



Update on Accounting and Reporting Practices

Background

- Brendan K. Kennedy, Certified Public Accountant
- Partner at BST & Co. CPAs, LLP (BST)
- 21+ years of professional accounting experience
- 10 years at large national firm, 11 years with BST
- BST is a multi-disciplinary firm that provides, audit, accounting, tax, valuation, forensic litigation support, and outsourced marketing/HR services.
- We have over 100 employees, and approximately 135 government clients ranging from large State Authorities to fire districts.
- Government clientele compose approximately 15% of our firm's overall revenues.

Why Am I Here?

- Transition at the Executive Department Level
- The Village's last published audit was for the period ending February 28, 2019, and was issued on August 25, 2022.
- The last annual financial report filed with the New York State Comptroller was February 28, 2020.
- Large payments to New York State Health Insurance Program (NYSHIP)
- Identification of past due invoices.
- Potential liquidity issues



The Treasurer is the Village's CFO and is focusing on day-to-day accounting responsibilities.

This Village needs professional help!

What Am I Doing?

BST is working side by side with the Mayor and Treasurer to rectify the Village's accounting and financial reporting delinquencies.

My tasks include:

- Evaluating individual fund trial balances and developing journal entries to be compliant with OSC's Accounting and Reporting Manual as well as U.S. Generally Accepted Accounting Principles.
- Preparing balance sheet account reconciliations
- Evaluating revenue and expenditure cut-off to ensure amounts are recorded in the correct period.
- Verify amounts are recorded in the correct fund.
- Interfacing with Village and other external contractors (attorneys, financial advisors, payrolls processors, other vendors).
- Working with the Village's external auditor.



Basis of Accounting

The accounting system of record currently in place for the Village is QuickBooks.

QuickBooks is a good product for smaller/less complex organizations, but it is not specifically designed for multi-fund municipalities.

Additionally, supplementary systems such as property taxes, water/sewer billing, cash receipts, building department and payroll are not integrated, nor do they interface.

These factors increase the need for manual journal entries and a higher probability for errors.

Basis of Accounting

The accounts of the Village are organized on the basis of funds. The Village's primary funds include:

- General Fund
- Water Fund
- Sewer Fund
- Capital Projects Fund

These funds are required to be reporting used the current financial resources measurement focus and modified accrual basis of accounting.

- Revenues are recognized when they are earned and are measurable and available.
- Expenditures are generally recorded when a liability is incurred (excludes most L/T related liabilities).

Accounting Observations

- A total of 16 Adjusting Entries were identified, proposed and recorded to correct known financial reporting errors in the 2020 accounting records.
 - Excludes all the entries posted by Treasurer before transitioning accounting records
 - Does not include balance sheet reconciliations for non-current assets and liabilities
- Many of these entries were material in nature and included:
 - Corrections to opening fund balance to match the 2019 financial statements;
 - Corrections to EFC grants, BAN proceeds and Liability amounts (approximately \$8.3 million)
 - Corrections to interfund balances and transfers
 - **Record Accounts Payable**
 - Correct total cash to reconcile with bank balances as adjusted for DIT and outstanding checks
 - Record debt service expenditures
 - Adjust water/sewer account receivable balances
 - The Village entered into lease-financing arrangements to purchase police vehicles and these agreements were not recorded in the financial statements.

Accounting Observations, continued

- Lack of cash reconciliations is a red flag. When cash is not reconciled it could be an indicator of unrecorded revenues or expenses, as well as errors in the balance sheet.
 - The Village's financial records contain numerous errors and unrecorded transactions. Cash did not reconcile.
- Interfund transactions should always balance.
 - They did not.
- Interfund balances should be repaid in a reasonable period of time but no later than year-end.
 - The Water Fund is carrying an interfund loan that it cannot repay based on the current rate structure.
- Budgets for governmental funds should be balanced
 - We could not locate any records measuring actual results to budget, budget amendments or other documentation to demonstrate compliance with NYS budgeting requirements. Additionally, non-compliance with OSC accounting requirements as outlined, would preclude the Village from accurately complying.
- Vendor invoices were not paid on a timely basis likely due to liquidity constraints
 - The Village waited until March when tax revenues were received to pay stale invoices (example, NYS Retirement System, due 2/1, paid in March and April).
- In many instances we were unable to locate vendor invoices and cash receipt documentation (approximately 20%).
 - This will likely impact the external auditor's report issued as we are unable to prove revenues and expenditures were recorded in the correct accounting period.

Accounting Observations, continued

- The below tables presents a rollforward of the Village's fund balance by fund from 2020 to 2021:

	Year Ended February 29, 2020					Total Governmental Funds
	General	Capital Projects	Water	Sewer	Recreation	
FUND BALANCE (DEFICIT)	\$ 1,085,909	\$ 365,549	\$ (2,391)	\$ 240,127	\$ 40,482	\$ 1,729,676
Net change in fund balances	(904,352)	(465,155)	25,513	(827,293)	-	(2,171,287)
FUND BALANCES (DEFICIT), end of year	<u>\$ 181,557</u>	<u>\$ (99,606)</u>	<u>\$ 23,122</u>	<u>\$ (587,166)</u>	<u>\$ 40,482</u>	<u>\$ (441,611)</u>

- BST reviewed amounts \geq \$2,000 paid from March 1, 2020 to July 31, 2020 to determine whether the goods/services were received on or prior to February 28, 2020.
- These procedures identified approximately \$1.8 million in items requiring accrual (expenditure on or before 2/28/2020 and paid between March and July 2020).

Accounting Observations, continued

2021 Accounting Update

- BST pulled the trial balance directly from Quickbooks
- Individual Funds did not balance (General, Capital, Water, Sewer)
- A significant number of transactions were not recorded:
 - Water and Sewer rent revenues
 - Debt service payments
 - Accounts payable
 - Cash was not reconciled
 - Interfund balances did not tie
 - Bond proceeds
 - BAN proceeds
 - Capital expenditures
 - Capital asset accounts were not reconciled
 - Depreciation expense was not calculated
- A total of 30 journal entries were recorded to correct the accounting deficiencies.

Accounting Observations, continued

- The below tables presents a rollforward of the Village's fund balance by fund from 2020 to 2021:

	Year Ended February 29, 2021					
	General	Capital Projects	Water	Sewer	Recreation	Total
Net change in fund balances	\$ (489,681)	\$ 224,989	\$ 45,893	\$ 101,971	\$ -	\$ (116,828)
FUND BALANCE (DEFICIT), <i>beginning of year</i>	181,557	(99,606)	23,122	(587,166)	5,565	(476,528)
FUND BALANCES (DEFICIT), <i>end of year</i>	<u>\$ (308,124)</u>	<u>\$ 125,383</u>	<u>\$ 69,015</u>	<u>\$ (485,195)</u>	<u>\$ 5,565</u>	<u>\$ (593,356)</u>

- BST reviewed amounts \geq \$5,000 paid through February 28, 2023 to determine whether the goods/services were received on or prior to February 28, 2021.
- These procedures identified approximately \$1.3 million in items requiring accrual (expenditure on or before 2/28/2021 and paid between subsequently)

Other Observations and Updates

- Upon the transition, Village administration determined there was a significant number of unpaid past due invoices.
- On April 7, 2023, the Village paid \$682,329.94 to the New York State Health Insurance Program (NYSHIP) for the Village's November 2022 to April 2023 employee health insurance.
 - November 2022 health insurance invoice from NYSHIP for \$77,684.40 was due on October 26, 2022.
- Financial forecasts determined cash would run out by October/November 2023.
- Village initiated and was inevitably approved for deficit bond financing.

Other Observations and Updates

- Deficit bond financing is an exhaustive process that involves attorneys, financial advisors, the NYS Division of Budget and the Governor.
- The Village was approved for and issued \$4.4 million in deficit financed bond anticipation notes that it will refinance on a LT basis.
- Of this total issuance, \$1.3 million has been used to solidify the Village's financial position.
- Deficit bonds come with strings, including OSC involvement in the budgeting process. We will be under the microscope and there will be a requirement to establish balanced budgets.

Other Observations and Updates

- The Village's WWTP funded through the New York State Environmental Facilities Corporation (EFC) was completed in December of 2020.
- Upon review of the various agreements, it was determined that there was \$1,040,265.67 in unclaimed grant funds.
- The grants funds were withheld because the Village did not file administrative paperwork including M/WBE forms/documentation.

(Commonly engineering firm administer these forms for a fee.)

- The current Mayor has been working with EFC to resolve these documentation matters and has since recouped \$214,000.
- It's possible the Village may not obtain all of the funding.

Other Observations and Updates

- The Village's financial situation could have been worse but.....
- State and Local Fiscal Recovery Funds were received in July 2021 and 2022 (\$295,896 2x = \$591,792)
- FEMA reimbursements of \$677,304 were received in November 2022.




Looking Forward

- 2020 Audit will likely yield a disclaimer on the financials, meaning the auditors were unable to express an opinion. This is attributed to missing documentation.
- The trend may continue for 2021 and 2022.
- Our objective is to have a clean balance sheet opinion for February 28, 2023.
- We anticipate and unmodified opinion (clean) for the period ending February 28, 2024.



Looking Forward

- The Village is going live with new accounting software February 1, 2024.
 - The Village will need to enhance its internal controls over financial reporting.
 - The Mayor and Village Board should consider additional training; there are a number of in person and virtual training opportunities at OSC.
 - Consider involvement in professional organizations such as NYCOM.
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Looking Forward

We look forward to supporting the Village, its administration and citizens through this financial journey!

There is a light at the end of the tunnel!

