



# Village of Keeseville

## Financial Condition

### Report of Examination

Period Covered:

June 1, 2010 — May 31, 2013

2013M-192



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2013

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 Keeseville, entitled Financial Condition. 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*

# Introduction

## Background

The Village of Keeseville (Village) is located in the Town of Ausable, Clinton County and the Town of Chesterfield, Essex County. The Village has approximately 1,800 residents. The Village is governed by a Board of Trustees (Board) which comprises four elected Trustees and an elected Mayor. The Board is responsible for the general management and control of the Village's financial affairs. The Mayor is the Village's chief executive officer and is responsible for, among other duties, appointing the Village Clerk-Treasurer, subject to the Board's approval. The Clerk-Treasurer, as chief fiscal officer, is responsible for the receiving, disbursing, and maintaining custody of Village moneys in addition to maintaining the accounting records.

The Village provides various services to its residents, including street maintenance and improvements, snow removal, public improvements, recreation and cultural activities, water, sewer, and general government support. The Village's budgeted appropriations for the 2013-14 fiscal year are approximately \$1.4 million,<sup>1</sup> funded primarily with real property taxes and water and sewer charges.

## Objective

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

- Does the Board adopt realistic budgets, routinely monitor financial operations, and take appropriate action to maintain the Village's financial stability?

## Scope and Methodology

We reviewed the Village's financial condition for the period June 1, 2010, through May 31, 2013.

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 they planned to initiate corrective action.

<sup>1</sup> The budgeted appropriations are \$552,680 for the general fund, \$448,000 for the water fund, \$254,000 for the sewer fund, and \$108,200 for the community development fund.

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 of Trustees to make this plan available for public review in the Clerk-Treasurer's office.

## Financial Condition

The Board is responsible for the financial planning and management necessary to maintain the Village's fiscal health. As such, an essential component of the Board's duties and responsibilities is to make sound financial decisions that are in the best interest of both the Village and the taxpayers that fund its operations. This responsibility requires Board members to balance the level of services desired and expected from Village residents with the ability and willingness of the residents to pay for such services. To maintain good fiscal health, it is imperative that the Board receive timely and accurate financial information, develop and adopt budgets that include realistic estimates for revenues and expenditures, identify and adjust to changes during the course of the year, and plan for service and capital needs beyond the current year by developing and adopting comprehensive, multiyear financial and capital plans.

The recorded total fund balance for the general, sewer, and water funds at the end of the last three fiscal years were either overstated or understated due to various accounting errors. As a result, the Clerk-Treasurer and the Board were not aware of the general, sewer, or water funds' actual operating results and overall financial condition. In addition, the Board did not adopt realistic budgets and did not properly monitor financial operations, which contributed to the Village being in fiscal stress at the end of the 2011-12 fiscal year. Specifically, the general, sewer, and water funds had a combined total deficit fund balance of \$4,623 and a combined cash balance of only \$6,451 at the end of the 2011-12 fiscal year. The operating funds only had a combined cash balance of \$6,451 because the community development fund<sup>2</sup> made an interfund advance of \$20,000 to the general fund during the 2011-12 fiscal year. Without this interfund advance the Village may have had to issue short-term debt to finance its operations.

The sewer fund remained in fiscal stress at the end of the 2012-13 fiscal year because the sewer rates did not generate sufficient revenues to cover the costs incurred, resulting in the sewer fund having a total fund balance deficit of \$35,029. In addition, our review of the Village's 2013-14 budget for the sewer fund found that although the Board has increased sewer rates, it underestimated expenditures, which will likely offset the additional revenues that are generated. Therefore, the sewer fund's financial condition may not improve during the 2013-14 fiscal year. Conversely, the financial condition of the general fund

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<sup>2</sup> The community development fund is used by the Village to account for its revolving loan program.

and water fund improved and both funds had a healthy fund balance at the end of the 2012-13 fiscal year. In addition, our review of the Village's 2013-14 adopted budgets found that the budgeted revenues and appropriations were reasonable for both the general and water funds. As a result, barring any unforeseen circumstances, the financial condition of the general fund and water fund should remain healthy during the 2013-14 fiscal year. However, the Board has not developed and adopted comprehensive, multiyear financial and capital plans. As a result, the Village has no means of planning for future financial needs.

## **Operating Funds**

The Village's financial data must be accurate to properly manage Village operations and to assess the Village's financial condition. In addition, it is important for the Board to adopt realistic budgets and monitor the actual results and budgeted estimates of each fund regularly throughout the year to maintain the Village's financial stability. The annual budget is a plan, subject to modifications when appropriate, that provides Village officials with the information necessary to control spending and ensure revenue projections are being met during the year. Effective management includes monitoring the budget during the course of the year and making any necessary budgetary amendments due to unforeseen revenue shortfalls or incurring costs that will exceed the appropriations provided for in the adopted budget.

General Municipal Law (GML) allows the Clerk-Treasurer to temporarily advance moneys held in one fund to another fund. However, the Clerk-Treasurer must maintain suitable records, and the Board must authorize each advance by resolution. Interfund advances are intended to address short-term cash flow needs of operating funds and are, in effect, short-term borrowing arrangements between the operating funds. Repayment of the borrowed cash must be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made. When an advance is made between funds that are supported by different tax bases, repayment must include an amount reasonably equivalent to the amount that would have been earned on the investment of the moneys advanced.

General Fund — The general fund's total fund balance has been overstated during each of the last three fiscal years (2010-11 to 2012-13) because of accounting errors. For example:

- The general fund's total fund balance was overstated by \$2,684 at the end of the 2010-11 fiscal year because of an overstatement of taxes receivable.
- The general fund's total fund balance was overstated by \$48,600 at the end of the 2011-12 fiscal year because of an



overstatement of revenues of \$40,000 that also resulted in a corresponding understatement of an interfund payable, and an understatement of expenditures of \$8,600 that also resulted in a corresponding overstatement of the general fund's cash balance. The overstatement of revenues resulted because the Clerk-Treasurer incorrectly accounted for \$40,000 of interfund advances that were made to the general fund. The understatement of expenditures resulted because the Clerk-Treasurer incorrectly recorded debt service expenditures totaling \$8,600 in the sewer fund, although these debt service payments were for a serial bond that was issued for a backhoe, which had always been recorded in the general fund.

- The general fund's total fund balance was overstated by \$8,600 at the end of the 2012-13 fiscal year because of the overstatement of cash at the end of the 2011-12 fiscal year that was carried forward to the 2012-13 fiscal year. We also determined that expenditures were overstated by \$40,000 during the 2012-13 fiscal year because the Clerk-Treasurer incorrectly accounted for \$40,000 of interfund advances that were repaid to the water fund and community development fund during the 2012-13 fiscal year.

The following table illustrates the fund balance recording discrepancies for the general fund over the last three fiscal years.

<b>Table 1: General Fund – Fund Balance – Recording Discrepancies</b>			
<b>Village Recorded</b>			
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Beginning Fund Balance	\$147,186	\$136,089 <sup>a</sup>	\$39,112
Operating Surplus/(Deficit)	(\$8,413)	(\$96,977)	\$110,508
<b>Ending Fund Balance</b>	<b>\$138,773</b>	<b>\$39,112</b>	<b>\$149,620</b>
<b>Office of the State Comptroller Recalculated</b>			
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Beginning Fund Balance	\$144,502	\$136,089	(\$9,488)
Operating Surplus/(Deficit) <sup>b</sup>	(\$8,413)	(\$145,577)	\$150,508
<b>Ending Fund Balance</b>	<b>\$136,089</b>	<b>(\$9,488)</b>	<b>\$141,020</b>
<b>Variance Between Village Recorded and OSC Recalculation</b>			
<b>Over / (Under) Statement of Ending Fund Balance</b>	<b>\$2,684</b>	<b>\$48,600</b>	<b>\$8,600</b>
<sup>a</sup> The difference between the beginning fund balance and prior year ending fund balance is due to a prior year adjustment.			
<sup>b</sup> The balances include adjustments that were made for accounting errors that we identified.			

The general fund realized a small operating deficit of (\$8,413) during the 2010-11 fiscal year. However, the general fund realized



a significant operating deficit of \$145,577 during the 2011-12 fiscal year, which resulted in the general fund's total fund balance decreasing from a healthy balance of \$136,089<sup>3</sup> at the end of the 2010-11 fiscal year to a deficit balance of \$9,488 at the end of the 2011-12 fiscal year. This resulted because the Board did not adopt a realistic budget and did not make the necessary budgetary amendments during the fiscal year. In fact, we found that the Village over-expended the general fund's modified budget appropriations by \$174,514<sup>4</sup> during the 2011-12 fiscal year for various reasons. For example:

- The Village elected to receive its share of sales tax revenue from Clinton County<sup>5</sup> starting with the County's 2012 fiscal year,<sup>6</sup> instead of applying the sales tax revenue to reduce the Village residents' County property taxes, as had been done in previous fiscal years. As a result, when Village taxpayers received their tax bills in January 2012 from Clinton County, the bills were significantly more than previous year's tax bills. Village officials stated that they received several complaints from residents, and as a result, the Board passed a resolution at their January 10, 2012 meeting authorizing the Clerk-Treasurer to issue refund checks to all Village taxpayers residing in Clinton County.<sup>7</sup> We found that the Village issued refund checks totaling \$86,267 during the 2011-12 fiscal year.<sup>8</sup> However, the Village had only received the first quarter of the sales tax revenues from Clinton County during the 2011-12 fiscal year totaling \$17,539, resulting in an unplanned budget variance of \$68,728 that was financed by using fund balance.
- The Village incurred additional expenditures totaling \$72,836 to replace the roof on the highway garage and \$32,666 to retire a bond anticipation note that was issued for the Veteran's

<sup>3</sup> The general fund's total fund balance at the end of the 2010-11 fiscal year represented approximately 25 percent of the 2011-12 general fund budgeted appropriations of \$556,615.

<sup>4</sup> The Board approved one budgetary amendment totaling \$50,000 during the 2011-12 fiscal year, which increased the budgeted appropriations for the general fund to \$606,615. However, the Village incurred expenditures totaling \$781,129 during the 2011-12 fiscal year, resulting in the over-expenditure of the general fund's modified budget appropriations by \$174,514.

<sup>5</sup> The Village is located in both Clinton and Essex Counties.

<sup>6</sup> The County's 2012 fiscal year was from January 1, 2012 through December 31, 2012.

<sup>7</sup> The refund checks were issued based on a document that was prepared by Clinton County indicating the refund that should be made to each taxpayer, which was calculated by taking the difference between the actual tax bill amount for each taxpayer and the amount the tax bill would have been had sales tax been applied to reduce County property taxes.

<sup>8</sup> We express no view as to the propriety of the refunds because that issue was not within the scope of our audit.

Park capital project, even though these expenditures were not included in the adopted budget. In fact, we found that the Board did not budget for the replacement of the highway garage roof during the 2011-12 fiscal year even though a Board meeting was held on August 10, 2010 during the previous fiscal year where the former Mayor explained to the Board that the highway garage roof was in dire need of replacement and the Board approved to post a notice for bids for this project.

As a result of these unbudgeted expenditures, the general fund's financial condition declined to a level in which it could not fund its own operations during the 2011-12 fiscal year, and therefore received \$20,000 interfund advances from both the water fund and community development fund during January 2012. Although we determined that the Board approved the interfund advances totaling \$40,000, the general fund only had a cash balance of \$30,212 at the end of the 2011-12 fiscal year, and therefore did not have enough cash on hand to repay these interfund advances by the close of the fiscal year, as required by GML.

The general fund's financial condition improved significantly during the 2012-13 fiscal year because the Board adopted a financially conservative budget which improved the general fund's financial condition. As a result, the general fund realized an operating surplus of \$150,508, resulting in the general fund's total fund balance increasing from a deficit balance of \$9,488 at the end of the 2011-12 fiscal year to a healthy surplus balance of \$141,020<sup>9</sup> at the end of the 2012-13 fiscal year. In addition, we reviewed the Village's 2013-14 general fund budget to verify that general fund budget estimates were reasonable based on historical data and supporting source documentation. We found that the budgeted revenues and appropriations were reasonable. As a result, barring any unforeseen circumstances, the general fund's financial condition should remain healthy during the 2013-14 fiscal year.

Sewer Fund — The sewer fund's total fund balance has either been overstated or understated during each of the last three fiscal years (2010-11 to 2012-13) because of accounting errors. For example:

- The sewer fund's total fund balance was overstated by \$19,951 at the end of the 2010-11 fiscal year because of an overstatement of sewer rents receivable.
- The sewer fund's total fund balance was understated by \$28,956 at the end of the 2011-12 fiscal year because of an

<sup>9</sup> The general fund's total fund balance at the end of the 2012-13 fiscal year represented approximately 25 percent of the 2013-14 general fund budgeted appropriations of \$552,680.

overstatement of expenditures of \$54,350 that also resulted in a corresponding understatement of the sewer fund's cash balance, and an overstatement of sewer rents receivable of \$25,394. The overstatement of expenditures resulted because the Clerk-Treasurer incorrectly recorded debt service expenditures totaling \$54,350<sup>10</sup> in the sewer fund when these debt service payments were for serial bonds that were issued for a backhoe and water system improvements, and therefore should have been expensed in the general and water funds, respectively.

- The sewer fund's total fund balance was understated by \$23,812 at the end of the 2012-13 fiscal year because of the understatement of cash of \$54,350 at the end of the 2011-12 fiscal year that was carried forward to the 2012-13 fiscal year and an overstatement of sewer rents receivable of \$30,538.

The following table illustrates the fund balance recording discrepancies for the sewer fund over the last three fiscal years.

<b>Table 2: Sewer Fund – Fund Balance – Recording Discrepancies</b>			
<b>Village Recorded</b>			
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Beginning Fund Balance	\$75,097	\$11,634	(\$65,274) <sup>a</sup>
Operating Surplus/(Deficit)	(\$63,463)	(\$77,273)	\$6,433
<b>Ending Fund Balance</b>	<b>\$11,634</b>	<b>(\$65,639)</b>	<b>(\$58,841)</b>
<b>Office of the State Comptroller Recalculation</b>			
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Beginning Fund Balance	\$75,097	(\$8,317)	(\$36,683)
Operating Surplus/(Deficit) <sup>b</sup>	(\$63,463)	(\$22,923)	\$6,433
Adjustments For Overstated Sewer Rents Receivable Balance <sup>c</sup>	(\$19,951)	(\$5,443)	(\$4,779)
<b>Ending Fund Balance</b>	<b>(\$8,317)</b>	<b>(\$36,683)</b>	<b>(\$35,029)</b>
<b>Variance Between Village Recorded and OSC Recalculation</b>			
<b>Over / (Under) Statement of Ending Fund Balance</b>	<b>\$19,951</b>	<b>(\$28,956)</b>	<b>(\$23,812)</b>

<sup>a</sup> The difference between the beginning fund balance and prior year ending fund balance is due to a prior year adjustment.

<sup>b</sup> The balances include adjustments that were made for accounting errors that we identified.

<sup>c</sup> These adjustments reflect the increasing level of overstated sewer rents receivable balances from year-to-year and also reflect the Village's prior period adjustment to fund balance as noted in footnote a.

<sup>10</sup> The \$54,350 in debt service expenditures were also incorrectly included in the 2011-12 fiscal year adopted budget for the sewer fund.

The sewer fund's total fund balance decreased from a reported fund balance of \$75,097 at the start of the 2010-11 fiscal year to a deficit balance of (\$35,029) at the end of the 2012-13 fiscal year. This resulted because the Board did not adopt realistic budgets for the sewer fund over the last three fiscal years because they consistently budgeted revenue estimates for sewer rents that could not be realized based on the sewer rates in effect and did not increase the sewer rates to reflect those estimates during this time period. For example, during the 2010-11 through 2012-13 fiscal years, the sewer fund generated \$186,472, \$220,522, and \$222,207 in sewer rents, respectively. However, the Board estimated revenues for sewer rents of \$279,000, \$318,256, and \$248,395, respectively, resulting in sewer rents being overestimated by a combined total of \$216,450 over the last three fiscal years. These revenue shortfalls were offset, to a certain degree, by the overestimation of expenditures over the last three fiscal years.

The sewer fund's financial condition declined significantly during the 2010-11 fiscal year because the sewer rents that were generated during the fiscal year were approximately \$116,000 less than the recorded sewer rents for the 2009-10 fiscal year of \$302,216. The decrease in revenue occurred because the Village changed its billing cycle and adopted new sewer rates during the 2010-11 fiscal year when it changed from unmetered to metered usage. The last sewer bills<sup>11</sup> for unmetered usage were issued during the 2009-10 fiscal year on May 1, 2010, which were for sewer usage during the period March 1, 2010 through May 31, 2010. The first sewer bills<sup>12</sup> for metered usage were issued during September 15, 2010, which were for sewer usage during the period June 1, 2010 through August 31, 2010. Based on the change in billing cycles, the Village only billed for sewer usage for three quarters during the 2010-11 fiscal year (the months of September, December, and March), instead of the usual four quarters, resulting in the decline in sewer rents. Village officials stated that they did not take the change in billing cycles into consideration when preparing the 2010-11 sewer fund budget. In addition, sewer rents declined significantly during the 2010-11 fiscal year because when the Village changed from unmetered usage to metered usage the sewer rates were decreased by approximately 50 percent for both customers inside and outside<sup>13</sup> the Village that use only the minimum amount of water during a quarter, which is the basis on which sewer rents are billed.

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<sup>11</sup> The quarterly billing cycle for unmetered usage was August 1st, November 1st, February 1st, and May 1st.

<sup>12</sup> The quarterly billing cycle for metered usage is June 15th, September 15th, December 15th, and March 15th.

<sup>13</sup> The Village also provides sewer services to customers in the Towns of Ausable and Chesterfield.

The sewer fund's financial condition declined further during the 2011-12 fiscal year because the sewer rates did not generate sufficient revenues to cover the costs incurred, resulting in the sewer fund having a deficit fund balance of \$36,683 at the end of the 2011-12 fiscal year. However, we found that the sewer fund's financial condition did not decline further during the 2012-13 fiscal year because the Village received Federal and State aid totaling \$9,393 for damage incurred from Tropical Storm Irene and kept expenditures below historic levels. Nonetheless, the sewer fund remained in fiscal stress at the end of the 2012-13 fiscal year because the sewer fund had a deficit fund balance of \$35,029.

The Village's commingling of funds<sup>14</sup> also enabled the sewer fund to use available cash from the Village's other operating funds over the last three fiscal years without the Board's approval or the Clerk-Treasurer formally recording those advances. Instead of reporting that the sewer fund had no cash balance and establishing an interfund liability when making interfund advances, the Clerk-Treasurer allowed the sewer fund's cash account to be recorded as a negative balance without identifying the fund to which cash was owed. The sewer fund had negative cash balances at the end of the 2010-11, 2011-12, and 2012-13 fiscal years of (\$10,465), (\$37,951), and (\$37,096), respectively. Village officials' failure to maintain records that identify the funds that are advancing moneys to the sewer fund does not allow for the proper repayment of interfund advances with interest, and could result in taxpayer inequities between funds supported by different tax bases. In addition, the failure to request and obtain Board approval for interfund advances, as required by GML, has limited the Board's ability to monitor the Village's fiscal affairs.

We reviewed the Village's 2013-14 sewer fund budget to verify that budget estimates were reasonable based on historical data and supporting source documentation. We found that the budgeted revenues were reasonable because the Board has increased sewer rates that will be effective for three of the four quarterly billings during the 2013-14 fiscal year. We project that the sewer rate increases will generate additional revenues of at least \$39,000<sup>15</sup> during the 2013-14 fiscal year. However, we found that budgeted expenditures were unreasonable. Specifically, we project that the Village has underestimated sewer treatment and disposal contractual expenditures

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<sup>14</sup> The Village maintains a cash management bank account, which is a commingled bank account that is used for the financial transactions of the Village's general, sewer, and water funds.

<sup>15</sup> Our projection consisted of multiplying 745 (approximate number of sewer customers) by 3 (billing cycles with new sewer rates) by \$17.50 (minimum quarterly increase in sewer rates), resulting in a calculation of additional sewer rents of \$39,113 during the 2013-14 fiscal year.

by approximately \$40,000 because the Board only budgeted \$41,000 for these expenditures, although these expenditures have averaged \$81,484 over the last three completed fiscal years. Village officials could not justify the budgeted amount during our review. As a result, although the Board has increased sewer rates to improve the financial condition of the sewer fund, the underestimation of sewer treatment and disposal contractual expenditures may offset the additional revenues that are generated. Therefore, the sewer fund's financial condition may not improve during the 2013-14 fiscal year. Village officials should closely monitor the sewer fund's operations during the 2013-14 fiscal year and make any adjustments that are necessary to prevent a further decline in the sewer fund's financial condition.

Water Fund – The water fund's total fund balance has been overstated during each of the last three fiscal years (2010-11 to 2012-13) because of accounting errors. For example:

- The water fund's total fund balance was overstated by \$4,756 at the end of the 2010-11 fiscal year because of an overstatement of water rents receivable of \$13,514 and an understatement of accounts receivable of \$8,758.
- The water fund's total fund balance was overstated by \$48,872 at the end of the 2011-12 fiscal year because the water rents receivable balance was overstated by \$27,941; the accounts receivable balance was understated by \$4,819; expenditures were overstated by \$20,000, resulting in a corresponding understatement of an interfund receivable balance of \$20,000; and expenditures were understated by \$45,750, resulting in a corresponding overstatement of the cash balance of \$45,750. The combination of errors with the recording of expenditures resulted in a net understatement of \$25,750 of expenditures for 2011-12. The overstatement of expenditures resulted because the Clerk-Treasurer incorrectly accounted for \$20,000 of interfund advances that were made to the general fund. The understatement of expenditures resulted because the Clerk-Treasurer incorrectly recorded debt service expenditures totaling \$45,750 in the sewer fund, although these payments were for a serial bond that was issued for water system improvements, and therefore should have been recorded in the water fund.
- The water fund's total fund balance was overstated by \$78,132 at the end of the 2012-13 fiscal year because of the overstatement of cash of \$45,750 at the end of the 2011-12 fiscal year that was carried forward to the 2012-13 fiscal year, an overstatement of water rents receivable of \$36,506,



and an understatement of accounts receivable of \$4,124. We also determined that revenues were overstated by \$20,000 during the 2012-13 fiscal year because the Clerk-Treasurer incorrectly accounted for \$20,000 of interfund advances that were repaid to the water fund during the 2012-13 fiscal year.

The following table illustrates the fund balance recording discrepancies for the water fund over the last three fiscal years.

<b>Table 3: Water Fund – Fund Balance - Recording Discrepancies</b>			
<b>Village Recorded</b>			
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Beginning Fund Balance	\$56,683	\$34,674 <sup>a</sup>	\$90,870 <sup>a</sup>
Operating Surplus/(Deficit)	(\$22,008)	\$55,746	\$66,535
<b>Ending Fund Balance</b>	<b>\$34,675</b>	<b>\$90,420</b>	<b>\$157,405</b>
<b>Office of the State Comptroller Recalculation</b>			
	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>
Beginning Fund Balance	\$56,683	\$29,919	\$41,548
Operating Surplus/(Deficit) <sup>b</sup>	(\$22,008)	\$29,996	\$46,535
Adjustments For Misstated Balance Sheet Accounts <sup>c</sup>	(\$4,756)	(\$18,367)	(\$8,810)
<b>Ending Fund Balance</b>	<b>\$29,919</b>	<b>\$41,548</b>	<b>\$79,273</b>
<b>Variance Between Village Recorded and OSC Recalculation</b>			
<b>Over / (Under) Statement of Ending Fund Balance</b>	<b>\$4,756</b>	<b>\$48,872</b>	<b>\$78,132</b>

<sup>a</sup> Differences between the beginning and prior year ending fund balances are due to prior year adjustments.  
<sup>b</sup> The balances include adjustments that were made for accounting errors that we identified.  
<sup>c</sup> These adjustments reflect the misstatement of the water rents receivable and accounts receivable accounts from year-to-year and also reflect the Village's prior period adjustments to fund balance as noted in footnote a.

The water fund's financial condition declined during the 2010-11 fiscal year because the water rents generated were approximately \$93,000 less than the recorded water rents for the 2009-10 fiscal year of \$426,533. Similar to the change in sewer billing cycles, the Village also billed for water usage for only three quarters during the 2010-11 fiscal year, instead of the usual four quarters, resulting in the decline in water rents. In addition, water rents declined during the 2010-11 fiscal year because when the Village changed from unmetered to metered usage, water rates decreased by approximately 25 percent for both customers inside and outside the Village that use only the minimum amount of water during a quarter.

The water fund's financial condition improved during the 2011-12 fiscal year even though the Board did not adopt a realistic budget. Specifically, we found that the Board budgeted debt service expenditures totaling \$45,750 in the sewer fund, although these debt



service expenditures were related to a serial bond that was issued for water system improvements, and therefore should have been budgeted in the water fund. This significant underestimation of expenditures was offset by a significant underestimation of revenues in the adopted budget, and therefore the water fund's financial condition improved during the 2011-12 fiscal year. The water fund's financial condition improved further during the 2012-13 fiscal year because the Board adopted a financially conservative budget resulting in the water fund's total fund balance increasing from a balance of \$41,548 at the end of the 2011-12 fiscal year to a healthy balance of \$79,273<sup>16</sup> at the end of the 2012-13 fiscal year. We also reviewed the Village's 2013-14 water fund budget to verify that budget estimates were reasonable based on historical data and supporting source documentation. We found that the budgeted revenues and appropriations were reasonable. As a result, barring any unforeseen circumstances, the water fund's financial condition should remain healthy during the 2013-14 fiscal year.

Overall, the Board's budgeting practices and lack of monitoring significantly contributed to the Village's declining fiscal health during our audit period. It is important that the Board adopt realistic budgets and monitor the actual results and budgeted estimates of each fund regularly throughout the year. This will allow the Board to identify potential problems and take needed corrective action in a timely manner. The failure to do so could lead to a deterioration of the Village's financial condition.

## **Long-Term Planning**

An important oversight responsibility of the Board is to plan for the future by setting adequate long-term priorities and goals. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows Village officials to identify developing revenue and expenditure trends and set long-term priorities and goals. Any long-term financial and capital plans should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop and adopt comprehensive, multiyear financial and capital plans, even though a similar finding appeared in our previous audit report issued in March 2009 (2008M-260). Had such plans been adopted the Board would have had a valuable resource that would have allowed them to make more informed financial decisions, which may have prevented the Village's declining fiscal health during our audit period. Nonetheless, the development and

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<sup>16</sup> The water fund's total fund balance at the end of the 2012-13 fiscal year represented approximately 18 percent of the 2013-14 general fund budgeted appropriations of \$448,000.

adoption of multiyear plans would be a useful tool for the Board to identify recurring sources of revenue sufficient to finance anticipated recurring expenditures to maintain a reasonable level of fund balance at year end. The failure of the Board to develop such plans may lead to the depletion of the Village's fund balance and undesirable constraints on the Village's financial flexibility in future years.

## **Recommendations**

1. The Board should ensure that the Village's accounting records for the operating funds are complete and accurate.
2. The Board and Clerk-Treasurer should ensure that the accounting records are properly adjusted to reflect correct account balances.
3. The Board and Village officials should develop and adopt budgets that include realistic estimates for revenues and expenditures based on historical data and supporting source documentation.
4. The Board should review the sewer and water rates periodically and revise them, if necessary, to generate sufficient revenue to cover expenditures.
5. The Board should authorize all interfund advances and should ensure that they are properly recorded in the accounting records. In addition, the Board should develop a plan to ensure that all outstanding interfund advances are repaid, including appropriate interest.
6. The Board should develop and adopt comprehensive, multiyear financial and capital plans, to provide a framework for preparing future budgets and managing the financing of future capital needs. The Board and Village officials should frequently monitor and update the plans to ensure that its decisions are based on the most accurate and up-to-date financial information.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

# VILLAGE OF KEESEVILLE

58 Liberty Street  
Keeseville, New York 12944  
Telephone: (518) 834-9059  
Fax: (518) 834-9050

Dale B. Holderman  
Mayor

Lynn A. Hathaway  
Clerk-Treasurer

## Trustees

John Casey  
Mary E. King  
Robin E. Bezio  
Kathleen A. Davis-Klages

September 10, 2013

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

Dear Mr. Leonard:

The Board of Trustees and I would like to thank the examiners for their time and effort in auditing our records and performance for the last three years.

We concur with many of the findings and results of the audit however some of the areas identified that the Clerk-Treasurer either made errors in accounting or did not record some transactions properly. The Clerk-Treasurer was directed to make most if not all of those by the former Administration and in fact, notes were made in the records to that effect. The examiner worked with the Clerk-Treasurer to correct the entries moving forward.

We, as a Board, have worked hard to restore the financial health of the Village and develop a realistic budget as noted in your report. We are pleased that this was recognized by your office.

This response will serve as our corrective action plan. We have implemented corrective action at the completion of the audit. The only exception to this would be item #6. We are currently in the process of possibly dissolving the Village and a 3 or 5 year plan is a moot point at the current time. Should circumstances change we will endeavor to develop such a plan.

Once again, thank you for the professional guidance that your examiners shared.

Sincerely,

Dale B. Holderman, Mayor  
Village of Keeseville

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the Village's financial condition and adequacy of the internal controls put in place by Village officials to safeguard Village assets and monitor financial activities. To accomplish this, we performed an initial assessment of the Village's financial condition and 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 of transactions, and reviewed pertinent documents such as Village policies, 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 for further review.

To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed the Mayor, Trustees, and the Clerk-Treasurer to gain an understanding of the Village's financial management policies and procedures. This included inquiries about the Village's budgeting practices, the preparation of multiyear financial and capital plans, and the development of plans to maintain the Village's fiscal stability.
- We reviewed the Village's accounting records for the general fund, sewer fund, and water fund for fiscal years 2010-11 through 2012-13 to ensure that they were complete and accurate. Specifically, we reviewed balance sheet accounts to verify that they were properly recorded and supported, and revenues and expenditures to verify that they were supported and recorded in the proper fund. Based on the accounting errors that we identified, we recalculated the general, sewer, and water funds' total fund balances at the end of the 2010-11, 2011-12, and 2012-13 fiscal years.
- We compared the adopted budgets for the general fund, sewer fund, and water fund for fiscal years 2010-11 through 2012-13 with the actual results of operations to determine if the budgets were realistic.
- We analyzed the Village's financial records for the general fund, sewer fund, and water fund for fiscal years 2010-11 through 2012-13 to determine if the financial condition of the general fund, sewer fund, and/or water fund had declined. We also evaluated any factors contributing to any declines.
- We reviewed the Village's accounting records and bank statements during our audit period to determine all of the interfund advances that were made. We then reviewed the interfund advances to determine if they were approved by the Board, were properly recorded in the accounting records, and were repaid.

- We reviewed the adopted budget for the general fund, sewer fund, and water fund for fiscal year 2013-14 to determine if the budgeted revenues and appropriations were reasonable based on historical data and supporting source 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 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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**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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