

# Village of Monticello

## Financial Condition

DECEMBER 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Village of Monticello

### Audit Objective

Determine whether the Village of Monticello (Village) Board of Trustees (Board) properly managed financial condition.

### Key Findings

The Board did not adequately manage the Village's financial condition. As a result, the Village is fiscally stressed.

- The Village's total fund balance will likely be fully depleted at the end of the 2019-20 fiscal year.
- The Village has exhausted nearly 100 percent of its constitutional tax limit.
- The Village has significant infrastructure needs that it lacks the funds to address.

### Key Recommendations

The Board should:

- Create a plan to address the declining fund balance and financial condition.
- Monitor the Village's constitutional tax limit to ensure real property tax levies do not exceed it.
- Develop and adopt a multiyear capital plan that provides sufficient resources for necessary capital improvements.

Village officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

### Subsequent Event

Our audit fieldwork was completed prior to the COVID-19 pandemic (pandemic). The Village's 2020 projections and our audit work do not factor in the pandemic's financial effects.

### Background

The Village is located in the Town of Thompson in Sullivan County. The Village provides various services, including police protection, road maintenance and snow removal, and general government support.

The Village is governed by the Board, which is comprised of an elected Mayor and four elected Trustees. The Trustees, along with the Mayor, are responsible for the overall management and oversight of Village operations, including its financial condition. The Treasurer is the custodian of all Village money and is responsible for maintaining the Village's accounting records.

#### Quick Facts

2019-20 General Fund Budgeted Appropriations	\$8.1 million
# of Employees	72
Population	6,726

### Audit Period

August 1, 2018 – July 31, 2019

We extended our audit scope period to August 1, 2016 for financial comparisons and to May 14, 2020 to review constitutional tax limit filings.

# Financial Condition

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## How Does the Board Effectively Manage Financial Condition?

Financial condition may be defined as a village's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A key measure of a village's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. While fund balance can be used to finance operations, continually financing operating deficits with fund balance can negatively affect financial condition and cause fiscal stress and cash flow problems.

Sound fund balance management includes creating multiyear financial and capital plans. Planning on a multiyear basis allows officials to identify developing revenue and expenditure trends, set long-term priorities and goals and consider the impact of current budgeting decisions on future years. It also allows officials to assess the impact and merits of alternative approaches to address financial issues, such as the use of fund balance to finance operations. The board must monitor and update long-term financial plans on an ongoing basis to ensure that its decisions are guided by the most accurate information available.

New York State's constitutional tax limit (CTL) restricts the amounts municipalities may raise by taxing real estate in any fiscal year. This is to prevent excessive municipal taxation that might be caused by either economic pressures or abuse of the real property tax system.

## The Board's Poor Budgeting Practices Resulted in the Village's Fiscal Stress

Village officials did not effectively manage the Village's general fund financial condition. Over the past several years, Village officials incurred planned deficits totaling \$1.6 million, reducing total fund balance from \$1.5 million at the end of 2016 to approximately \$17,600 at the end of 2019.<sup>1</sup> Village officials knowingly appropriated \$863,700 of fund balance for the 2019-20 budget, or approximately \$846,100 more than the amount we estimate was available for appropriation. As a result, we estimate the Village's total fund balance will be fully depleted at the end of the 2019-20<sup>2</sup> fiscal year, totaling a deficit of about \$861,400 (Figure 1).

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...[T]he Village's total fund balance will be fully depleted at the end of the 2019-20 fiscal year.

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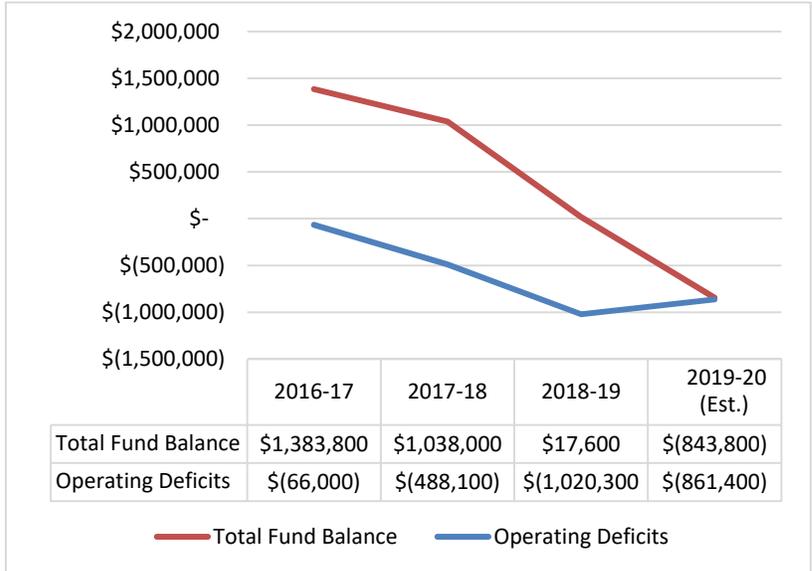
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1 At the time of our audit field work, the Treasurer had not closed the accounting records for fiscal year ending June 30, 2019. As a result, we projected the level of fund balance at the end of the fiscal year using the Treasurer's budget-to-actual report of revenues and expenditures after testing significant revenues and expenditures for completeness.

2 We based our projection on the Treasurer's budget-to-actual report of revenues and expenditures as of May 31, 2020 and a fraction of the average of the past three years' revenues and expenditures for June and July.

**FIGURE 1**

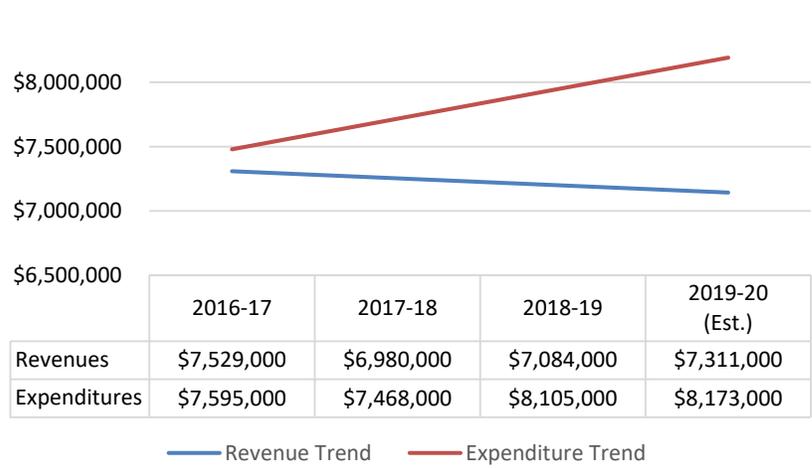
**Operating Deficits and Total Fund Balance**



While the Board’s revenue and appropriation estimates were reasonable, the Board adopted structurally unbalanced budgets and relied on fund balance to finance recurring expenditures. From fiscal years 2016-17 through 2019-20, the Village experienced fluctuations in revenues from an increase of 7 percent to a decrease of 7 percent over previous years. The decreases in revenues were primarily due to reductions in property taxes, sales of tax-acquired properties and interfund transfers. At the same time, expenditures increased overall (Figure 2).

**FIGURE 2**

**Expenditures and Revenues Trend**



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Salaries and benefits, which account for more than 80 percent of the general fund's budget, were mainly responsible for the expenditure increases. From fiscal years 2016-17 through 2018-19, salaries and benefits increased over 5 percent per year, primarily driven by the police department's payroll and benefits, which make up over 50 percent of the total general fund's salaries and benefits.

All Board members stated that they were aware of the Village's declining fund balance and that they adopted budgets that appropriated more money than available. However, we question the extent to which the Board was aware of the Village's dire financial position due to the lack of up-to-date, accurate records and reports available, as discussed in a separately released OSC audit report.<sup>3</sup> The Village Treasurer stated that he presented the Board with a budget that appropriated more fund balance than available in order to balance the budget. The Treasurer also stated that they tried to reduce expenditures in all areas of the general fund budget. However, payroll and employee benefits, which make up the majority of general fund expenditures, are negotiated and cannot be reduced.

### **The Village Has Significant Building Maintenance Needs**

We reviewed five building inspection reports for Village-owned buildings<sup>4</sup> to determine general building conditions. Four of the five buildings failed inspections and the reports noted multiple structural and safety deficiencies. One report is pending, but it also noted structural and safety deficiencies. The most significant, and potentially more costly deficiencies, as seen in Figure 3, were noted for the Village Hall<sup>5</sup> as follows:

- The highway garage had concrete falling from the ceiling.
- A jail cell wall in the police department had a crack extending from the floor to the ceiling allowing the outside to be seen.
- The Village Hall fire escape was deteriorated and unusable.
- The Village Hall had loose bricks in the foundation and serious roof issues.

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Four of the  
five buildings  
failed  
inspections...

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3 *Village of Monticello – Records and Reports (2020M-104)*

4 Our review was limited to those buildings maintained through general fund expenditures.

5 The Village Hall is occupied by the administrative offices and the police and highway departments.

**FIGURE 3**

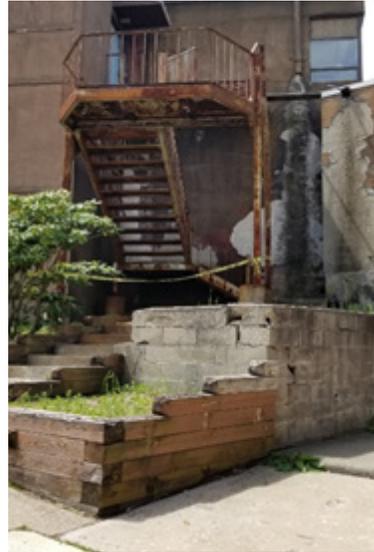
**Deteriorating Conditions at the Village Hall – May 2020**



**Ceiling Debris in the Highway Garage**



**Jail Cell Wall Crack**



**Unusable Fire Escape**

Village officials were aware of the findings in the inspection reports, but they do not have plans to address the deficiencies, and they have not sought quotes for the necessary repairs. Village officials did not reserve funds and the Treasurer told us that the Village does not have other money available to fund the necessary repairs and will have to borrow money from other funds. Furthermore, the Board has not developed any long-term multiyear financial and capital plans to address future infrastructure needs.

To address some of the significant building maintenance issues, officials said they are trying to convert a \$50,000 grant received for heating and ventilation work so it may be applied toward fixing the Village Hall roof. They are also seeking a \$225,000 grant to perform needed work on the Village’s community center.

Without significantly decreasing expenditures or increasing revenues, there is a risk that the Village will be unable to provide services to its taxpayers. The risk is even greater because the Village has exhausted nearly 100 percent of its CTL and may not be able to increase its real property tax levy without risking a loss of State aid. Furthermore, without having any long-term multiyear financial and capital plans, the Board is limited in its ability to address any current or future

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infrastructure needs. During the course of our fieldwork, we provided officials with fiscal stress guidance available in our publications *Trouble Ahead: Managing Your Budget In Times of Fiscal Stress*,<sup>6</sup> *Multiyear Financial Planning*,<sup>7</sup> and *Multiyear Capital Planning*.<sup>8</sup>

Our fieldwork was completed in March 2020, prior to the start of the pandemic. Given the negative financial effect of the pandemic, it is even more important for Village officials to develop and monitor appropriate annual budgets and begin multiyear financial and capital planning.

### **What Do We Recommend?**

Because the Village is now at the point where it has depleted its fund balance, the Board and Village officials should:

1. Take appropriate steps to restore and maintain the Village's financial stability. These actions can include:
  - a. Adopting a multiyear financial plan;
  - b. Closely monitoring the level of fund balance, once it has been restored; and
  - c. Reducing future reliance on fund balance as a financing source, while continuing to evaluate and explore ways to reduce expenditures and increase revenues.
2. Develop and adopt a multiyear capital plan that provides sufficient resources for necessary infrastructure improvements.
3. Monitor the constitutional tax limit to ensure real property taxes do not exceed it, which could result in the Village losing State aid.

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6 <https://www.osc.state.ny.us/localgov/pubs/lmgm/managingbudget.pdf>

7 <https://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/multiyear.pdf>

8 [https://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/capital\\_planning.pdf](https://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/capital_planning.pdf)

# Appendix A: Response From Village Officials

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## VILLAGE OF MONTICELLO



October 22, 2020

Office of New York State Comptroller  
Division of Local Government and School Accountability  
110 State Street 12th Floor  
Albany, New York 12236

Re: 2020M -107

The Board of Trustees of the Village of Monticello has reviewed the Audit -Financial Condition draft report and has agreed that what has been presented is factual. While some factors that have led the village to this financial point have been out of the control of the Board of Trustees, all members agree that as we make our climb back to solvency, the recommendations will be a good tool in maintaining proper fiscal health and oversight .

Sincerely,

George Nickolados, Mayor/Manger  
Village of Monticello, Monticello, NY

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## Appendix B: Audit Methodology and Standards

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We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials to gain an understanding of the Village's financial condition and to determine whether processes were in place for fiscal monitoring, budgeting, managing fund balance and providing financial oversight.
- We reviewed the Village's accounting records for the general fund to assess whether they were accurate by determining whether balance sheet accounts as of July 31, 2018 (significant current assets and liabilities) were properly recorded, supported and currently collectible in accordance with the modified accrual basis of accounting. We also reviewed bank reconciliations from August 31, 2017 through July 31, 2019 to determine whether they were complete, accurate and timely.
- We analyzed changes in fund balance within the general fund as a result of operations for fiscal year-end 2015-16 through fiscal year-end 2017-18 and projected 2018-19 and 2019-20 fiscal year-ends.
- We analyzed general fund actual revenue and expenditure trends for fiscal year-end 2015-16 through fiscal year-end 2017-18 and projected 2018-19 and 2019-20 fiscal year-end general fund revenue and expenditures. We used historical trends and other pertinent information provided by the Village to determine the operational deficits and impacts on the general fund's fund balance.
- We analyzed general fund expenditure trends for 2016-17 fiscal year-end to 2017-18 fiscal year-end and projected fiscal year-end 2018-19 to determine the majority of general fund expenditures.
- We observed the Village Hall's condition and reviewed building inspection reports related to Village-owned property to determine current and future infrastructure needs.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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

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the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 the CAP available for public review in the Village Clerk's office.

## Appendix C: Resources and Services

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### **Regional Office Directory**

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional\\_directory.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf)

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263196&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All)

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

[www.osc.state.ny.us/local-government/fiscal-monitoring](http://www.osc.state.ny.us/local-government/fiscal-monitoring)

### **Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263206&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All)

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

[www.osc.state.ny.us/local-government/resources/planning-resources](http://www.osc.state.ny.us/local-government/resources/planning-resources)

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

[www.osc.state.ny.us/local-government/required-reporting](http://www.osc.state.ny.us/local-government/required-reporting)

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

[www.osc.state.ny.us/local-government/publications?title=&body\\_value=&field\\_topics\\_target\\_id=263211&issued=All](http://www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All)

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

[www.osc.state.ny.us/local-government/academy](http://www.osc.state.ny.us/local-government/academy)

## Contact

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[www.osc.state.ny.us/local-government](http://www.osc.state.ny.us/local-government)

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