

# Village of Sackets Harbor

## Budgeting and Financial Management

JULY 2020



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

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# Report Highlights

## Village of Sackets Harbor

### Audit Objective

Determine whether the Board and Village officials developed realistic budgets and long-term financial plans.

### Key Findings

- The Board and Village officials did not develop realistic budgets. From 2016-17 through 2018-19, budgeted appropriations in the general, water and sewer funds exceeded actual expenditures by a total of \$4.9 million (a 39 percent budget variance). Officials also appropriated \$3.6 million of fund balance during this period that was not needed to fund operations.
- The Board has not adopted a fund balance policy or multiyear financial and capital plans.

### Key Recommendations

- Adopt budgets with realistic estimates of appropriations and financing sources based on historical trends and/or known plans.
- Develop multiyear financial and capital plans and a fund balance policy.

Village officials generally disagreed with our findings and recommendations. Appendix B includes our comments on issues raised in the Village's response letter.

### Background

The Village of Sackets Harbor (Village) is located in the Town of Hounsfield in Jefferson County. The Village is governed by an elected Board of Trustees (Board) composed of a Village Mayor and four Trustees. The Board is responsible for the general management and control of the Village's financial affairs, including adopting the annual budget and establishing financial policies. The Mayor serves as the Village's chief executive officer responsible for the Village's day-to-day management. The Treasurer is the chief fiscal officer responsible for maintaining the Village's accounting records and preparing financial reports for the Board.

#### Quick Facts

Population	1,400
2018-19 Expenditures	\$2,572,575
2019-20 Appropriations	
General Fund	\$2,101,482
Water Fund	\$1,850,000
Sewer Fund	\$725,000
Total	\$4,676,482

### Audit Period

June 1, 2018 – August 31, 2019. We extended our scope back to June 1, 2016 to analyze financial trends.

# Budgeting and Financial Management

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## What Is Effective Financial Management?

The treasurer is responsible for providing accurate financial reports to the board. The board should adopt realistic and structurally balanced budgets based on historical or other known trends, in which recurring revenues finance recurring expenditures and reasonable levels of fund balance<sup>1</sup> are maintained. Accurate budget estimates help ensure the tax levy and user charges are sufficient to meet the village's needs, but not greater than necessary.

Village officials can legally set aside or reserve portions of fund balance to finance future costs for a specific purpose. Officials may also appropriate a portion of fund balance to help finance the next year's budget. The appropriation of fund balance should result in a planned operating deficit (expenditures exceeding revenues) and a reduction in fund balance. The village also may retain a reasonable portion of surplus fund balance<sup>2</sup> as a financial cushion for unforeseen circumstances. A fund balance policy that addresses the appropriate level of fund balance to be maintained in each fund can provide the board with guidelines to use during the budget process.

The board can enhance its budgeting process by developing multiyear financial and capital plans that project operating and capital needs and financing sources over a three- to five-year period.<sup>3</sup> Planning on a multiyear basis allows village officials to identify revenue and expenditure trends, set long-term priorities and goals, and assess the impact of current budgeting decisions on future fiscal years (such as appropriating fund balance or establishing reserves). The board should use the multiyear plans when developing its annual budgets to include ample appropriations and funding for planned capital expenditures and avoid large fluctuations in tax rates. Financial plans should be monitored and continually updated to provide a reliable framework for preparing budgets and guiding the board's financial decisions.

## Budget Estimates Were Not Realistic

We compared the general, water and sewer funds' budgeted appropriations to actual expenditures for 2016-17 through 2018-19 and found that, over the three-year period, the Village spent about \$4.9 million (39 percent) less than budgeted, or an average of \$1.6 million per year (Figure 1). In some cases, the Board budgeted appropriations for purposes that were not likely to occur in the budget

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1 Fund balance represents the resources remaining from prior fiscal years. It is the difference between revenues and expenditures accumulated over time.

2 For the purpose of this report, surplus fund balance is defined as unrestricted fund balance minus appropriated fund balance.

3 Refer to our multiyear financial planning resources available at: [www.osc.state.ny.us/local-government/resources/planning-resources](http://www.osc.state.ny.us/local-government/resources/planning-resources)

year, and in other cases, appropriations that would not have any associated expenditures (i.e., depreciation). The most significant variances were for water fund capital outlay (\$1.3 million), general fund grant projects (\$700,000), sewer fund capital outlay (\$500,000) and various special projects (\$900,000) that were budgeted in the general, water and sewer funds.

**Figure 1: Budget-to-Actual Expenditures – Major Operating Funds<sup>a</sup>**

Year	2016-17	2017-18	2018-19	Total
Appropriations	\$3,796,500	\$4,300,000	\$4,430,000	\$12,526,500
Actual Expenditures	\$2,291,530	\$2,765,510	\$2,572,575	\$7,629,615
Amount Under Budget	\$1,504,970	\$1,534,490	\$1,857,425	\$4,896,885
Percentage Under Budget	39.6%	35.7%	41.9%	39.1%

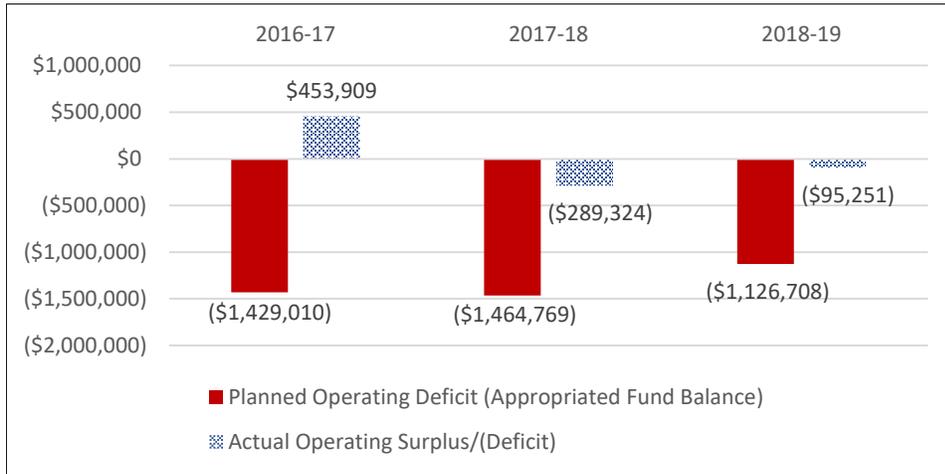
<sup>a</sup> Includes the general, water and sewer funds. We adjusted the Actual Expenditures to correct an error in reporting the unpaid water and sewer charges relieved on the tax roll each year. See the next section of this report for additional information.

During this same period, the Board appropriated approximately \$4 million of fund balance to help finance the budgets. The Treasurer told us he generally suggests appropriating about 75 percent of the ending fund balance to finance the next year’s budget. When budget estimates are realistic, appropriating significant amounts of fund balance typically results in operating deficits (expenditures exceeding revenues) and reduced fund balance at year end. Therefore, Village officials should use caution when employing this method to determine the amount of fund balance to appropriate as it could deplete the Village’s available fund balance.

However, because the Board has overestimated appropriations the past three years, the Village experienced much better operating results than budgeted, and about \$3.6 million (90 percent) of the appropriated fund balance was not needed to fund operations (Figure 2).

**FIGURE 2**

**Use of Appropriated Fund Balance - Major Operating Funds Combined**



Although general fund tax rates have not changed in recent years and the levy has increased modestly,<sup>4</sup> these continued large budget variances make it difficult to know the Village’s true financial plan each year. We reviewed the 2018-19 budget-versus-actual results and found the following examples of significant budget variances, many of which also occurred in the 2016-17 and 2017-18 fiscal years:

- Officials budgeted \$500,000 for water fund capital outlay, but only spent \$35,919 in 2018-19. We noticed similar budget variances in 2016-17 (\$508,000 budget versus \$26,364 actual) and 2017-18 (\$700,000 budget versus \$357,437). The Treasurer explained that officials routinely budget more in this appropriation account than they plan to spend, to save funds for future capital needs while keeping water user rates level. However, overestimating budgeted appropriations is not a transparent way to accumulate funds for future capital purposes (such as replacing water lines or upgrading the water plant). Instead, the Board should pass a resolution to establish a capital reserve fund for the intended purpose and finance the reserve as part of the budget process.<sup>5</sup>

Additionally, this budgeting practice did not result in increasing the fund balance or setting aside funds as officials had intended. Even though the

<sup>4</sup> Fiscal years 2016-17 through 2019-20 had a general fund tax rate of \$2.80 per \$1,000 of assessed value each year. The levy increased \$2,941 in 2017-18 (0.80%); \$3,061 in 2018-19 (0.83%); and \$7,006 in 2019-20 (1.88%).

<sup>5</sup> For more information, please refer to our publication *Reserve Funds* available at [www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/reservefunds.pdf](http://www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2019-01/reservefunds.pdf).

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water fund's total actual expenditures averaged \$834,000 (56 percent) less than the amount budgeted each year, the water fund balance still decreased \$98,175 (9 percent) from \$1,046,176 at the beginning of 2016-17, to \$948,001 at the end of 2018-19. This primarily occurred because the Board annually appropriated an average of \$804,000 in fund balance to finance the water fund budgets from 2016-17 through 2018-19. Had they spent the funds as budgeted, the water fund balance would have been quickly depleted because roughly half of the budgets were financed with appropriated fund balance rather than recurring revenue sources (i.e., water sales).

- The 2018-19 budget (for the general, water and sewer funds) included \$900,000 in appropriations and \$675,000 of estimated federal aid for special projects related to recent years' flood damage, but the Village only spent \$18,496 and received \$80,668 in aid.<sup>6</sup> Officials explained that the timing of the work and aid payments was uncertain. We asked the Treasurer for documentation of the amounts anticipated and reviewed the files provided. However, there was nothing within the files provided documenting the Village's planned work, including the expected costs and amounts spent so far, nor any documentation showing the total amount of funding Village officials could expect to receive.
- The general fund budget included \$475,000 in estimated grant revenues and \$200,000 in grant appropriations, but the Village did not receive any of the grant revenues and expended only \$3,403 in 2018-19. The Treasurer does not keep track of grant revenues and expenditures to date. One project, already completed, included \$48,500 in budgeted appropriations that had been spent in a prior fiscal year. Although the other projects may be forthcoming, the timing is unknown. Furthermore, officials told us that most grants provide matching funds that cover 50 percent of the project costs. Accordingly, grant appropriations should be higher than the estimated grant revenues, but the budget shows the opposite. We noticed similar budget variances in prior years.
- Officials included \$50,000 of depreciation expense in the water and sewer funds' budgets (\$25,000 each). Depreciation expense was also budgeted in prior years. Depreciation has no effect on spendable resources and should not be budgeted or reported in governmental funds.
- The general fund budget included appropriations totaling \$30,000 for museum rehabilitation (\$15,000) and the maintenance of museum contents (\$15,000), but the Village spent none of those funds, and officials are not sure when the expenditures will occur. The Treasurer told us that he included

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<sup>6</sup> These special projects were budgeted in each of the major operating funds: general fund - \$400,000 appropriations, \$300,000 estimated aid; water fund - \$400,000 appropriations, \$300,000 estimated aid; sewer fund - \$100,000 appropriations, \$75,000 estimated aid.

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them in the budget each year<sup>7</sup> to keep track of them, and that the portion budgeted for museum contents represents money the Village received as the beneficiary of a will and the funds must be used for that purpose. The Treasurer should use the accounting records rather than the budget to track these restricted funds. In addition, the Board should include an appropriation in the annual budget only when it intends to spend the funds.

Additionally, the 2019-20 sewer fund budget includes a \$14,000 appropriation for debt service that was already paid off in 2018-19. The Treasurer explained that he included this appropriation in the budget to keep track of charges billed to a group of sewer users who must reimburse the sewer fund for prior debt service payments. Because this amount will not be spent, officials should not have included an appropriation for it in the budget.

The budget is the financial plan/guide for the fiscal year and should be based on historic trends and known plans. Consistently including unrealistic expenditure and revenue estimates in the budgets can be misleading to Village taxpayers. Furthermore, this makes it difficult for the Board to effectively manage financial operations when annual spending plans are based on unrealistic estimates.

### **General Fund Balance Was Reported Inaccurately**

The Treasurer improperly accounted for unpaid water and sewer charges that were relieved<sup>8</sup> on the real property taxes. This resulted in the understatement of year-end fund balance in the general fund by about \$41,000, \$201,500 and \$76,200, respectively, at the end of the 2016-17, 2017-18 and 2018-19 fiscal years.

At the end of each year, the Treasurer reported an interfund transfer<sup>9</sup> (expenditure) from the general fund to cover water and sewer funds' unpaid customer accounts, instead of reporting an interfund receivable and liability to account for the amounts temporarily advanced from the general fund to the water and sewer funds until the relieved charges were received with the taxes the following year. This made the general fund expenditures appear to be higher at year end; consequently, the reported year-end general fund balance was lower than it should have been. In the following year, the Treasurer reported the relieved water and sewer charges as general fund property tax revenues, which helped offset the prior expenditure. This practice happened each year in varying amounts.

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<sup>7</sup> The 2016-17, 2017-18 and 2018-19 budgets included these appropriations each year.

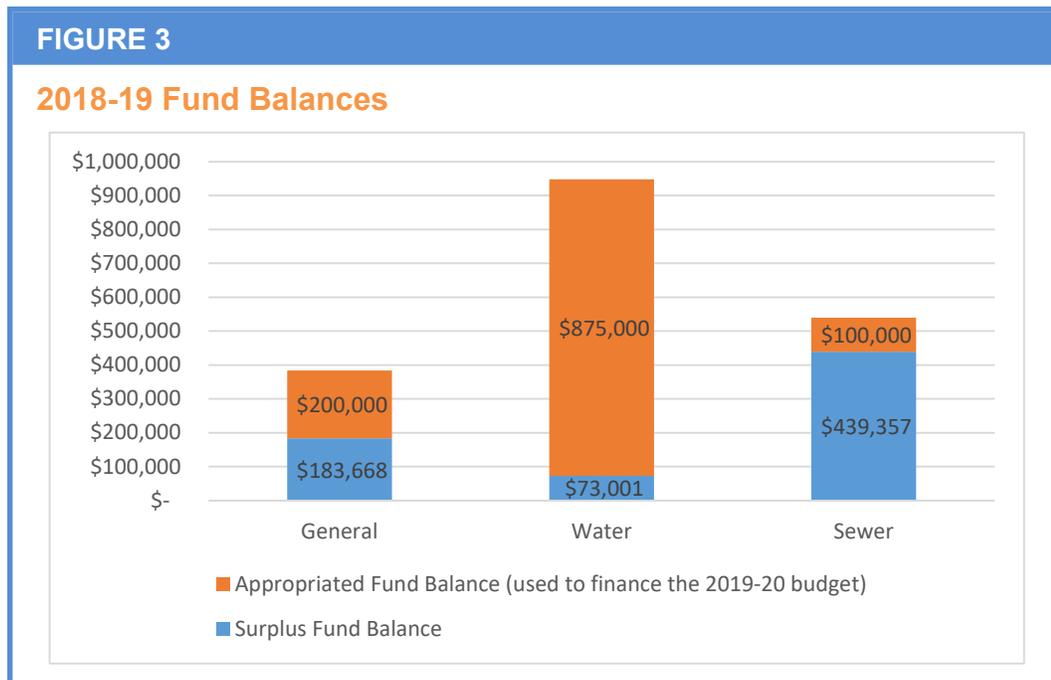
<sup>8</sup> The Village adds unpaid water and sewer charges to the next year's tax roll to enforce those collections.

<sup>9</sup> Interfund transfers are payments between village funds. In these instances, the general fund had an interfund transfer expenditure and the water and sewer funds had interfund transfer revenues.

When adjusted for this error, the 2018-19 general fund balance was about \$383,700, or \$76,200 higher than the Village reported in its annual financial report. The reporting error did not affect the water and sewer fund balances, which were about \$948,000 and \$539,400, respectively, for 2018-19.

### The Board Appropriated Significant Fund Balance in the 2019-20 Budget

The Board has not adopted a fund balance policy to govern the amount of fund balance to be maintained to meet the Village’s needs. As shown in Figure 3, the Board has continued to appropriate significant amounts of fund balance in the general<sup>10</sup> and water funds to balance the adopted budget. In 2019-20, fund balance appropriations totaled nearly \$1.2 million in the three funds combined.



Over the past three years, the Village has not used most of the fund balance appropriated to finance the next year’s budget. If this trend continues in 2019-20, the Village will likely retain reasonable levels of fund balance in the three main operating funds; however, if the Village actually used a large amount of the fund balance appropriated, the fund balance available in the general and water funds as a financial cushion would be dangerously depleted.

It is therefore important for the Board to closely monitor the Village’s budget-to-actual status throughout the year and adopt a fund balance policy for maintaining

<sup>10</sup> Fund balance was adjusted to correct an error in reporting the unpaid water and sewer charges relieved.

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reasonable levels of fund balance. Budgeting based on known or historical trends would provide greater transparency and help the Board more effectively manage financial operations in order to maintain the Village's long-term financial stability.

### **The Board Has Not Adopted Comprehensive Multiyear Financial or Capital Plans**

The Board has not developed comprehensive multiyear financial or capital plans. Board members indicated the Board has capital plans but that they are not written down, and will not be realized until funding is determined. While these projects may be partially funded by grants, most of them have a local share that must be paid by the Village. Long-term plans are an important tool for the Board to prioritize and project future capital needs and anticipate their effect on future years' operating budgets and fund balance.

Without comprehensive multiyear financial and capital plans, the Board's ability to effectively manage Village finances and adequately prioritize and plan for future capital needs is diminished.

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

The Board should:

1. Adopt a fund balance policy establishing guidance on how much fund balance it intends to maintain in each fund.
2. Adopt realistic budgets based on historical trends and known plans for the fiscal year.
3. Consider establishing reserve funds to accumulate funds for future purposes (e.g., capital projects).
4. Work with Village officials to develop multiyear financial and capital plans that project operating and capital needs and financing sources over a three- to five-year period. These plans should be periodically reviewed and updated as appropriate.

The Treasurer should:

5. Accurately account for and report water and sewer relieves and report accurate ending fund balances.
6. Establish records to track the funds restricted for the maintenance of museum contents.

# Appendix A: Response From Village Officials

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ERIC CONSTANCE  
Mayor

MARGARET KELLY  
Village Clerk

JAMES YUHAS  
Treasurer

SHANNON MASON  
Deputy Clerk



Village of Sackets Harbor  
112 North Broad Street  
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Tel: 315-646-3548  
Fax: 315-646-1201

BARBARA A. BOULTON  
Deputy Mayor

JAMES BRAY  
Trustee

PHILLIP FAY  
Trustee

DANIEL E. FRECHETTE  
Trustee

## Village of Sackets Harbor

### Budgeting and Financial Management

### Report of Examination

2020M-28

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Unit Name: Village of Sackets Harbor

Audit Report Title: Budgeting and Financial Management

Audit Report Number: 2020M-28

This is both the Corrective Action Plan and response letter in regards to our NYS Audit by NYS Audit and Control.

The recommendations set forth by the NYS Audit and Control are as follows:

1. The Village Board has no magic percentage to re-appropriate its fund balances from one year to the next. The fund balances in the General, Water, and Sewer funds each year are conservatively estimated and being underestimated each year serves the purpose of any unforeseen events for the upcoming fiscal year. By underestimating the Fund Balances the Village of Sackets Harbor Board will always be operating with a positive balance in each fund, each and every budget year. The year-end comparative balance sheets done by our Village Treasurer for fiscal year May 31, 2017, May 31, 2018, and May 31, 2019 demonstrate this board's action.

See  
Note 1  
Page 14

The reason N.Y.S. put fiscal stress on our Village which caused this audit was in May 31, 2018 the General Fund under-estimated its fund balance due to our main water and sewer user not paying its quarterly bill and therefore the General Fund making the water and sewer funds whole and causing the General Fund to start out Fiscal Year 2017-2018 in the red. This was quickly rectified the following fiscal year by May 31, 2019 being in the black by \$107,232.

See  
Note 2  
Page 14

2. The Village Board with the guidance of the Village Treasurer and other department heads do think they put together a realistic budget each year which it underestimates revenues and overestimates expenses. By doing this, it will always result in a positive situation. Besides the Main Street Capital Fund, which was funded equally by the General, Water, and Sewer Funds. The ongoing General Fund Capital Funds built into our most recent budget have been all of our Grants that the Village has secured thru the years.

See  
Note 3  
Page 14

We have secured these grants with most being a 50/50 match and our share coming out of our line items in the budget for our match. That is where our portion of our grants are being funded by our General Fund.

3. By not setting up reserve funds but rolling over more and more of its fund balance each year, the Village Board has more flexibility to move money within its funds for anything unexpected. That is why the Village is not interested in setting up reserve funds and by doing so, saved \$1 Million by refinancing its water plant in 2015 with the help of Fiscal Advisors and saved \$300,000 in 2012. Additionally, another \$300,000 in 2018 in its Sewer Fund by paying off interest loans with Environmental Facilities Corp and Rural

See  
Note 4  
Page 14

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Development with its great Fund Balance. There is nothing wrong with the Village having a good cash flow to save tax dollars this way.

In today's world, the Village cannot get any interest earned in the bank so in reverse it has saved a lot of interest expense by paying off loans early. If we had reserve funds, we would not have this flexibility.

4. The \$14,000 raised in the Sewer Fund for the next 11 years equals \$154,000 for the Ontario Shores Sewer Special Dist. Payments. The Special Dist., which has been included within our Sewer and Water Fund since they were formed, was devised between NYS Environmental Facilities Corp and Rural Development to serve that part of the Village and its residents. The annual payments billed goes to show its residents the Debt Service it owes each year. By taking out the line item in the Sewer Fund, nobody would know how many years residents have to pay for this project. The amount raised each year goes for the payback back to the overall Sewer Fund. The same goes for the line item in the Water Fund. This extra step puts a cross-check and its running balance within the Sewer Fund goes to show residents now and in the future how many years are left to pay.

See  
Note 5  
Page 15

The Village Board does have Capital Project Plans with its Village Engineer, Treasurer, Department Heads and the Village Board itself.

See  
Note 6  
Page 15

The next Capital Project that the Village Board undertakes is as good as the Village scores on the Loan/Grant with either NYS EFC or the Federal Government with Rural Development. When the Engineer makes our score practical, which fits our water and sewer rates that for all purposes is our next intended use Water or Sewer Capital Project. Until that year occurs, we have kept our same Water and Sewer rates intact. This has in turn built up a surplus that will allow us to make a good down payment on our loan and save money in the loans run by not having to borrow as much when we do a Capital Project.

Such as our Water Fund, we are pursuing an Intake/Seawall Capital Project of \$3,925,000 of which loan of \$1,800,000 and grant of approximately \$2,125,000. Our Water Fund has built up about \$1,100,000 of our estimated loan of \$1,800,000 for 100 year old Intake Water Capital Project. This means instead of a 30-year loan, it would be possible at the most that the Village would need to borrow for 5 years and save 25 years of interest loans.

See  
Note 6  
Page 15

So, if the Water Fund goes forward next budget year and spends the \$1.1 million built up in the budget then in turn the \$1.1 million will not be there for its unexpected balance in the next budget cycle.

See  
Note 7  
Page 15

In the meantime, if something happened to our Water Plant or Water Mains in the Village, the Village Board could transfer its \$1,100,000 to another part of the Water

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Budget to fix that problem without having to borrow for an unexpected emergency. The Sewer Fund, as explained earlier, has the same excellent cash flow.

In this year's adopted budget and next years adopted budget, the next Sewer Capital Project is built into the line items to undertake the Villages next sewer project. The Village will not do this project until the Village Engineer can find some Grant avenues so we don't have to spend 100% of our money for the project. The Village Board will wait until some grant money comes along before they will commit. If need be, we will roll the money into the next budget year until grant money does become available.

See  
Note 8  
Page 16

5. As shown in its adopted budget, the Village Treasurer shows the General Fund advancing and making whole the unpaid water and sewer rents by expensing this amount out of the General Fund by April of each year. In June, this water and sewer amount is put on the Village Taxes and if not paid, the county makes the Village whole and this advance comes back to the General Fund 100%.

See  
Note 9  
Page 16

The bottom line is in the budget the same dollar amount of revenue and appropriation is in the General Fund Adopted Budget and all the money ends up in all the proper accounts and most importantly the Treasurer of this Village understands this procedure and has the understanding of the Village Board of this undertaking.

6. Based on the State Auditors findings, the 2020-2021 Adopted Village of Sackets Harbor Budget reflects the following changes of which will be in the Adopted Budget:
  - a. Any willed money is taken out of the General Fund and put in the Trust and Agency Fund.
  - b. The Depreciation Expense has been eliminated out of the Water and Sewer Appropriation Lines.
  - c. The Water and Sewer Funds Unexpected Fund Balance is accurately estimated low with its Capital Funds built-in as line items.
  - d. In 2015-2016, the Village Budget Grant Revenues were overestimated to be \$550,000. This mistake was noticed for whatever reason and the Village Treasurer has gradually brought back this revenue to read \$350,000 in its 2020-2021 Budget. An average of \$50,000-75,000 decrease has been demonstrated in each year's budget until it gets down to the revenue that should be in the Grant Revenue Fund. As of this year, Dave Altieri, our Grant employee estimated the revenue to be \$266,854, so each year we are coming closer to our goal with the \$266,854. Grant Revenue line item being revised each budget year to show its accurate amount in the current budget.
  - e. With some grants that the Village has outstanding that is true, if we spent funds and have not received the revenues, then the revenue side would be much higher than the appropriations shown in the budget. Also, a lot of the Village grant expenses are in-lend services from donated labor and equipment or both.

See  
Note 10  
Page 16

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In Summation:

Being the Village Treasurer since 1980 in this Village, the cash flow has always been excellent without question and the Mayor's and Village Trustees having a true understanding with its budget, there is nothing wrong with a good cash flow by underestimating revenues and overestimating expenses and also underestimating the Fund Balance.

See  
Note 3  
Page 14

In Today's world, the bottom line is that the Village Mayor and Board of Trustees, and its employees, bill our revenues and spend as little as we can to keep our taxes as well as our water and sewer rates at a modest level. All our expenses and revenues are deposited and spent out of our proper funds. All of our NYS documents are done in a timely fashion, bills and payrolls are completed accurately with the Village Board oversight of our finances at our Monthly Board Meeting.

In the General Fund in fiscal year 2015-2016, our DPW Supt and employees rehabilitated our vacant sewer plant building and turned it into our current DPW Garage without having to borrow a penny. That is what I call good management and making the most out of our local resources.

As stated previously, current Capital Funds are reflected in our General, Water and Sewer operating funds as separate line items to start the projects but they won't officially start until our engineer finds state and federal funds to help defray the costs of the overall project. That is the main reason projects are budgeted from one year to the next with mainly study money spent until these grants are secured. This is when a Capital Project is set-up in the budget with its own chart of accounts.

See  
Note 8  
Page 16

This is the main reason why our tax rate, water rate, and sewer rates will not decrease until the Village Treasurer, Mayor, and Village Board make sure there are no more capital projects out of each fund in the future to substantiate a rate decrease.

This document will be reflected at our May 2020 Village Board Meeting and will be voted on as such so everybody on this board has an opportunity for input as it will pass into our minutes.

Sincerely,

Eric Constance, Mayor  
Village of Sackets Harbor  
May 12, 2020

## Appendix B: OSC Comments on the Village's Response

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### Note 1

Although the response indicates fund balance was underestimated each year, the Board appropriated significant amounts of its fund balance (about \$4 million) in its main operating funds (general, water and sewer funds) to finance the 2016-17 through 2018-19 budgets. While the Board did not need to use \$3.6 million of the appropriated fund balance during these years, its continued heavy reliance on fund balance as a financing source could cause significant operating deficits going forward if the Village actually incurs the expenditures as budgeted. This, in turn, could reduce the Village's ability to manage unforeseen events in the future.

A fund balance policy would help to establish and ensure that appropriate levels of fund balance are maintained in each fund and would provide the Board with guidelines to use during the budget process.

### Note 2

Our office's Fiscal Stress Monitoring System (FSMS) designated the Village as susceptible to fiscal stress at the end of the 2017-18 fiscal year based on the Village's annual financial report. A significant factor in this designation was the reported fund balance as a percentage of gross expenditures. As described in the report, general fund balance was actually higher than reported each year. Had it been accurately reported, the Village likely would have scored lower and not received the fiscal stress designation. Although the FSMS designation can be a contributing factor to selecting a village for audit, it is not the sole criterion for audit selection.

### Note 3

The response letter indicates the Board underestimated revenues each year in the budget. This was not the case for the 2017-18 and 2018-19 budgets. For example, in 2018-19, actual revenues for the major operating funds combined (general, water and sewer) were about \$826,000 (25 percent) less than budgeted. Because the Village also spent significantly less than budgeted that year (\$1.86 million, or 42 percent), this revenue shortfall did not significantly affect the Village's financial condition.

While a conservative approach to budgeting can be prudent, it is important that the Board develop realistic estimates based on the most current and accurate information available. The large budget variances the Village has experienced year after year suggest that Village officials are not developing realistic budget estimates.

### Note 4

The response indicates the Village has rolled over more and more fund balance each year. However, fund balance in the major operating funds combined has

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declined over the past three years, from \$2.26 million at the end of 2016-17 to \$1.87 million at the end of 2018-19.

Our audit did not review activity from 2015 or 2012. And, while our audit did not include a review of the debt schedules, the Treasurer shared a copy of the voucher for paying off the loans in the sewer fund. The March 2019 voucher states the early payoff will save \$236,796 of interest, about \$63,000 lower than the \$300,000 savings indicated in the response. Also it was paid during 2019, not 2018.

#### Note 5

We agree that the Village should track the amount the residents in the special district must repay to the sewer fund for debt service the fund previously paid on behalf of the district. The budget correctly shows the \$14,000 revenue to be collected from those residents to repay this advance. However, including a \$14,000 appropriation in the budget each year for debt the Village has already paid off is not the proper way to track the amount the special district must repay.

Instead, the Village could add a supplemental schedule in the budget to show the amount that will be charged to the special district residents each year until the advance is paid in full. This payoff schedule would provide greater transparency to the residents without unnecessarily overstating the budgeted appropriations.

#### Note 6

Officials provided an incomplete multiyear capital plan that is not consistent with the current budget and it remains unclear what the estimated costs and revenue sources will be and when the Village intends to begin all projects. A complete and comprehensive multiyear capital plan would help officials accurately project anticipated costs and needs and effectively budget for them. It should be consistent with the current budget, identify all projects, show the estimated costs and revenue sources for each project and include project timeframes.

Although Village officials indicate they plan to spend water fund balance to partially fund the Intake/Seawall project, the annual budget does not reflect this. Further the 2020-21 budget includes a \$3.9 million project in the capital projects fund, financed with grants and loans and an additional appropriation of \$1.2 million in the water fund budget. The capital projects fund budget does not indicate an interfund transfer revenue from the water fund to help finance the project. Consequently, the budget presented to the public suggests the Village plans to spend a total of \$5.1 million on the project.

#### Note 7

The Board should carefully evaluate the amount of fund balance available in the water fund when deciding how much to apply to the Intake/Seawall capital project.

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If the Board applies the \$1.1 million in fund balance to finance the project, it may not have sufficient funds available for cash flow or to handle emergencies and other unforeseen occurrences that may occur after the funds have been expended.

#### Note 8

The Board should only budget appropriations (e.g., transfer to the capital projects fund) in the operating fund budget if there is a reasonable expectation that the funds will be expended during the fiscal year they are budgeted. If financing sources have not yet been identified and the project will likely take place in a future year, the Board should pass a resolution to establish a capital reserve fund to set aside the funds for the intended purpose, and include the project in a multiyear capital plan, which should be updated as timing and other relevant information changes. The project should then be incorporated into the operating budget for the year(s) it will actually be undertaken and have an actual impact on that year's revenues and expenditures.

#### Note 9

Although Village officials may understand the Treasurer's accounting for relieved unpaid water and sewer rents, the accounting method is incorrect and caused the general fund revenues, expenditures and fund balance to be reported inaccurately in the Village's annual financial report each year.

#### Note 10

We question why the Treasurer and Board have continued to overestimate grant revenue after the mistake was discovered. The Board should have immediately adjusted the budget after this error was identified rather than gradually decreasing the revenue estimate each year. Not only is it misleading to residents to budget grant revenue that is not actually expected to be received, but could also result in operating deficits, where expenditures exceed revenues.

## Appendix C: 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 and reviewed Board minutes to gain an understanding of the budget process, what reports are provided to the Board throughout the year and whether the Board adopted budgeting and fund balance policies and multiyear financial and capital plans.
- We reviewed the Treasurer's accounting of relieved unpaid water and sewer charges and assessed its impact on the accuracy of the reported ending fund balance.
- We analyzed the general, water and sewer funds' trends in fund balance for the period 2016-17 through 2018-19 and compared surplus fund balance at year end to expenditures and to the next year's budgeted appropriations.
- We reviewed the general, water and sewer funds' adopted budgets and actual results of operations for the period 2016-17 through 2018-19 to determine whether appropriations and financing sources were realistic.
- We interviewed Village officials and reviewed available documentation to gain an understanding of the Village's upcoming capital plans.
- We reviewed the current year (2019-20) budget estimates to assess the impact on fund balance.

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.

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 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 D: 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)

Local Government and School Accountability Help Line: (866) 321-8503

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