary for the goods and services purchased. Therefore, the Board cannot assure taxpayers that the Village is paying the lowest possible price, or acquiring goods and services without favoritism.

Recommendations

7. The Board should consistently follow the Village's procurement policy and use a competitive process, such as an RFP process, when procuring professional services.
8. The Board should ensure that Village officials and/or employees comply with the Village's purchasing policy and obtain competitive quotes for goods and services as required.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

Village of Highland Falls

Mayor
Fire Commissioner
JOSEPH E. D'ONOFRIO

TRUSTEES
Harold Brown
Patrick Flynn
Joseph McCormick
James DiSalvo
Police Commissioner

303 Main Street
Highland Falls, New York 10928-1896

Telephone: 845-446-3400
Fax: 845-446-2952

Website: www.highlandfallsny.org
TTY: 711



ADMINISTRATIVE
Regina M. Taylor
Village Clerk

June 14, 2012

Mr. Christopher J. Ellis
Chief Examiner
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Mr. Ellis:

We have received and reviewed the State Comptroller's draft audit report on the Village of Highland Falls for the period June 1, 2010, to September 29, 2011. We greatly appreciate the time and effort of the Comptroller's office and employees in reviewing the Village's finances and making recommendations to improve our financial processes. We have already begun to implement the recommendations contained in the draft report.

We are pleased that your office found that the Village's borrowing procedures are correct. We also acknowledge the comments and recommendations in the draft report concerning the Village's issuance of debt to finance necessary public projects. The Village is quickly paying down its short-term debt. There is no new borrowing planned for this fiscal year.

Of the seven short-term bond anticipation notes (BANs) outstanding, one was fully paid in May 2012, four others will be fully paid in this fiscal year, and one more will be fully paid by January 2014. Another of the BANs is authorized pursuant to a Village Law §22-2200 proceeding, and of the \$61,000 annual debt service, \$55,000 is paid by benefitted homeowners and \$6,000 by the Village. That BAN will be fully paid in three years.

The draft report mentions two BANs in particular. Each of these BANs was issued after a review of finances and expected revenue. The pool improvements BAN, for \$50,000, was issued because the improvements were necessary for an important Village recreation use and insufficient funds were available at that time. However, we knew that rental income from the lease of Village property would be received in 2010 and 2011 to pay off the BAN in just two years, and that BAN was fully paid in May 2012. The Village Hall building BAN, issued in 2007

Page 1 of 3

for \$75,000, will be paid off this fiscal year.

With respect to long-term financing, we note that the recent consolidated refinancing of prior borrowings will save Village taxpayers approximately \$400,000 over the life of the loan. That refinancing includes borrowings to finance sewer system and water system improvements, including unanticipated improvements such as capital repairs to the Bog Meadow Dam. We have also reduced debt service by making payments ahead of schedule, such as the 1975 water improvements bond, and avoiding the interest payments that would otherwise accrue.

One reason for the Village's debt to property value ratio is that the Village has very little commercial development and no industry. There is no privately owned vacant land suitable for commercial or industrial development. Given our small tax base and the fact that our tax base consists overwhelmingly of residential properties, the Village, like many small villages, struggles to keep real property taxes at an affordable level. For example, the Village has borrowed to finance required and necessary improvements to the Village's water and wastewater treatment plants. The cost of such improvements can be similar regardless of the size of a municipality, but a larger municipality has much greater property value and tax revenue to pay for those improvements.

Although we note that the Village's borrowing, prior to the payoff of the BANS, is at only 30% of our debt limit and our financial advisor has told us that our Moody's Rating of A1 is exceptionally good, we will continue to work to reduce debt and we welcome your office's recommendations.

We have already directed all Department Heads to utilize the State Comptroller publications Multiyear Capital Planning and Multiyear Financial Planning when preparing budget proposals and anticipating future capital improvements. The Multiyear Capital Planning reports have already been prepared.

We have also directed Department Heads that they must strictly comply with the Village's procurement policy for purchases.

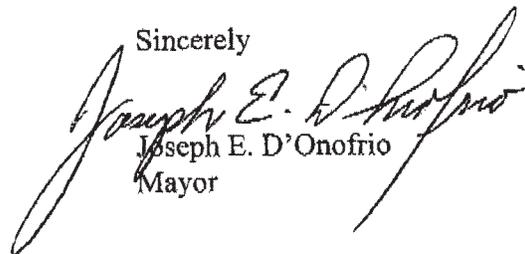
We note that the Village has already addressed and corrected the imbalance in the transfers from the general fund to the sewer and water funds. Transfers from the sewer and water funds have been made to fully reimburse the general fund. Since all of these funds have the same tax base, an interest payment to the general fund is not required. (We also note that the discrepancy in the Treasurer's spreadsheets sent to your office was due to one mistaken entry on the spreadsheets). Transfers to the sewer and water funds become necessary at times because sewer and water use charges are not timely paid. Raising rates to create a reserve is a difficult option, because rates are already high and the Village seeks to keep its rates as affordable as possible. Other options, such as issuing a revenue anticipation note (RAN), would increase costs to the rate payers. We recognize that we must continue to address this issue.

Prior to issuance of the draft report, the Board of Trustees adopted a local law authorizing

the Village's Treasurer to reside in an adjoining county and appointed Ralph Walters as the Treasurer. Although all revenue and expenditure items are reported on the Village's books, we have directed the Treasurer to administer the revenue and expenditures reporting system in a consistent manner and to assure that all items are properly coded. (To our knowledge, the only revenue item that had been miscoded was the mortgage tax).

We also intend to issue RFPs or other solicitations for professional consultants, (although, as stated in the report, such solicitations are not required). We note that of the total of \$345,000 cited in the draft report, \$228,000 was paid for liability, vehicle and building insurance. Our insurance agent actively shops all of the carriers that offer municipal insurance. Our premium payment this year is \$30,000 less than the year before. With respect to legal, engineering and accounting services, the Board is aware of professional fees charged in the County and the reputation of other service providers. Although the Board is fully satisfied with the services received and the rates charged by our professional consultants, the Village recognizes the importance of 'testing the market' and we will issue RFPs or other solicitations for those services.

We thank you again for reviewing the Village's finances and providing your recommendations. We welcome all recommendations that assist the Village's officers and employees in improving Village services to our residents and businesses at the least cost to our taxpayers.

Sincerely

Joseph E. D'Onofrio
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Village assets. To accomplish this, we performed an initial assessment of the internal controls 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, 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 objectives and scope by selecting for audit the areas most at risk. We selected the Village's financial condition and purchasing procedures for further testing. To achieve our audit objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Village officials and gained an understanding of the Village's debt. We reviewed bond and BAN records and original documentation concerning debt, and inquired and obtained all available documentation concerning multi-year planning.
- We analyzed debt service payments and performed a comparison of debt to villages statewide.
- We obtained the cash disbursements journal and reviewed all payments made during our audit period.
- We reviewed bank statements, invoice packets, bidding documentation, quote documentation and/or RFP documentation.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Steven J. Hancox, Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AND REGIONAL PROJECTS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313