

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Village of Morris Fund Balance

Report of Examination

Period Covered:

June 1, 2015 — February 1, 2017

2017M-58



Thomas P. DiNapoli

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State of New York

Office of the State Comptroller

Division of Local Government and School Accountability

June 2017

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 Morris, entitled Fund Balance. 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 Morris (Village) is located in the Town of Morris in Otsego County and serves approximately 600 residents. The elected three-member Village Board (Board) is the legislative body responsible for managing the Village's operations, including maintaining a sound financial condition. The Village Mayor is a member of the Board and serves as the chief executive officer. The Board appoints the Clerk-Treasurer who serves as the chief fiscal officer.

The Village provides a variety of services including street maintenance and improvements, snow removal, lighting, garbage removal, water distribution and general government support. The Village's 2016-17 budgeted appropriations for the general and water funds were \$477,785 and \$153,000, respectively. In May 2016, the Village completed a capital project upgrading the water storage tank and water lines and installed water meters.

Objective

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

- Did the Board properly manage the Village's fund balance?

Scope and Methodology

We examined the Board's fund balance management within the general and water funds for the period June 1, 2015 through February 1, 2017. We extended our scope back to June 1, 2013 to analyze fund balance and budgeting trends. We extended our scope forward to May 31, 2017 to project the fiscal year's ending fund balances.

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 findings 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 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-Treasurer's office.

Fund Balance

A village in good financial condition maintains adequate service levels during fiscal downturns and develops resources to meet future needs in financial upswings. The Board is responsible for making sound financial decisions that are in the best interest of the Village and the residents who fund its operations. This includes developing and adopting budgets that include reasonable estimates for revenues and expenditures. The Board should also develop a fund balance¹ policy and long-term financial and capital plans to ensure that adequate resources are available for unanticipated expenditures, revenue shortfalls or cash flow. These practices help ensure that the amount of real property taxes levied is not greater than necessary.

The Board could improve its fund balance management. Over the last three years, the Board budgeted to spend-down fund balances in the general and water funds. However, those funds had surpluses that caused the fund balances to increase. The general fund balance increased by 42 percent to \$338,000, or 159 percent of actual expenditures. Additionally, the water fund balance increased by 58 percent to \$238,700, or 240 percent of actual expenditures. Consequently, the Village accumulated significant fund balances without clear plans to use this money.

Figure 1: General Fund

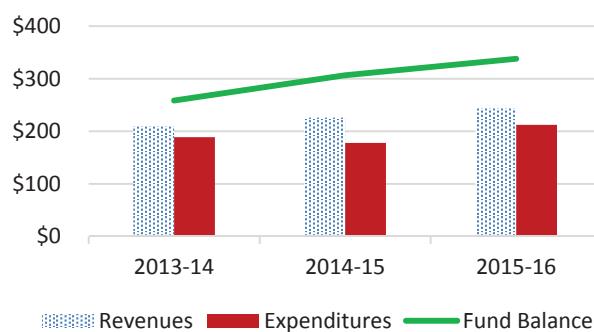
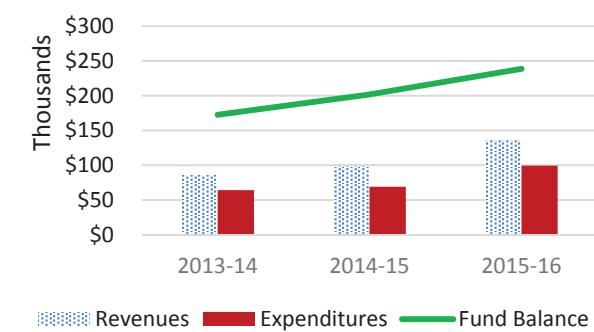


Figure 2: Water Fund



¹ Fund balance represents the cumulative residual resources from prior fiscal years. Villages are legally allowed to establish reserves and restrict funds for certain future purposes, such as capital projects. The unrestricted portion of fund balance (the total of committed, assigned and unassigned fund balance) is the amount that may be appropriated to fund programs in the next year's budget, retained for cash flow or to finance future operations.

Although the Board overestimated revenues in the general fund by \$358,000 (an annual average of 35 percent), the Board also overestimated expenditures in the general fund by \$841,000 (an annual average of 59 percent). The revenue variances were driven primarily by budget estimates for sidewalk improvement project grant revenues of \$93,700 in all three years that were not received. Village officials had budgeted to do a sidewalk improvement project to be covered by a grant in all three years, but did not do the project because of other projects that were ongoing during those years. The expenditure variances were driven primarily by overestimates in the contingency, street and sidewalk contractual budget lines.

Figure 3: General Fund Revenues

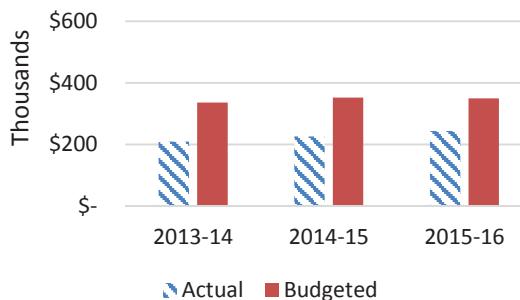
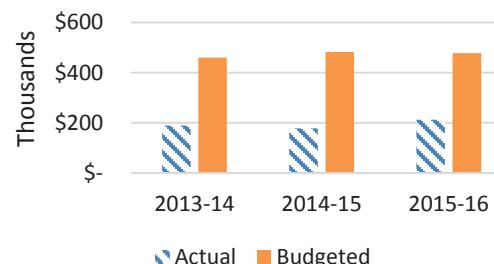


Figure 4: General Fund Expenditures



As a result, although the Board appropriated an average use of fund balance of over \$127,400 in the general fund over the last three years to finance operations, it was not used because the general fund generated operating surpluses totaling \$100,400, resulting in a total budget variance of \$227,800.

Figure 5: Water Fund Revenues

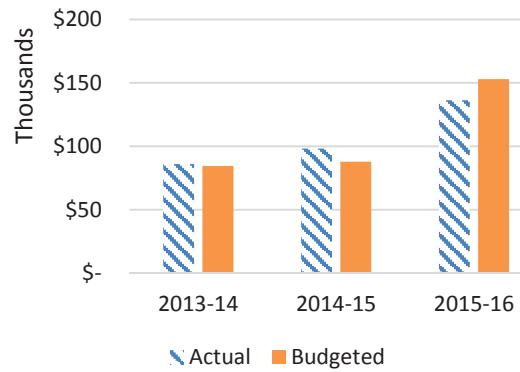
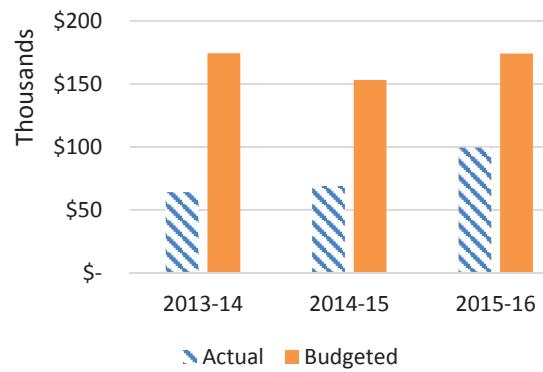


Figure 6: Water Fund Expenditures



Although the Board budgeted revenues reasonably in the water fund, the Board overestimated expenditures in the water fund by \$269,000 (an annual average of 54 percent). The expenditure variances were driven primarily by overestimates in the contingency budget line.

As a result, although the Board appropriated an average of almost \$59,000 in the water fund over the last three years to finance operations, it was not used because the water fund generated operating surpluses totaling almost \$88,000.

Furthermore, in both the general and water funds, the contingency budget line exceeded the maximum allowable amount² each year by an average of over \$46,000 and \$61,000, respectively. While the inclusion of a contingency line in the budget is a prudent way to prepare for unplanned needs, fund balance also serves as a resource in those situations. The Board's continued inclusion of contingency budget lines that exceeded the maximum allowable amounts resulted in unused contingency budget lines that significantly contributed to the increasingly excessive fund balances.

Village officials told us that they budget the same amounts each year for the majority of the budget lines. The Clerk-Treasurer stated that the Village has experienced flooding in the past and that Village officials prefer to maintain a sufficient level of fund balance for potential flood costs. Given the uncertainty of flooding and the potential impact of recent water billing changes,³ it is reasonable for the Village to maintain a cushion in fund balance. However, the Board has not adopted, or conducted a survey to develop and adopt a fund balance policy or comprehensive long-term financial and capital plans that specify the objectives and goals for the accumulated funds, including concerns over flooding. Although Village officials purchased several pieces of equipment over the last several years and upgraded their water system, those acquisitions did not result in a significant reduction in fund balances because they issued debt to finance those acquisitions.

We project that the general fund balance will increase by \$36,700 or 11 percent to \$374,800 by the end of 2016-17 and that the water fund balance will decrease by \$58,200 or 24 percent to \$180,500 by the end of 2016-17. The projected water fund balance is 98 percent of the total projected expenditures. This decrease is due to the recent water billing changes that will result in a six-month delay in the collection of water usage fees.

² Per Village Law, the contingency line must be equal or less than 10 percent of the total other budgeted appropriations less debt service, which for the general and water funds was equal to an average of over \$38,800 and almost \$9,000, respectively.

³ Previously water users were billed semi-annually prior to their water use based on a set unit fee. Beginning in October 2017, water users will be billed semi-annually after their water use based on their actual metered water usage for the preceding six months.

Although the Board has not increased the tax levy in the last three years, its budgeting practices, combined with maintaining excessive fund balance levels, has resulted in taxes that are higher than necessary.

Recommendations

The Board should:

1. Use general and water surplus funds as a financing source for:
 - Funding one-time expenditures.
 - Funding needed reserves.
 - Reducing real property taxes.
2. Adopt budget estimates for revenues and expenditures that reflect the Village's realistic operating needs based on historical or other known trends.
3. Ensure that the contingency budget line does not exceed the maximum allowable amount in both the general and water funds.
4. Adopt a fund balance policy and long-term financial and capital plans that specify the Village's objectives and goals for using accumulated funds including concerns over flooding.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF MORRIS

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May 31, 2017

H. Todd Eames
State Comptrollers Office
N.Y. State Office Building
44 Hawley Street, Room 1702
Binghamton, NY 13901

Dear Mr. Eames,

The Morris Village Board has reviewed the preliminary draft findings of the OSC Fund Balance Report of Examination for the Village of Morris 2017M-58.

The Board acknowledges that the aforementioned report's findings raise reasonable concerns. We will be submitting a proposed Corrective Action Plan (CAP) upon receipt of the Final Audit, in accordance with the 90 day requirement.

On behalf of the Morris Village Board we thank the OSC's staff for their courtesy and professionalism throughout the audit process.

Sincerely,

Mayor Michael Newell
Village of Morris

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed Village officials and reviewed Board meeting minutes to gain an understanding of the budget development process.
- We reviewed the general and water balances for 2013-14 through 2015-16 to determine whether fund balance levels were reasonable.
- We compared the general and water funds' 2013-14 through 2015-16 budgeted revenues and appropriations to the actual revenues and expenditures, and we compared the results of operation to the budgeted appropriated fund balances to determine whether the Board adopted reasonable budgets.
- We interviewed Village officials and reviewed Board meeting minutes to determine whether fund balance policies, long-term financial and capital plans or replacement schedules were in place. We inquired about any recent capital projects, large equipment purchases or significant changes within the Village operations that could affect fund balance levels.
- We used budget-to-actual reports as of February 28, 2017 for the general fund to project the results of operations and year-end fund balances for May 31, 2017.
- We used bank statements to calculate the actual expenditures and revenues from June 1, 2016 through January 31, 2017 and the 2016-17 adopted budget to project the water fund's results of operations and year-end fund balance for May 31, 2017.
- We reviewed the Village's tax levies for 2013-14 through 2016-17 to determine the trend and whether they stayed within the tax cap.

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.

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