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October 2019

Larry Woolbright, Mayor
Members of the Board of Trustees
Village of Ballston Spa
66 Front Street
Ballston Spa, NY 12020

Report Number: 2017M-256-F

Dear Mayor Woolbright and Members of the Board of Trustees:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. The Office also works to develop and promote short-term and long-term strategies to enable and encourage village officials to reduce costs, improve service delivery and account for and protect their village's assets. In accordance with these objectives, we conducted an audit of the Village of Ballston Spa (Village) to assess the Village's financial condition. As a result of our audit, we issued a report, dated October 2018, identifying certain conditions and opportunities for Village management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the Village in August 2019 to review progress in implementing our recommendations. Our follow-up review was confined to interviews with Village personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, it appears that the Village has made modest progress implementing corrective action. Of the 13 audit recommendations, two recommendations were implemented, seven recommendations were partially implemented and four recommendations were not implemented.

Recommendation 1 – Treasurer's Records

The Treasurer should maintain adequate and timely accounting records on the modified accrual basis of accounting, including a general ledger that reflects accurate cash, payable and receivable balances.

Status of Corrective Action: Partially Implemented

Observations/Findings: The former Treasurer resigned from his position in September 2018 and the Board engaged an accounting firm (Firm) in February 2019 to assist with establishing correct

cash balances and hired a new Treasurer in April 2019.¹ Although the Treasurer is maintaining timely accounting records on the modified accrual basis of accounting for revenues and expenditures, the cash and receivable balances continue to be inaccurate because the Firm is still establishing correct balances. Additionally, we found errors in the revenue and expenditure records.

We traced the 2019-20 property tax warrant to revenue reports and found general fund property taxes were overstated by \$125,874 and library fund property taxes were understated by \$123,002. We also reviewed debt service payments made in July 2019 and found that the Treasurer recorded general fund debt service interest expenditures totaling \$13,278, which was \$575 more than the actual general fund debt service interest payments, while the Treasurer did not record sewer fund debt service interest expenditures of \$575. Finally, we selected the general fund cash account and general fund taxes receivable and found that the balance sheet inaccurately shows a deficit cash balance of \$8.6 million and a deficit taxes receivable balance of approximately \$10 million. These balances continue to be reflective of prior years' accounting issues, because the previous Treasurer had not closed the accounting records for the fiscal years ending May 31, 2015 to May 31, 2018 and the Firm has not completed its work to establish correct balances. The Treasurer was aware of the cash and taxes receivable inaccuracies but was waiting on the Firm to provide the necessary adjustments.

Recommendation 2 – Treasurer's Training

The Treasurer should attend training for governmental accounting and recordkeeping.

Status of Corrective Action: Fully Implemented

Observations/Findings: This recommendation was directly related to the individual who held the Treasurer's position at the time the report was released. Although the current Treasurer does not have a background in governmental accounting and recordkeeping, she has experience with accounting for non-profit organizations. Additionally, she has attended the advanced accounting school presented by the Office of the State Comptroller (OSC) in October 2019 along with the Deputy Treasurer, who also attended the New York State Conference of Mayors' fall training in September 2019.

Recommendation 3 – Treasurer's Reporting to OSC

The Treasurer should file accurate and timely reports with OSC.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Firm was engaged to provide two phases of services. First, to establish correct cash balances and record and implement a process for 2019-20 to operate accurately in the accounting software with those balances. Second, to assemble records to establish financial reports for fiscal years ended May 31, 2015 through May 31, 2018, and prepare and file the annual update document (AUD), which is the annual financial report, for each year respectively.

¹ The Board appointed an interim Treasurer in January 2019 to serve until the position was filled.

As of August 2019, the Firm was still working on the first phase and the Treasurer had requested an extension for filing the AUD for the fiscal year ending May 31, 2019 with OSC, which requires the Treasurer to file the AUD by then end of September 2019. As of September 30, 2019, the AUD for the fiscal year ending May 31, 2019 has not been filed with our office.²

Recommendation 4 – Treasurer’s Reporting to the Board

The Treasurer should provide accurate and timely budget-to-actual comparisons for revenues and expenditures as well as general ledger account balances to the Board each month.

Status of Corrective Action: Not Implemented

Observations/Findings: Although the Treasurer or Deputy Treasurer attend every Board meeting, the Treasurer indicated that because of the known inaccuracies within the accounting records, she does not provide the Board any budget-to-actual reports. Once the Firm is able to correct the errors in the accounting system, the Treasurer plans to provide the Board with monthly financial reports. In the meantime, the Treasurer provides verbal reports to the Board and informs them whether items to be purchased were originally included in the budget. However, the known inaccuracies have not been taken into account to develop reliable budget-to-actual comparisons for revenues and expenditures for current year operations.

Recommendation 5 – Oversight of Treasurer

The Board should ensure that the Treasurer’s records are complete and accurate and that they enable the Treasurer to file timely financial reports.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board is providing oversight through regular communication with the Treasurer and Deputy Treasurer. Additionally, the Board is provided with verbal reports regarding the Firm’s progress towards establishing correct cash balances, assembling records to establish financials and preparing and filing AUDs for fiscal years May 31, 2015 through May 31, 2018.

Recommendation 6 – Timely Annual Reports

The Board should require timely completion of the 2017-18 annual report and completion of the outstanding unfiled reports from prior years.

Status of Corrective Action: Partially Implemented

Observations/Findings: Although outstanding unfiled reports from prior years remain incomplete, as noted above, the Firm is working towards preparing and filing AUDs from prior years and the Treasurer requested an extension for the fiscal year ending May 31, 2019.

² The Treasurer filed one outstanding AUD; specifically, the AUD for the fiscal year ending May 31, 2015 was filed on September 17, 2019.

Recommendation 7 – Financial Condition

The Board should monitor the Village’s financial condition using monthly budget-to-actual comparisons and general ledger accounts.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board’s ability to manage and monitor the Village’s financial condition and make sound financial decisions continues to be limited because the Treasurer does not provide monthly budget-to-actual comparisons for revenues and expenditures or general ledger account balances. Additionally, although the previous Treasurer’s failure to close accounting records for prior fiscal years resulted in known inaccuracies within the Village’s accounting system, Village officials have not taken those inaccuracies into account to develop reliable budget-to-actual comparisons that would allow the Board to monitor financial condition. For example, the Board could require the Treasurer or department heads to monitor and track spending outside the accounting system using the original budgets and approved purchases so that the Board can be sure funds are available as subsequent purchases are approved.

While it is understandable that it would take time for the firm to rectify the financial records of the Village to facilitate budget-to-actual comparisons and accurate statements of financial condition, it is important for the Board to work with the Treasurer and the Firm to be sure this information is available in the next few months since it will soon be time to start work on the 2020-21 Village budget. To avoid continuation of past mistakes, the 2020-21 budget should be based on a sound assessment of financial condition and budgetary status.

Recommendation 8 – Timely Budget Amendments

The Board should take appropriate action to amend the budget if revenues are less than budgeted or if budgeted appropriations for any purpose are not sufficient.

Status of Corrective Action: Not Implemented

Observations/Findings: Because the Board does not receive budget-to-actual comparisons from the Treasurer or require the Treasurer or department heads to track revenues and expenditures outside the accounting system, it is unable to make timely budget amendments. While we found errors in the expenditure and revenue records, we reviewed an adjustment report prepared by the Deputy Treasurer. This report shows prior year expenditures she identified that were incorrectly recorded as current year expenditures. We found that, although the budget-to-actual reports as of August 2019 show 18 appropriation accounts, totaling \$535,047, have been overexpended by \$327,693,³ these figures included prior year expenditures totaling \$104,598. As such, three appropriation accounts appear as though they have been overexpended because of prior year expenditures that were erroneously recorded as current year expenditures. Although the Treasurer indicated that she has made notes on some areas that need to be amended, reliable budget-to-actual

³ The Village’s 2019-20 budgeted appropriations were approximately \$4.6 million for the general fund (including water operations), \$205,911 for the sewer fund and \$247,652 for the library fund.

information is not maintained for the Board to ensure sufficient budgetary appropriations are available to pay claims. As a result, budgetary controls over spending are not yet operating effectively.

Recommendation 9 – Board Audits

The Board should complete thorough annual audits including inspection of the Treasurer’s actual records, bank reconciliations and other documentation supporting the records.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board included an appropriation in the Board-approved 2019-20 budget to hire an accounting firm to audit the Treasurer’s records. However, the Board has not started the process to hire an accounting firm to audit the Treasurer’s records for the fiscal year ended May 31, 2019 and the Treasurer has acknowledged that the records are not complete. The Board indicated that it is waiting for the Firm engaged in February 2019 to complete its two phases before hiring another firm to complete an annual audit. Given that the Board is aware that the records are inaccurate and has taken action to address the problems with the accounting system, we understand that conducting another audit at this time to once again inform the Board that the records are neither up-to-date nor reliable is of questionable value.

Recommendation 10 – Declining Fund Balance

The Board should develop a plan to address the general fund’s declining fund balance and the Village’s overall financial condition.

Status of Corrective Action: Partially Implemented

Observations/Findings: Although the Board has not developed a formal plan to address the declining general fund balance and the Village’s overall financial condition, it passed a local law to allow the Board to override the tax levy for 2019-20 and included a contingency account in the 2019-20 general fund budget to allow for unexpected expenditures. The Board also began work towards completing a paving plan and an equipment replacement plan and created a revenue advisory committee to look for additional revenue opportunities without raising taxes. The Board indicated that it has not started to develop a multiyear financial plan because it still does not have accurate accounting records.

Recommendation 11 – Internal Control Officer

The Board should assess the value of continuing the Internal Control Officer (ICO) function as it currently operates and consider utilizing the position to assist with correcting the accounting records and completing financial reports.

Status of Corrective Action: Fully Implemented

Observations/Findings: The ICO resigned in December 2018. At that time, the Board assessed the value of continuing the ICO function and decided to eliminate the position and repurpose the funding. We reviewed the 2019-20 budget and confirmed that funding was not provided for this position.

Recommendation 12 – Financial and Capital Plans

The Board should develop multiyear financial and capital plans for Village operations.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board has started the process to develop capital plans but not a multiyear financial plan. Specifically, Village employees are developing a paving plan to allow the Village to repave its 40 lane miles every 10 years. Additionally, department heads are preparing equipment replacement plans to allow the Board to plan for long-term replacement of equipment and other capital needs. However, the Board indicated that because accurate financial information is not yet available, it is unable to develop multiyear financial plans that project revenues, expenditures, unrestricted fund balance and reserves in the future.

Recommendation 13 – Corrective Action Plan (CAP) Submitted to OSC

The Board should develop a CAP in response to the audit that includes actions to be taken and the timeline for implementation and monitor progress against the plan.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board submitted a CAP to our office in January 2019 that addressed each of the 13 recommendations but did not have a timeline for implementation. In addition, the CAP only specifically addressed training related to the use of the accounting system rather than for governmental accounting and reporting.⁴ Additionally, the CAP only vaguely addressed the areas of monitoring and budgeting, without specifically noting how budget-to-actual comparisons and general ledger account information would be provided or how the Board would take action to amend the budget.⁵ However, the Treasurer and Mayor do provide regular updates during public meetings of the Board to inform the Board and public on the Village's status in implementing our recommendations. Specifically, the Treasurer gives the Board status updates on the Firm's progress on updating the accounting records and submitting financial statements and the Mayor provides updates regarding the development of the long-term equipment replacement and paving plans.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We found that Village officials have made progress in improving the financial accounting, monitoring and financial condition of the Village and continue to work to improve in these areas. However, there is still a need for significant additional

⁴ See Recommendation 2 for additional information.

⁵ See Recommendations 7 and 8 for additional information.

improvement in these areas. We encourage Village officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Jeffrey P. Leonard, Chief Examiner of our Glens Falls Regional Office at (518) 793-0057.

Sincerely,

Elliott Auerbach
Deputy Comptroller