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Robert Corby, Mayor
Members of the Board of Trustees
Village of Pittsford
21 N. Main Street
Pittsford, NY 14534

Report Number: 2017M-51-F

Dear Mayor Corby 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 to account for and protect their village's assets. In accordance with these objectives, we conducted an audit of the Village of Pittsford (Village) to assess board oversight of the Village. As a result of our audit, we issued a report, dated July 21, 2017, identifying certain conditions and opportunities for the Board's review and consideration.

To further our policy of providing assistance to local governments, we revisited the Village beginning in August 2020 to review progress in implementing our recommendations. Our follow-up review was limited to interviews with Village personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, the Village has demonstrated limited progress implementing corrective action. Of the seven audit recommendations, one recommendation was fully implemented, four recommendations were partially implemented and two recommendations were not implemented.

Recommendation 1 – Budgeting

The Board should adopt budgets that realistically reflect the Village's operating needs based on historical or other known trends.

Status of Corrective Action: Partially Implemented

Observations/Findings:

General Fund – The Board’s ability to adopt realistic budgets continues to be limited due to ongoing litigation. Despite efforts to approximate litigation expenditures using historical data and estimates provided by legal firms, legal expenditures exceeded the budget by approximately \$266,000 (38 percent) from fiscal year 2018 through 2020. The Board did improve its estimates of legal expenditures during this period, and the overall budget variance consistently decreased from 2017-18 through 2019-20. Further, we inspected the Village's adopted budget for the 2020-21 fiscal year and determined that legal appropriations were reasonable. With the exception of legal fees, the Board generally budgeted reasonably and managed operations within budget.

Sewer Fund – The Board continued to adopt sewer fund budgets with overestimated expenditures. From 2017-18 through 2019-20, expenditures were overestimated by a total of \$176,200 (29 percent). For 2017-18 through 2019-20, total expenditures for street maintenance-personal services fell short of appropriations by \$80,637 (74 percent). Also, transfers to reserves were overestimated by \$74,782 (60 percent) because the Board did not establish certain reserve funds and therefore, did not make all of the budgeted transfers.

Recommendation 2 – Fund Balance

The Board should monitor the level of fund balance and ensure that budgets are structurally balanced.

Status of Corrective Action: Partially Implemented

Observations/Findings: In October 2020, the Board passed resolutions adopting a sewer fund balance policy and modifying the general fund balance policy which included establishing an optimal unrestricted fund balance level between 10 to 15 percent of each fund’s current year appropriations.

General Fund – The Board instituted a monthly review of fund balance as stated in the Village’s corrective action plan.¹ Despite this practice, the Village was unable to maintain a level of 15 percent of current year’s appropriations as fund balance in accordance with its unrestricted fund balance policy in effect at the time. The general unrestricted fund balance was less than 7 percent of appropriations during the 2018-19 fiscal year. By the May 31 close of the 2019-20 fiscal year, general unrestricted fund balance had recovered to 12 percent of the current year’s appropriations. The fund balance policy also states that if fund balance falls below the optimal level, the Board will develop and adopt a fiscal plan to restore the balance within a five-year period. Village officials were unable to produce a fiscal plan upon request.

Sewer Fund – The Board continued to adopt unbalanced budgets, resulting in net operating surpluses of approximately \$213,000 from 2017-18 through 2019-20 and a net increase in

¹ Refer to Village of Pittsford – Board Oversight (2017M-51), issued in July 2017
<https://www.osc.state.ny.us/sites/default/files/local-government/audits/2017-11/lgsa-audit-village-2017-pittsford.pdf>

unrestricted sewer fund balance of approximately \$53,000 (8 percent). However, unrestricted fund balance for the sewer fund ranged from 279 to 312 percent of appropriations. This level of unrestricted fund balance does not align with the Village's adopted policy nor is supported by long-term financial and capital plans.

Recommendation 3 – Sewer Rent Rates

The Board should adjust sewer rent rates to correspond with the actual annual cost of sewer services provided.

Status of Corrective Action: Not Implemented

Observations/Findings: Village officials have not adjusted sewer rent rates to correspond with the actual annual cost of sewer services provided. Sewer rent charges continued to significantly exceed annual sewer expenditures, resulting in operating surpluses.² The Board has not established appropriate reserves for future expenditures and to provide transparency to taxpayers regarding the use of surplus funds. As stated within the Village's corrective action plan, the Village hired a dedicated sewer department employee following the prior audit. However, the employee left the position shortly after being hired and was not replaced.

Recommendation 4 – Sewer Fund Transfers

The Board should discontinue making sewer fund transfers to the general fund and recover the money previously transferred.

Status of Corrective Action: Partially Implemented

Observations/Findings: Village officials discontinued transfers from the sewer fund to the general fund. The last transfer was made in 2018 for \$18,069. We also reviewed the 2020-21 adopted budget to confirm that no transfers from the sewer fund to the general fund were included in the budget. Village officials did not transfer back funds identified in the original audit or from 2018 to the sewer fund. Village officials informed us that these transfers were not established as liabilities to be repaid, and related to shared costs between the general and sewer fund. However, upon further explanation and review, we determined that the costs the Village referred to were general in nature and not appropriate interfund charges to the sewer fund. Therefore, we maintain the position that the transfers, identified in the original audit and from 2018, should be repaid to the sewer fund.

Recommendation 5 – Sewer Fund Financial Plan

The Board should develop a long-term financial plan for the sewer fund to identify revenue, expenditure and fund balance trends.

² Refer to Recommendation 2 for more information.

Status of Corrective Action: Not Implemented

Observations/Findings: The Board is in the process of developing a long-term financial plan for the sewer fund. Village officials stated that the process has been delayed due to various factors such as personnel turnover and other priorities, including the previously mentioned litigation.

Recommendation 6 – Procurement Policy

The Board should update its procurement policy to provide clear guidance for procuring professional services in an economical manner and establish how documentation supporting such decisions should be maintained.

Status of Corrective Action: Fully implemented

Observations/Findings: The Board updated its procurement policy with additional guidance regarding the procurement of professional services, including the requirement to issue a request for proposal (RFP) when seeking to hire professional services. The policy now offers alternative means by which these services will be procured. Thus, the policy provides clear guidance for procuring professional services in an economical manner and requires sufficient supporting documentation for all procurement decisions.

Recommendation 7 – Professional Service Agreements

The Board should enter into written agreements or approved detailed Board resolutions for all individuals and firms who provide professional services to the Village. These agreements and resolutions should clearly stipulate the services provided, the time frame for those services and the basis for compensation.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board did not have written agreements with adequately defined terms of service or approved detailed Board resolutions on file for all individuals and firms who provide professional services to the Village. However, our follow-up testing indicated that the Village made improvements in maintaining written contracts with sufficient detail since the initial audit. We reviewed payments totaling \$1.2 million made to 11 professional service providers, who were each paid more than \$10,000 from June 1, 2017 through June 30, 2020. We obtained and analyzed the written service agreements for sufficient detail.³ The Village had sufficiently detailed written agreements on file for six of the professional service providers (55 percent), who received payments totaling \$249,562.

³ We looked for adequate terms including the professional services to be provided, the time frames for those services and the basis for compensation.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. 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 Edward V Grant, Jr., Chief Examiner of our Rochester Regional Office at 585-454-2460.

Sincerely,

Elliott Auerbach
Deputy Comptroller