

OFFICE OF THE NEW YORK STATE COMPTROLLER



DIVISION OF LOCAL GOVERNMENT  
& SCHOOL ACCOUNTABILITY

# Village of Scottsville

## Budgeting Practices and Financial Condition

### Report of Examination

Period Covered:

June 1, 2013 — June 17, 2015

2015M-165



Thomas P. DiNapoli

## Table of Contents

	<b>Page</b>	
<b>AUTHORITY LETTER</b>	1	
<b>INTRODUCTION</b>	2	
Background	2	
Objective	2	
Scope and Methodology	2	
Comments of Local Officials and Corrective Action	3	
<b>BUDGETING PRACTICES AND FINANCIAL CONDITION</b>	4	
Recommendations	8	
<b>APPENDIX A</b>	Response From Local Officials	10
<b>APPENDIX B</b>	Audit Methodology and Standards	13
<b>APPENDIX C</b>	How to Obtain Additional Copies of the Report	14
<b>APPENDIX D</b>	Local Regional Office Listing	15

# State of New York

## Office of the State Comptroller

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### Division of Local Government and School Accountability

November 2015

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and 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 Scottsville, entitled Budgeting Practices and 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 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 Scottsville (Village) is located in Monroe County and serves approximately 2,000 residents. The Village Board (Board) is the legislative body responsible for managing Village operations, including establishing internal controls over financial operations and maintaining sound financial condition. The Village Mayor (Mayor) is a member of the Board and serves as the chief executive officer. The Mayor appoints all non-elective officers, subject to Board approval, including the Clerk and the Treasurer.

The Treasurer serves as chief fiscal officer (CFO) and is the budget officer and deputy clerk. As the Village's CFO, the Treasurer is responsible for, among other things, having custody of all Village moneys, maintaining the accounting records and providing financial reports to the Board. The Clerk serves as the tax collector and is responsible for receiving and depositing cash receipts. The Treasurer, who started in March 2014, left Village employment in July 2015 (replacement pending), and the current Clerk started in August 2013.

The Village's budgeted appropriations for the general and sewer funds for the 2015-16 fiscal year are approximately \$1.76 million, funded primarily with real property taxes, sales tax, ambulance charges and sewer charges. The Village provides services for its residents including street maintenance, snow removal, fire protection, ambulance service and general government support.

## Objective

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

- Did the Board adopt realistic budgets and adequately monitor the Village's financial operations to ensure fiscal stability?

## Scope and Methodology

We examined the Village's budgeting practices and financial condition from June 1, 2013 through June 17, 2015. We expanded the scope back to June 1, 2012 to review budgeting and financial trends. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 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.

## Budgeting Practices and Financial Condition

The Board is responsible for making sound financial decisions in the best interest of the Village and the taxpayers who fund its operations. In preparing the budget, the Board should develop realistic revenue and expenditure estimates, along with an accurate estimate of available fund balance at year end. Fund balance represents money accumulated from prior years that Village officials may retain as a financial cushion in the event of unforeseen financial circumstances (referred to as unassigned fund balance), legally reserve to finance future costs for a specified purpose (referred to as restricted fund balance)<sup>1</sup> or appropriate to help finance the next year's budget (referred to as appropriated fund balance).

The appropriation of fund balance should result in a planned operating deficit (expenditures exceeding revenues) and a reduction in fund balance. An unplanned operating deficit results from overexpending appropriations, not receiving budgeted revenues or both. Recurrent unplanned operating deficits are usually caused by unrealistic or improperly monitored budgets and could be indicative of further financial problems. Therefore, Village officials should adopt budgeting policies and procedures for preparing realistic budgets, monitoring budgets against operations during the year and managing fund balance at reasonable levels as determined and substantiated by the Board.

The Board can enhance its budgeting process by developing a multiyear financial plan which projects operating and capital needs and financing sources over a three- to five-year period and sets long-term priorities and goals. The Board should then use the long-term plan when developing its annual budgets to include ample appropriations and funding for planned capital expenditures and avoid large fluctuations in tax rates.

The Board and Village officials did not develop policies or procedures to govern budgeting practices or a comprehensive multiyear financial

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<sup>1</sup> Reserve funds provide a mechanism for saving money to finance all or part of future infrastructure, equipment and other requirements and can provide a degree of financial stability by reducing reliance on debt for capital expenditures. The Board should fund reserves at appropriate levels and use them as intended for planned expenditures, in accordance with Board approval, long-term plans and related statutes. The Board should give voters and residents an opportunity to review its plan for funding and using reserves by including provisions to add to, or make expenditures from, reserve funds in the proposed budget.

plan.<sup>2</sup> As a result, the Board did not adopt realistic annual budgets and did not receive sufficient financial information to effectively monitor the budget throughout the year. The Board approved unbudgeted expenditures during the year, rather than manage operations within the adopted budget. Furthermore, Village officials lacked guidance on maintaining reasonable levels of fund balance and reserves or identifying, prioritizing and strategically addressing current and future financial needs. This resulted in the Board being less able to identify revenue and expenditure trends and set long-term priorities and goals to avoid large fluctuations in financial condition and tax rates. Because of these ineffective budgeting practices, the Village's general fund had unplanned operating deficits totaling \$712,683 and a sharp decline (80 percent) in unassigned fund balance from \$377,000 on May 31, 2013 to \$76,000 as of May 31, 2014. (See Figure 1) Although the Village's operating results improved in 2014-15, the Board must improve its budgeting and long-term planning to maintain reasonable fund balances and a sound financial position.

We reviewed the Village's budgets and actual operating results for the last three fiscal years. In the 2012-13 and 2013-14 budgets, the Board underestimated both revenues and expenditures in the general fund by almost \$700,000 and \$1.4 million, respectively, for a total negative budget variance of approximately \$700,000. This resulted in the unplanned operating deficits that significantly reduced unassigned fund balance.

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<sup>2</sup> Although the public works, ambulance and fire departments each have vehicle and equipment replacement plans, these plans do not all include how the replacements will be funded and are not brought together in a comprehensive operational plan to help drive the annual budget process.

**Figure 1: General Fund Budget-to-Actual and Operating Results and Fund Balance**

	2012-13	2013-14	2014-15	Total
Estimated Revenues	\$1,211,823	\$1,209,463	\$1,337,476	<b>\$3,758,762</b>
Actual Revenues	\$1,442,528	\$1,674,953	\$1,337,469	<b>\$4,454,950</b>
Variance	\$230,705	\$465,490	(\$7)	<b>\$696,188</b>
Variance Percent	19%	39%	0%	<b>19%</b>
Appropriations	\$1,144,423	\$1,171,463	\$1,406,998	<b>\$3,722,884</b>
Actual Expenditures	\$1,528,749	\$2,196,015	\$1,397,290	<b>\$5,122,054</b>
Variance	(\$384,326)	(\$1,024,552)	\$9,708	<b>(\$1,399,170)</b>
Variance Percent	-34%	-88%	.7%	<b>-38%</b>
<b>Total Budget Variance</b>	<b>(\$153,621)</b>	<b>(\$559,062)</b>	<b>\$9,715</b>	<b>(\$702,948)</b>
Operating Surplus/(Deficit)	(\$86,221)	(\$521,062)	(\$59,821)	<b>(\$667,104)</b>
Budgeted Funding of Reserves	\$95,400	\$93,000	\$139,000	<b>\$327,400</b>
Appropriated Reserves	\$0	\$0	\$151,367	<b>\$151,367</b>
Appropriated Fund Balance	\$28,000	\$55,000	\$57,155	<b>\$140,155</b>
<b>Unplanned Deficit</b>	<b>(\$153,621)</b>	<b>(\$559,062)</b>	<b>N/A</b>	<b>\$712,683</b>
Total Fund Balance	\$1,607,653	\$1,086,596	\$1,026,775	
Less Reserves	\$1,174,086	\$946,389	\$877,107	
Less Nonspendable	\$1,500	\$6,847	\$41,735	
Less Fund Balance Appropriated for Next Year's Budget	\$55,000	\$57,155	\$26,285	
<b>Unassigned Fund Balance</b>	<b>\$377,067</b>	<b>\$76,205</b>	<b>\$81,648</b>	
Percent of Next Year's Appropriations	32%	5%	6%	

The most significant expenditure variances included street maintenance, for which expenditures exceeded appropriations by \$332,346 in 2012-13 (224 percent) and \$501,457 in 2013-14 (270 percent). The largest total expenditure variance occurred in 2013-14 when the Board approved other large one-time expenditures that were not budgeted. For example, Treasurer Department expenditures exceeded appropriations by \$41,688 (127 percent) due mainly to the purchase of financial software, and Fire Department expenditures exceeded appropriations by \$381,384 (364 percent) due mainly to the purchase of a new fire truck.<sup>3</sup> The Board's decision to significantly overexpend its 2013-14 budget resulted in a negative budget variance of more than \$1 million, an operating deficit of more than \$500,000 and large reductions in both restricted and unrestricted fund balance.<sup>4</sup>

<sup>3</sup> These unbudgeted expenditures were funded through reserves and the (unbudgeted use of) unrestricted fund balance.

<sup>4</sup> The operating deficit was funded with \$227,697 from reserves and the remaining \$293,365 from unrestricted fund balance.

The Board more closely managed operations within its budget in 2014-15 and achieved a small positive expenditure variance of \$9,708.

The most significant revenue variances included sales tax revenue, which was underestimated by a total of \$93,169 (averaging 12 percent) for 2012-13 and 2013-14 and \$48,241 in CHIPS<sup>5</sup> revenue received in the two years, which was unbudgeted. In the 2014-15 budget, the Board appropriately increased sales tax estimates based on historic receipt amounts and started budgeting for CHIPS revenue.

Because of the negative expenditure variances, the Board was not able to fund reserves as it intended. The Board budgeted to increase funding in the reserves in each of the last three years by \$327,400. However, the operating results did not provide the funds to increase the reserves as planned. Instead, a portion of the taxes raised for funding reserves was used to cover unbudgeted expenditures. The total reserve fund balances declined by over \$600,000 during the last three years<sup>6</sup> despite budgetary plans to increase them by over \$300,000. The Board needs to adopt more realistic budgets, based on accurate historical accounting records, and monitor and maintain operations within its adopted budgets to effectively manage current and future operations.

The Board's ability to make more prudent budget decisions during the year was thwarted by the lack of suitable monthly financial reports. The previous Treasurer maintained accounting records manually and did not provide budget status reports<sup>7</sup> to the Board on a regular basis. The Board members told us that it was difficult to monitor the budget without up-to-date information, but they did occasionally ask the former Treasurer to prepare budget status reports. The Village started using financial software in December 2013, which allowed the new Treasurer to begin providing budget status reports to the Board, but she did not do so consistently or monthly. Because the Board did not receive regular budget status reports, expenditures consistently exceeded appropriations and most budget amendments were not made until year-end. The Treasurer had started providing budget status reports to the Board on about a quarterly basis.<sup>8</sup>

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<sup>5</sup> The consolidated Local Street and Highway Improvement Program (CHIPS) was established by the New York State Legislature in 1981 to fund local street and highway improvements.

<sup>6</sup> \$304,046 in 2012-13, \$227,697 in 2013-14 and \$69,282 in 2014-15

<sup>7</sup> Adequate monthly budget status reports should show revenues and expenditures for the year to date as compared to the budget as well as monthly receipts and disbursements.

<sup>8</sup> However, since the Treasurer left Village employment in July 2015 and has not yet been replaced, it is again possible that regular financial reports will not be available to the Board for some time.

The Board's budgeting practices improved somewhat for 2014-15. In that budget, the Board appropriately increased appropriations to be closer to actual expenditures and began budgeting for the use of reserve funds. This helped to limit the operating deficit to nearly the amount the Board planned (through appropriated fund balance). In addition, the use of reserves to fund budgeted expenditures enabled the Village to report a slightly increased unrestricted fund balance.<sup>9</sup> While the Village ended 2014-15 with over \$870,000 in reserves and 6 percent of its 2015-16 budget in unassigned fund balance, the previous years' operating results represent a poor trend that may lead to undesirable constraints on the Village's financial flexibility in future years if the Board does not better plan for its operating and capital needs annually and on a long-term basis.

The Board did not improve its budgeting practices for 2015-16. In this budget, the Board reduced appropriations from 2014-15 (despite having underestimated appropriations in 2012-13 and 2013-14) without taking any actions to reduce costs, increased revenue estimates and appropriated less fund balance. Although the Board adopted a fund balance policy<sup>10</sup> in March 2015 to maintain unrestricted fund balance at 10 to 20 percent of appropriations, the Board did not address this goal during the 2015-16 budget process and instead budgeted for an operating deficit<sup>11</sup> that would further reduce fund balance. As a result, expenditures may exceed appropriations and it is likely that the general fund will have another operating deficit. The Village faces additional challenges to build up fund balance because of the tax cap limit.

It is imperative that the Board improve its budgeting practices and adopt a comprehensive financial plan to ensure the Village maintains financial health in the future.

## Recommendations

The Board should:

1. Develop and adopt policies and procedures governing budgeting practices and a multiyear financial plan to use in conjunction with the adopted fund balance policy.
2. Develop a plan to accumulate and maintain a reasonable amount of unrestricted fund balance in the general fund in accordance with the recently adopted fund balance policy.

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<sup>9</sup> While reserved fund balance further decreased by \$69,282, despite the budgeted increased funding of \$139,000

<sup>10</sup> The policy requires the Board to develop a plan to improve the level of unrestricted fund balance if it is below 10 percent.

<sup>11</sup> The Board appropriated \$83,950 in reserves and \$26,285 in unrestricted fund balance, for a total planned operating deficit of \$110,235.

3. Develop and adopt budgets that include realistic estimates for revenues and expenditures.
4. Closely monitor financial activity throughout the year, compare actual revenues and expenditures to budgets and should address potential variances timely to prevent expenditures from exceeding appropriations and address any revenue shortfalls.

The Treasurer should:

5. Provide budget status reports to the Board each month showing revenues and expenditures for the year-to-date as compared to the budget, as well as monthly receipts and disbursements.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



**Mayor**  
Paul F. Gee

**Trustees**  
Leslie Wagar  
James Clark  
Richard Clark  
Ruth Thompson

**Village Clerk**  
Lee Mikewicz

**Deputy Clerk**  
**Treasurer**  
Katherine Moffe

22 Main Street • P.O. Box 36  
Scottsville, NY 14546

585-889-4700

November 8, 2015

Edward V. Grant, Jr., Chief Examiner  
Office of the State Comptroller  
The Powers Building  
16 West Main Street – Suite 522  
Rochester, NY 14614-1608

Dear Mr. Grant:

The Village of Scottsville received a copy of the draft audit report, "Budgeting and Board Oversight" on October 8, 2015. The Village Mayor and Village Trustees appreciate the detailed analysis that this report contains. We have reviewed and discussed the findings and recommendations of the report and will use it as a tool to reflect on best practices and make corrective action where considered appropriate or necessary.

The Village has already implemented and/or updated many of its policies as recommended by field representatives during the Comptroller's field work. The Village Board plans on adopting policies and procedures recommended for the Board, if possible. These include a multi-year financial plan, accumulating reasonable unrestricted fund balances, and realistic estimates in the budgets. You state: "The Village faces additional challenges to build up fund balances because of the tax cap limit". The difficulty with your recommendation is that the tax cap limitations make it difficult, if not impossible, to meet your recommended goals. The Village has already and continues to investigate opportunities to consolidate and/or coordinate activities with the county and with other local municipalities or non-profit organizations located in Monroe County. We have implemented monthly monitoring activities as recommended and we plan to implement all of your recommendations and have them completed in 2016.

We appreciate that your report reported on budgeting practices for sales taxes and CHIPS and at the same time reported that the budgeting practices had been changed to follow NYS recommended guidelines. However, we would point out that the prior budgeting practices did work for the large one-time expenditures for capital improvements you discussed in your report. Under the prior budget philosophy, sales taxes revenues were budgeted conservatively and when the Village determined that it had sufficient resources, it would authorize these capital expenditures or return any excess to taxpayers through appropriated fund balances in the following year. In addition, CHIPS revenues could not be budgeted until Village Trustees could determine that there were sufficient revenues for major road improvements.

A specific reference in your recommendations addresses the impact of capital expenditures for public works, ambulance and fire equipment. We are currently reviewing options for replacement of these assets or other alternatives.

As stated earlier, we appreciate your input and recommendations. We will implement them whenever and wherever possible.

~~Very~~ truly yours,

**Paul F. Gee**  
Mayor of Scottsville

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

The objective of this audit was to review the Village's budgeting practices and financial condition. To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Village officials to determine the controls and processes in place and gain an understanding of the Village's budget process and financial condition.
- We reviewed Board minutes, the fund balance policy and department equipment and vehicle replacement plans.
- We reviewed total annual revenues and expenditures to determine the operating deficits or surpluses for each fund and determined the impact of the deficit or surplus on fund balance.
- We analyzed fund balance and compared budgeted revenues and expenditures to actual operating results for 2012-13 through 2014-15.
- We reviewed budgets for 2012-13 through 2015-16 to determine if they were reasonable and structurally balanced. We reviewed the amounts appropriated from fund balance and reserves and the amounts budgeted to fund reserves.
- We reviewed individual line item budget-to-actual results for 2012-13 through 2014-15 and compared the results to the 2015-16 adopted budget.
- We reviewed preliminary budget-to-actual reports for 2014-15 and year-end financial reports submitted to the Office of the State Comptroler on July 31, 2015.

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

## **APPENDIX C**

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