



Village of Nichols Financial Condition

Report of Examination

Period Covered:

June 1, 2011 — February 1, 2013

2013M-50



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
FINANCIAL CONDITION	5
Recommendations	6
APPENDIX A Response From Local Officials	7
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Village of Nichols, 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.

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

Introduction

Background

The Village of Nichols (Village) is located in the Town of Nichols in Tioga County. The Village has approximately 500 residents and provides minimal services, including parks maintenance and general government support. The Village's annual budget for the 2012-13 fiscal year is \$101,711, which is funded mainly from real property taxes, State aid, and non-property tax distributions.

The Village is governed by a Board of Trustees (Board) which comprises five elected members including the Mayor. The Board is responsible for the overall management and control of the Village's finances and operations. The Mayor serves as the Village's chief executive officer, and the Treasurer is the chief fiscal officer and, as such, is responsible for performing virtually all of the Village's financial duties.

Objective

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

- Did the Board take appropriate action to maintain the Village's financial stability?

Scope and Methodology

We examined the financial condition of the Village for the period June 1, 2011, to February 1, 2013. To analyze the Village's historical financial condition, we extended our audit scope back to the 2007-08 fiscal year.

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.

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 Condition

It is the responsibility of the Board and Village officials to promote fiscal stability by adopting realistic budgets, routinely monitoring financial operations, and taking appropriate action to minimize the effect of unforeseen expenditures. The Board should closely monitor the progress of actual revenues and expenditures throughout the year, identify any variances that might cause the Village to end the year with a significant surplus or deficit, and make budget modifications throughout the year. Villages are authorized to include an amount in their budget, known as a contingency appropriation, for unforeseen circumstances. A maximum of 10 percent of the total other appropriations, excluding debt service and judgments, can be budgeted in this contingency appropriation.

We found that from 2007-08 to 2011-12, the Village had unforeseen expenditures of \$89,500 for increased water costs and major flood damage. Because the Village has a very small tax base,¹ and the Board did not include contingency appropriations in its budgets, the Board had no mechanism to react to unforeseen expenditures of this magnitude other than to hope that it might obtain a revenue source, such as Federal or State aid, if there was an emergency.

The Village was able to avoid fiscal instability because it received unanticipated revenues in four of those five years totaling \$120,530, of which \$50,064 was Federal and State aid for the reimbursement of emergency disaster work due to the flooding. Other unanticipated revenues included park fees, permits, commissions, sales tax, State aid, gifts and donations, and interest and penalties for real property taxes. Table 1 illustrates the Village's budget-vs.-actual results of operations during the past five years.

¹The Village ranked 484 out of 531 villages reporting for the 2012 fiscal year. The ranking is based on annual financial reports that villages file with the Office of the State Comptroller.

Table 1: Budget Vs. Actual and Results of Operations						
Fiscal Year	2007-08	2008-09	2009-10	2010-11	2011-12	Total
Budgeted revenues	\$80,066	\$88,931	\$93,583	\$99,673	\$95,855	\$458,108
Actual revenues	\$103,506	\$118,488	\$110,011	\$97,772	\$148,861	\$578,638
Variance	\$23,440	\$29,557	\$16,428	(\$1,901)	\$53,006	\$120,530
Budgeted appropriations	\$84,066	\$92,931	\$103,572	\$102,587	\$95,855	\$479,011
Actual expenditures	\$101,881	\$124,019	\$104,614	\$115,540	\$111,015	\$557,069
Variance	(\$17,815)	(\$31,088)	(\$1,042)	(\$12,953)	(\$15,160)	(\$78,058)
Operating surplus/(deficit)	\$1,625	(\$5,531)	\$5,397	(\$17,768)	\$37,846	\$21,569
Operating surplus/(deficit) as a percent of expenditures	2%	-4%	5%	-15%	34%	4%

Furthermore, the Board had a poor budget development process. We found that the Mayor began the budget with the real property tax levy (the assessed value and the tax rate) and then calculated backward to determine individual revenue and expenditure line items. Although the Treasurer presented the Board with monthly reports showing detailed budget-to-actual revenues and expenditures, budget modifications between lines items were made only at year end.

Recommendations

1. The Board and Mayor should develop realistic budgets, closely monitor revenues and expenditures, and make budget modifications throughout the year.
2. The Board should consider including a contingency appropriation in its annual budgets.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF NICHOLS

POST OFFICE BOX # 142

NICHOLS, NEW YORK 13812 - 0142

MAYOR - LESLEY L. PELOTTE
(607) 699 - 3947

CLERK - ROSE COLE
(607) 760 - 8746

May 17, 2013

Office of the State Comptroller
Division of Local Government & School Accountability
PSU - CAP Subdivision
110 State Street, 12th Floor
Albany, NY 12236

Dear Sirs,

As Mayor of the Village of Nichols New York I am responding to the audit conducted in March of 2013.

Please accept this as our response letter and Corrective Action Plan. Our response concerning the findings in the draft report is that we understand the premise of good accounting practices and the need for a contingency appropriation line item in our budget. We agree that these actions should be adopted.

The Village of Nichols will, when developing future budgets list our budget items / cost in a manner that reflects accepted accounting practices.

The village will periodically throughout each fiscal year make budget modifications to more closely reflect our revenues and expenditures.

The village will also add a contingency appropriation line to our budget.

The Village would like to thank the auditors for their explanations of the audit recommendations and insight in developing a budget that better reflects the financial picture of our Village.

Respectfully

Lesley L. Pelotte

Mayor, Nichols N.Y.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

During this audit, we examined the Village's records and reports for the period June 1, 2011, to February 1, 2013. To analyze the Village's historical financial condition, we extended our audit back to the 2007-08 fiscal year. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed Village officials to gain an understanding of their budget process, including their determination of fund balance that was available for appropriation and their procedures for monitoring and controlling the budget.
- We calculated the results of operations over the last five years and for the current fiscal year by comparing actual revenues to actual expenditures and taking into account appropriated fund balance where applicable.
- We reviewed the 2011-12 and 2012-13 detailed budgeted-to-actual expenditures. We reviewed the five largest variances for each year to determine if they were known expenditures.
- We reviewed the last five years' budgeted appropriations and compared them to actual expenditures to determine if the budgets were reasonable.
- For 2012-13, we projected the operations and ending fund balance through the end of the fiscal year.
- We evaluated the amount of fund balance appropriated as a financing source and determined if that amount was available and sufficient for appropriation.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

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

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

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

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

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

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

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

BUFFALO REGIONAL OFFICE

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

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

GLENS FALLS REGIONAL OFFICE

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

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

HAUPPAUGE REGIONAL OFFICE

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

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

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

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

ROCHESTER REGIONAL OFFICE

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

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

SYRACUSE REGIONAL OFFICE

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

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

STATEWIDE AUDITS

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