



Village of Victor Financial Management

Report of Examination

Period Covered:

June 1, 2013 – July 8, 2015

2015M-166



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2015

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Trustees governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of Victor, entitled Financial Management. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Village of Victor (Village) is located in the Town of Victor in Ontario County and has a population of approximately 2,700. The Village provides various services to its residents, including water, sewer, fire protection, street maintenance, snow and brush removal and general government support. General fund appropriations for the 2014-15 fiscal year were approximately \$2.4 million, funded primarily with real property taxes and sales tax.

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

Objective

The objective of our audit was to evaluate the Village's financial management practices. Our audit addressed the following related question:

- Did the Board provide adequate oversight of the Village's budgeting and financial operations to ensure Village resources are used effectively?

Scope and Methodology

We examined the Village's financial records for the period June 1, 2013 through July 8, 2015. We extended our scope back to June 1, 2012 to perform a trend analysis of the general fund's fund balances, revenues and expenditures.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

Comments of Village Officials and Corrective Action

The results of our audit and recommendations have been discussed with Village officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials

generally agreed with our recommendations and indicated they planned to initiate 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 Board to make this plan available for public review in the Clerk's office.

Financial Management

The Board is responsible for maintaining the Village's fiscal health and making sound financial decisions that are in the best interest of the Village and the taxpayers who fund its operations. In addition, the Board must perform the required annual audit, or provide for an audit, of the Treasurer's records and reports. The Board should adopt budgeting policies and procedures to help Village officials develop realistic balanced budgets with sufficient recurring revenues to finance recurring expenditures without accumulating excess funds and closely monitor the amounts budgeted against actual results throughout the year. A best practice for managing fund balance would be for the Board to adopt a policy that would establish what is considered an adequate level of fund balance to be maintained and provide guidance for Village officials to use during the annual budgeting process to maintain that level. It is also essential that the Board adopt a comprehensive multiyear financial plan to meet significant future financial goals.

The Board needs to improve its oversight and management of the Village's budgeting and financial operations. The Board did not conduct or provide for an annual audit of the Treasurer's records and reports, which places the Village at an increased risk for errors and irregularities to occur that could go undetected and remain uncorrected. In addition, the Board has not adopted policies and procedures governing the budget process or a fund balance policy establishing the level of fund balance to maintain. As a result, at the end of 2014-15, the general fund had unrestricted fund balance that exceeded a reasonable cushion for the next fiscal year. In fact, unrestricted fund balance was 56 percent of 2015-16 appropriations. Finally, the Board has not developed a comprehensive multiyear financial plan. As a result, Village officials are less able to assess various approaches to address financial issues, such as using surplus fund balance to finance operations or funding reserves for future capital expenditures to provide transparency to taxpayers.

Excessive Fund Balance

A basic component of local government budgeting is the prudent use of fund balance, which is the difference between revenues and expenditures accumulated over time. Village officials can legally set aside or reserve¹ portions of fund balance to finance future costs for a

¹ When establishing and funding reserves, the Board should develop a written policy that communicates to taxpayers why money is being set aside, the Board's financial objectives for the reserves, optimal funding levels and conditions under which the funds will be used. See our publication entitled *Multiyear Financial Planning* available at <http://www.osc.state.ny.us/localgov/pubs/lmgm/multiyear.pdf>.

specific purpose and may also appropriate a portion of fund balance to help finance the next year's budget. Adopting a fund balance policy that addresses the appropriate level of fund balance to be maintained from year-to-year is a best practice that provides the Board with guidelines to use during the budget process.

The Village may retain a reasonable portion of unrestricted fund balance to use as a financial cushion in the event of unforeseen circumstances. This amount depends on factors such as timing of receipts and disbursements, volatility of revenues and expenditures and contingency appropriations. If fund balance is kept at excessively high levels, money that could benefit the Village is not being used, placing an unnecessary burden on taxpayers. Therefore, it is important that the Board adopt long-term financial plans establishing the Village's objectives and goals and adopt written policies and procedures to govern the levels of unrestricted fund balance and reserve balances to be maintained and guide Village officials in developing realistic budget estimates.

The Board has not adopted long-term financial plans (see Multiyear Financial Planning section) or policies and procedures governing the budget process and the level of fund balance to be maintained. From 2012-13 through 2014-15, the Board adopted budgets with estimated revenues that generated large budget variances that ranged from 5 to 11 percent and totaled approximately \$464,000,² as shown in Figure 1. As a result, the general fund incurred operating surpluses during all three years totaling approximately \$915,000, which caused unrestricted fund balance to increase steadily to a level in excess of what is needed to provide a cushion against unforeseen economic fluctuations.

The Board also appropriated fund balance totaling approximately \$85,000 to fund the 2013-14 and 2014-15 budgets, which should have resulted in operating deficits³ and fund balance decreases. Instead, due to the significant revenue variances and operating surpluses, the fund did not use any of the appropriated fund balance, and total general fund balance grew by \$641,384, or 23 percent. This included increases to unrestricted fund balance totaling \$189,609 (16 percent) and reserves totaling \$357,605 (25 percent).⁴

² This was predominately sales tax revenues, which were underestimated by \$246,480, or 30 percent, over the last three years. Expenditure variances were generally favorable as well, but by smaller percentages for 2013-14 and 2014-15.

³ A planned operating deficit occurs when a board purposely adopts a budget in which appropriations are greater than planned revenues, with the difference to be funded with appropriated fund balance.

⁴ At the end of 2014-15, the Village maintained various capital reserves totaling approximately \$1.8 million, which included the following: buildings and land – \$134,000, drainage – \$197,000, equipment – \$597,000, fire vehicle – \$398,000, fire and building – \$33,000, snow removal – \$46,000, unemployment – \$14,000 and streets – \$374,000.

Figure 1: General Fund				
	2012-13	2013-14	2014-15	Total
Estimated Revenues ^a	\$2,051,388	\$2,128,699	\$2,207,333	\$6,387,420
Actual Revenues	\$2,268,920	\$2,257,670	\$2,324,889	\$6,851,479
Variance	\$217,532	\$128,971	\$117,556	\$464,059
Percentage Budget Variance	11%	6%	5%	7%
Operating Surplus ^b	\$273,341	\$402,397	\$238,987	\$914,725
Unused Appropriated Fund Balance	\$0	\$75,000	\$9,763	\$84,763
Unrestricted Fund Balance	\$1,204,466	\$1,351,125	\$1,394,075	
Unrestricted Fund Balance as Percentage of Next Year's Budget	55%	55%	56%	
^a We excluded budgeted interfund transfers, which represent reallocation of cash from reserve funds to unrestricted fund balance to be used for capital purchases (See Annual Audit section). ^b We reduced reported actual revenues and expenditures to eliminate significantly overstated revenues and expenditures caused by the Treasurer's erroneous interfund transfer entries (See Annual Audit section).				

Unless Village officials develop and adopt more realistic budgets, the Village will continue to retain and accumulate excessive funds that should be put to productive use for the taxpayers' benefit, such as a significant reduction in the tax rate. We reviewed the 2015-16 budget and found that the Board increased its general fund balance appropriation but did not significantly increase estimated sales tax revenue and actually decreased the total revenue estimates. This will result in an operating surplus for 2015-16 and further increase the already excessive fund balance,⁵ which was funded by a tax levy that was significantly higher than needed to fund operations.

We identified similar budgeting practices in the sewer fund, which had sizeable reserves and fund balance. Village officials have not documented a reason for retaining these funds. However, officials told us that they have begun a wastewater treatment plant capital project, which will be funded by using reserves and fund balance, beginning with \$215,000 appropriated from the sewer fund capital reserve in the 2015-16 budget.

The Board can make more informed and transparent budgeting decisions by developing and sharing with taxpayers a fund balance policy which establishes targeted fund balance levels and better supports the fund balances retained. This would also help the Board to reduce the tax levy to the amount actually needed to fund operations.

Multiyear Financial Planning

A comprehensive multiyear financial plan projects revenues and expenditures for several years into the future. Unlike annual budgets, it does not authorize expenditures (although it should be linked to the current budget). Instead, it projects a village's ability to pay for and provide services given certain policy and economic assumptions.

⁵ Unless the Board makes significant budget amendments during the year for additional or unanticipated expenditures.

These projections help the Board assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital improvements. A good financial plan includes revenue and expenditure projections over a three- to five-year period, potential budget shortfalls and funding surpluses, along with planned actions and the funding of and use of reserves to finance future capital projects or acquisitions. Such a plan also provides transparency to the taxpayers.

The Board has not developed a formal, comprehensive multiyear financial plan to identify long-term financial goals, guide its budgeting decisions and address the general fund's levels of unrestricted fund balance and reserve funds to be maintained. Village officials developed multiyear plans for highway and fire equipment purchases and had engineering studies completed for other capital improvements.⁶ Village officials used the equipment schedules to plan for both the funding and use of the related reserves. However, there was no comprehensive plan to clearly show how capital and long-term goals would be achieved (e.g., the planned use of operating funds, surplus fund balance or reserves) or to facilitate annual budgeting for planned projects or purchases.

Had a comprehensive multiyear plan been in place, along with more realistic annual operating budgets which incorporate current year financing for previously planned capital projects or acquisitions, the Board would have had a useful tool to communicate and justify its budgeting and planning decisions to its taxpayers. Such a plan would also better assure that the Village's strong financial position would continue in the future, while still providing for necessary future capital expenditures and reducing the tax levy to the amount needed to fund operations.

Annual Audit

New York State Village Law requires the Board to annually audit, or have a Village officer, employee or an independent public accountant audit, the Treasurer's report and all supporting records. An annual audit is an important internal control over cash receipts and disbursements, providing independent verification that transactions have been properly recorded and that cash has been properly accounted for. It also provides Board members with an added measure of assurance that financial records and reports contain reliable information on which to base financial decisions. The Board should ensure the completion and results of the audit are documented in the Board minutes along with an explanation of how the audit was performed and which specific records were reviewed.

⁶ One of the engineering plans was for the entire Village and focused mainly on road improvements. A second plan focused on the wastewater treatment plant.

The Board did not complete the required annual audits of the Treasurer's records and reports for the 2012-13 through 2014-15 fiscal years. Although the Treasurer provided the Board with the annual financial reports, the Board did not audit these reports and the supporting accounting records to verify their accuracy or exercise its oversight responsibility. In addition, Village officials did not review the Treasurer's accounting records during these years or conduct periodic independent reviews of the bank reconciliations.

Had the Board conducted the required audits and provided regular oversight of the Treasurer's records, or engaged an independent accountant to perform the audits, it may have been in a position to identify and address various accounting errors which we found during our audit fieldwork and discussed with Village officials. These included numerous erroneous and unnecessary interfund transfer entries in the accounting records to record the funding and use of reserves. These entries resulted in overstated revenues and expenditures and inaccurate fund balances reported in the Village's annual financial report to the Office of the State Comptroller (OSC) each year. Without annual audits or interim reviews to verify the accuracy of the accounting records and annual financial reports, the Board does not have accurate information that reflects the Village's true financial position and results of operations, and its ability to effectively monitor the Village's financial operations is diminished.

Recommendations

The Board should:

1. Develop budgeting and fund balance policies to govern the budgeting process and the levels of unrestricted fund balance and reserve funds to maintain.
2. Develop and adopt annual budgets with realistic estimates that reflect anticipated revenues and expenditures (based on historical operating results and relevant new information) and the amount of fund balance which will be available and used to fund operations.
3. Use the excessive fund balance identified in this report in a manner that benefits Village taxpayers. Such uses could include reducing real property taxes, funding legally established reserves or financing one-time expenditures.
4. Develop, adopt, monitor and update a comprehensive multiyear financial plan to provide a framework for preparing budgets and planning for capital projects and acquisitions to ensure that decisions are guided by the most accurate and current information available

5. Annually audit, or engage the services of an independent public accountant to audit, the Treasurer's reports and the supporting records.
6. Ensure that the annual report to OSC accurately reflects the Village's actual operating results.

APPENDIX A
RESPONSE FROM VILLAGE OFFICIALS

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

VILLAGE OF VICTOR

INCORPORATED 1879

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Jason Ashton
924-3311

DEPUTY MAYOR

Brad Pearson

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Meg CHaides

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Michael Crowley

October 22, 2015

Office of the State Comptroller
Rochester Regional Office
The Powers Building
16 West Main Street, Suite 522
Rochester, NY 14614-1608

Dear OSC:

Please accept this letter as our official acknowledgement in receiving the findings of the recent audit on Financial Management for June 2013 – July 2015. This letter will also serve as our Corrective Action Plan.

We appreciate the opportunity to work with the Examiners who were very helpful and knowledgeable. The overall process was informative and educational. We are in agreement with the recommendations made in the report and have already implemented a corrective action plan.

To provide more transparency to our taxpayers we developed a Five-year Capital Improvement Plan to help illustrate capital project funding and how the excessive Unreserved Fund Balance will be used for two capital improvement projects: Maple Avenue Improvements for \$2 million and Wastewater Treatment Plant Upgrades for \$1.5 million. In the future, the Village will allocated monies from the Unreserved Fund Balance to the more appropriate Street Reserve and Sewer Reserve accounts while saving for these capital projects.

The finding that the Village needs to develop more realistic budgets based on will prompt a change in our budgeting philosophy. We are very conservative in budgeting for sales tax revenue and producing a budget that can be realized. Sales Tax can fluctuate greatly as it did in 2010 when it dropped sharply by \$50,000. Instead of being conservative with our budget figure, we need to rely on the Unreserved Fund Balance to cushion these shortcomings and budget items closer to actual receipts.

An annual audit to verify the accuracy of the Treasurer's reports and transactions to cash receipts, disbursements and bank reconciliation will be performed by the Financial Liaison to the Village Board. The Financial

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villageclerk@villageofvictor.org

Liaison will utilize the “Checklist for Review of Chief Fiscal Officers Records” as provided by the Office of the State Comptroller. This checklist will help assure that the financial records and reports provide reliable information.

We have already taken steps to address the concerns that were identified. The following corrective actions have been implemented:

1. We have adopting an Unreserved Fund Balance Policy to govern the acceptable levels of the Unreserved Fund Balance.
2. Future budgets will be prepared using more realistic estimates of Sales Tax Revenue.
3. Operating surplus for future capital projects will be allocated to Reserve Funds instead of carrying an excessive Unreserved Fund Balance.
4. We have developed a 5-Year Financial Plan for future budget preparation and capital project planning while providing transparency to the taxpayers on how Reserves and Fund Balances are utilized.
5. The Financial Liaison will perform an annually audit of the Treasurer’s reports.
6. For the current fiscal year, the Treasurer has already corrected transactions to accurately reflect transfers between Fund Balances which will provide a true reflection of the results of operations.

Thank you for sharing your professional opinions to improve our fiscal oversight. We continually seek to implement best practices and procedures to uphold the financial integrity of the Village and to be fiscally responsible on behalf of our residents.

Sincerely,

Jason Ashton
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to evaluate the Board's financial management practices for the period June 1, 2013 through July 8, 2015. We extended the scope of our audit back to June 1, 2012 to perform a trend analysis of fund balances, budgets and operating results. To accomplish our audit objective and obtain valid audit evidence, we performed the following steps:

- We interviewed Village officials to gain an understanding of the Village's financial management policies and procedures.
- We reviewed Board minutes for actions relevant to annual audits, budget monitoring and financial condition.
- We analyzed fund balance from 2012-13 through 2014-15.
- We compared budgeted revenues and expenditures to operating results for 2012-13 through 2014-15 fiscal years.
- We reviewed the total annual revenues and expenditures to determine the operating surpluses or deficits.
- We reviewed budgets for 2012-13 through 2014-15 to determine the amount of fund balance that was appropriated for each year.
- We reviewed the Village's equipment replacement schedules and engineering plans.
- We reviewed journal entries for the 2014-15 fiscal year.
- We analyzed the Treasurer's interfund entries related to funding and using reserves and adjusted total revenues, expenditures and ending fund balance for our reporting purposes.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller

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