



# City of Glen Cove Severe Fiscal Stress

## Report of Examination

Period Covered:

January 1, 2005 - August 31, 2006

2006M-146



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# State of New York Office of the State Comptroller

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## Division of Local Government Services and Economic Development

October 2006

Dear City Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where local governments can improve their operations and provide guidance and services that will assist local officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery and to account for and protect their governments' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the City of Glen Cove — Severe Fiscal Stress.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by the City Council.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government Services  
and Economic Development*



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The City of Glen Cove (City) is located in northern Nassau County and encompasses approximately seven square miles. The City is governed by its Charter and other general laws of the State of New York. The City Council (Council), which consists of the Mayor and six members, has overall responsibility for the City's operations. The Mayor and other administrative staff are responsible for overseeing and managing the City's daily operations. The City's reported 2005 operating expenditures totaled \$27.9 million for the general fund, \$2.1 million for the recreation fund, \$1.8 million for the water fund and \$3.4 million for the sewer fund. The City's expenditures were funded primarily with revenues from real property taxes, water and sewer receipts, and State and Federal aid.

The City has struggled with fiscal issues for many years. In 1992 and again in 1994, the State Legislature authorized the issuance of long-term debt totaling \$5,462,162 to fund the City's 1991 and 1992 reported deficits. In accordance with legal provisions of that legislation, we reviewed the City's annual proposed budgets from 1995 through the 2005 proposed budget. In recent budget review letters, we recommended that City officials estimate revenues more conservatively for all of the operating funds and cautioned the Council on the imprudence of over-estimating revenues in adopted budgets, particularly for the water and sewer fund and the recreation fund.

#### **Scope and Objective**

We interviewed appropriate City officials, verified selected cash flow revenue and expenditure items for the 2006 fiscal year, and reviewed financial records and transactions for the period January 1, 2005 through August 31, 2006, to address the following question:

- Have City officials taken adequate action to address recurring deficits in the general, water and sewer, and recreation funds and monitor revenues and expenditures?

#### **Audit Results**

City officials have not taken appropriate action to address recurring deficits in the general, water and sewer, and recreation funds and monitor revenues and expenditures. As a result, the City has continued to experience annual operating deficits and it is now in severe fiscal stress. The City is currently experiencing severe cash shortages and will likely end 2006 with an accumulated deficit of almost \$10 million.

With the exception of 2004, the City has experienced recurring operating deficits in its general, water and sewer, and recreation funds each year from 2001 through 2005. By the end of 2005, the City's operating funds had a combined accumulated deficit of almost \$5 million. The operating deficits in the general fund mainly resulted from a failure to control expenditures. The water and sewer and recreation fund deficits resulted from over-estimating revenues and unrealistic expenditure estimates.

The City's 2006 budget and expected operating results will further exacerbate its fiscal problems. We project that the City will end 2006 with a combined cumulative operating deficit of more than \$4 million and an additional unfunded deficit in the internal service fund of about \$833,000, further increasing the combined accumulated fund deficit from about \$5 million to almost \$10 million.

Recurring operating deficits and the resulting cumulative fund deficits create a constant drain on current resources. As a result, the City has operated in 2006 without sufficient cash to meet its obligations. From January through August 2006, the City has been operating with a negative cash availability ranging from \$2 to \$7.1 million. We project that by December 31, 2006, the City's available cash will be about \$9 million less than it needs, which closely reflects the projected accumulated fund deficits of the City's operating funds.

The City's fiscal problems will not improve in the next several years unless the Mayor and the Council take decisive action to address the situation. During 2006, the City prepared a multiyear financial plan for 2007 through 2009. The plan illustrates that if revenue and expenditures continue to increase based on prior years' trends and if action is not taken to structurally balance future City budgets, the general and water and sewer funds will sustain annual operating deficits from 2007 through 2009 aggregating \$16.3 million. The City's plan does not address how it would eliminate projected fund deficits in the recreation, debt service and internal service funds at December 31, 2006. When these other City funds are considered, the City's potential accumulated fund deficit could approach almost \$28 million by the end of 2009.

Very poor budgeting practices have contributed to the City's \$5 million accumulated fund deficit in 2005 and the projected combined operating deficit of \$4 million at December 31, 2006. In addition, the unavailability of financial information that is critical to the Council's ability to assess financial condition and budget trends, such as cash flow projections, monthly budget reports and timely issued audited financial statements have severely hampered the City officials' ability to timely identify their severe financial problems and to take corrective action. Spending limits have not been strictly monitored and enforced.

### **Comments of Local Officials**

The results of our audit and recommendations have been discussed with City officials and their comments, which appear in Appendix A, have been considered in preparing this report. City officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

# Introduction

## Background

The City of Glen Cove (City) encompasses approximately seven square miles in northern Nassau County and had a population of 26,622 according to the 2000 census. The City is governed by its Charter and other general laws of the State of New York. The City Council (Council), which consists of the Mayor and six members, has overall responsibility for the City's operations. The Mayor and other administrative staff are responsible for overseeing and managing the City's daily operations.

The City has struggled with fiscal issues for many years. On September 29, 1992, the State Legislature authorized the City to issue debt totaling \$2,951,081 to fund the City's 1991 deficit, and on April 12, 1994, the City was authorized to issue an additional debt of \$2,511,081 to fund its 1992 deficit. The City paid off this debt in December 2002 and May 2004, respectively. However, the City has sustained recurring operating deficits since 2001.

The City's 2005 reported operating expenditures totaled \$27.9 million for the general fund, \$2.1 million for the recreation fund, \$1.8 million for the water fund and \$3.4 million for the sewer fund. The City provides a variety of services to its residents including police and fire protection, water and sewer utilities, and parks and recreation programs. The City's expenditures were funded primarily with revenues from real property taxes, water and sewer receipts, State and Federal aid.

## Objective

Our audit objective was to evaluate the City's projected revenues and expenditures for its major operating funds to December 31, 2006, and to report on how these projections may affect the results of operations and fund deficits at December 31, 2006, and future years. Our audit addressed the following related question:

- Have City officials taken appropriate action to address recurring deficits in the general, water and sewer, and recreation funds and monitor revenues and expenditures?

## Scope and Methodology

During this audit we reviewed the City's financial records of the City and tested selected records and transactions for the period January 1, 2005 to August 31, 2006. We also conducted interviews of various City officials and employees, and examined documents that were pertinent to our audit work.

**Comments of  
Local Officials and  
Corrective Action**

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

The results of our audit and recommendations have been discussed with City officials and their comments, which appear in Appendix A, have been considered in preparing this report.

City officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Glen Cove City Council has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Council should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing your plan of action, you may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Council to make this plan available for public review in the Glen Cove City Clerk's office.

## Financial Condition

A city's financial condition determines its ability to provide and maintain existing service levels, withstand economic disruptions, and respond to growth, decline, and change. Cities in good financial condition collect sufficient revenues to pay short-term bills, finance major capital expenditures, and fulfill long-term obligations. The responsibility for effective financial planning and management of the City rests with the Mayor, the Council, and the City Controller. One of the Council's primary responsibilities is to ensure that budgets are prepared, amended, and adopted based upon reasonable and accurate assessments of revenues and that City expenditures do not exceed the budget.

For the fiscal year ended December 31, 2005, the City reported a combined deficit for its major operating funds (general, water and sewer, recreation, and debt service) of approximately \$5 million. This deficit is equivalent to 12 percent of the City's operating revenues.

In our prior reviews of the City's budgets,<sup>1</sup> we cautioned the Council on the imprudence of over-estimating revenues in adopted budgets, particularly for the water and sewer fund and the recreation fund. However, City officials have maintained a practice of consistently budgeting revenues that are considerably higher than actual revenues received in prior years. For example, in 2005 the City budgeted water and sewer fund revenues of \$6.2 million even though actual revenues for 2004 were only \$5 million. Actual revenue collected in 2005 was \$5.4 million. In 2006, budgeted revenues were increased to \$6.5 million. We project that the actual revenues will be only \$5.2 million. Estimated revenues for golf fees were budgeted at approximately \$1.4 million in the 2004 and 2005 adopted budgets, even though actual revenues received have not met that mark since 2001. In recent budget review letters, we recommended that City officials estimate revenues more conservatively for all of the operating funds.

The recurring operating deficits and the resulting cumulative fund deficits create a constant drain on current resources. To make up for the annual shortfall in revenues, City officials have been using the portion of the subsequent year's tax levy collected in December of each year to pay for current expenses, as shown in the table on the following page.

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<sup>1</sup> We reviewed and issued reports on the City's proposed budgets from 1995 through the 2005 fiscal year.

**Table 1**  
**Subsequent Year Taxes Used to Pay Current Expenses**

FISCAL YEAR	2001	2002	2003	2004	2005
Taxes billed December 1 for subsequent year	\$ 15,500,526	\$ 17,296,411	\$ 17,283,747	\$ 18,181,860	\$ 18,248,851
Next year's taxes collected in December	\$ 4,255,999	\$ 4,375,786	\$ 3,952,263	\$ 6,565,065	\$ 4,510,373
Less: Reported cash balance, December 31	16,412	16,070	6,304	0	80,413
Cash used from taxes collected in December	\$ 4,239,587	\$ 4,359,716	\$ 3,945,959	\$ 6,565,065	\$ 4,429,960
% of tax levy used to fund current expenses	27%	25%	23%	36%	24%

From 2001 through 2005, the City has annually used an average of 27 percent of the taxes collected for the subsequent year's budget to fund its current year operations. In addition, the City used inter-fund borrowing and the issuance of debt to obtain cash to pay for current expenditures. For example, during 2005, the City issued \$3.5 million in Revenue Anticipation Notes (RANs) to provide additional cash to fund operations, which was repaid by year end. In addition, at December 31, 2005 the operating funds owed the capital projects fund \$4.4 million.

**Accumulated Fund Deficits**

On December 31, 2005, the City had accumulated unreserved fund deficits in its major operating funds (general, water and sewer, recreation, and debt service) totaling approximately \$5 million.

In the fall of 2005, City officials reported an operating surplus for 2004 of over \$500,000. While this was a positive development, it was only momentary, and the City still had an accumulated deficit of \$3.3 million from prior years and did not yet know the operating results for 2005. In fact, as shown in the table below, the City had accumulated fund deficits in each year since 2001, and with the exception of 2004, that accumulated deficit increased each year.

**Table 2**  
**Accumulated Fund Balances (Deficits)**

Fiscal Year	General Fund	Water & Sewer Fund	Recreation Fund	Debt Service Fund	Total Unreserved Fund Balance (Deficit)
2000	\$72,112	\$44,090	\$536	\$691,748	\$808,486
2001	(\$774,644)	(\$362,323)	(\$215,114)	\$1,904	(\$1,350,177)
2002	(\$1,555,756)	(\$208,046)	(\$624,482)	\$1,989	(\$2,386,295)
2003	(\$1,647,645)	(\$1,264,989)	(\$1,008,297)	\$2,044	(\$3,918,887)
2004	(\$772,161)	(\$1,185,992)	(\$1,345,082)	\$2,045	(\$3,301,190)
2005	(\$1,341,415)	(\$1,701,474)	(\$1,699,076)	(\$217,058)	(\$4,959,023)

Source: City of Glen Cove's audited financial statements

City officials and the Council should have taken remedial action to mitigate the negative impact of operating deficits on the City's financial position as those deficits were occurring, and should have adopted annual budgets that were based on realistic estimates. Although many factors contributed to the increase in the accumulated deficit, the main

cause is the annual adoption of unrealistic budgets. The operating deficits in the general fund were mainly created by expenditures exceeding budget appropriations. For example, the 2001, 2002, 2003, and 2005 operating deficits were caused by over-expenditures that exceeded additional revenues by \$751,000, \$952,000, \$117,000, and \$569,000, respectively. The water and sewer fund deficits were created by including unrealistic revenue and expenditure estimates in prior budgets, with an emphasis on over-estimating water and sewer revenues in the last three years. Unrealistic revenue and expenditure estimates in adopted prior budgets caused the accumulated fund deficit in the recreation fund. Additional contributing factors are further discussed in this report in the section titled *Other Factors Contributing to Fiscal Stress*.

In our October 2004 budget review which addressed the City's 2005 proposed budget, we cautioned the Council that the proposed budget contained optimistic water and sewer fund revenue estimates. In fact, despite the inclusion of an appropriation of \$514,949 in the 2005 proposed budget to finance prior year deficits, the water and sewer fund's deficit increased by \$515,482.

Similarly, we cautioned the City to be more conservative when estimating revenues in the recreation fund because historical trends did not support the \$1.47 million in revenue included in the 2005 budget. This revenue had averaged about \$1.3 million per year since 2002. In 2005, the recreation fund reported an operating deficit of \$353,994, mainly attributable to unrealistic revenue estimates. Unless the activities in these funds become self-sustaining and generate sufficient resources to eliminate prior accumulated deficits, their cumulative deficits will ultimately become the responsibility of the general fund.

The City's general fund had an accumulated surplus of \$72,112 in 2000 but has ended each year since then with an accumulated deficit. By December 31, 2005, the deficit had grown to \$1.3 million. Since 2001, with the exception of 2004, the City reported annual general fund operating deficits which were mainly attributable to the adoption of budgets that included appropriations that were not sufficient to cover operating expenditures. For example, in the 2005 budget the City did not provide sufficient appropriations to adequately cover the police department's salaries and related retirement costs, expenditures for contractual services, legal fees, and employees' retirement system contributions. Individual over-expended appropriation accounts aggregated \$2.6 million in 2005. This was offset by \$1.4 million in unexpended appropriations and additional revenues of \$581,000. The net result was a general fund operating deficit of \$569,000.

As of December 31, 2000, the water and sewer fund reported an accumulated surplus of \$44,090. As of December 31, 2005, this fund reported an accumulated deficit of \$1.7 million. This resulted from operating deficits in 2001, 2003 and 2005, mainly driven by over-estimation of revenues in adopted budgets. For example, in 2003 revenues were \$600,000 less than budgeted estimates and expenditure exceeded appropriations by \$472,000, resulting in an operating deficit of over \$1 million. In 2005, the operating deficit of \$515,000 was caused by revenue shortages of \$765,000 which were partially offset by under-expenditures of \$250,000.

The activities of the recreation and golf operations are combined in the adopted budget and reported accordingly in financial reports. The recreation fund reported an accumulated surplus of \$536 as of December 31, 2000. However, this fund reported annual operating deficits thereafter, aggregating to a \$1.7 million accumulated fund deficit as of December 31, 2005. The deficits were caused by both over-estimating revenues and under-estimating expenditures in adopted budgets.

In our prior reviews of the City's budgets, we have expressed concerns regarding the over-estimation of revenues from golf operations. The City's 2004 and 2005 adopted budgets included estimated revenues from golf operations of \$1.4 million each year. However, they realized only \$1.2 million and \$1.1 million, respectively. Despite this revenue history, the Council approved a budget for 2006 that contained estimated revenue of \$1.6 million from golf operations. Consistent with prior years, we expect that only \$1.2 million will be realized from golf operations in 2006.

The debt service fund is used to account for resources accumulated for the payment of principal and interest on long-term debt. Generally, annual revenues in this fund represent transfers from operating funds that are equal to the amount of their respective debt service requirements. As of December 31, 2000, the debt service fund reported an accumulated surplus of \$692,000. This fund reported an operating deficit of \$219,000 in 2005, caused by the City transferring \$131,000 less from other funds than budgeted and expenditures of \$88,000 more than budgeted. As a result, as of December 31, 2005 the fund had an accumulated deficit of \$217,000.

### **The 2006 Adopted Budget**

The adopted budget for the 2006 fiscal year provides for expenditures of \$44.9 million, as summarized on the following page:

**Table 3**  
**2006 Adopted Budget**

<b>Fund</b>	<b>Appropriations and Provisions for Other Uses</b>	<b>Estimated Revenues Other Than RPT</b>	<b>Real Property Taxes (RPT)</b>
General (a)	\$28,976,845	\$10,776,955	\$18,199,890
Recreation	\$2,805,489	\$2,805,489	
Water/Sewer	\$6,450,000	\$6,450,000	
Debt Service	\$6,723,403	\$6,723,403	
<b>Total</b>	<b>\$44,955,737</b>	<b>\$26,755,847</b>	<b>\$18,199,890</b>

(a) - Appropriations for Police Department expenditures were shown separately in the adopted budget. However, they are integrated at year-end into the general fund. The appropriations shown above reflect the net amount budgeted for general fund activities.

We reviewed actual revenues and expenditures of the major operating funds as of July 31, 2006, compared those amounts to the revenues realized and expenditures incurred as of July 31, 2005, and projected results of operations for the City's major operating funds as of December 31, 2006. Our projections are based on a combination of known information, such as approved State aid, and estimations based on the prior year's revenues and expenditure. The City's actual operating results may differ significantly from our projection based on actions City officials may take between September and December 2006 to mitigate the imbalance in the 2006 budget.

The following table shows our projection of the results of operations and the accumulated fund deficits of the City's operating funds as of December 31, 2006.

**Table 4**  
**2006 Projected Operating Deficits**

	<b>General Fund</b>	<b>Water / Sewer Fund</b>	<b>Recreation Fund</b>	<b>Debt Service Fund</b>	<b>Combined Surplus (Deficit)</b>
Reported Fund Deficit at January 1, 2006	(\$1,341,415)	(\$1,701,474)	(\$1,699,076)	(\$217,058)	(\$4,959,023)
Add:					
Projected Results of Operations at December 31, 2006	(\$1,999,468)	(\$1,036,858)	(\$611,591)	(\$355,909)	(\$4,003,826)
Projected Fund Deficit at December 31, 2006	(\$3,340,883)	(\$2,738,332)	(\$2,310,667)	(\$572,967)	(\$8,962,849)
Add:					
Unfunded Deficit in the Internal Service Fund at December 31, 2006					(\$833,675)
<b>Total Projected Fund Deficit at December 31, 2006</b>					<b>(\$9,796,524)</b>

Based on our review of the current budget, we project that the City will complete 2006 with a combined operating deficit of approximately \$4 million, further increasing the existing accumulated fund deficit from \$5 million to approximately \$9 million. We also identified an additional unfunded deficit of \$672,450 in the internal service fund<sup>2</sup> as of December 31, 2005, which will likely increase by

<sup>2</sup> This fund's activities are not separately shown in the adopted budget. The appropriations for internal service fund are included in the operating funds' budgets and characterized as "Contribution to self-insurance."

approximately \$161,000 by the end of 2006. This additional deficit of approximately \$833,000 is the responsibility of the City's operating funds since it resulted from the City's failure to charge back expenses to the operating funds. Therefore, the City's accumulated fund deficit at December 31, 2006 will likely be approximately \$9.8 million.

General Fund – The City's 2006 adopted general fund budget totaled almost \$29 million (see Table 3). We found that the general fund budget contains approximately \$1.4 million in revenues that will probably not be realized in 2006 while it also fails to provide approximately \$700,000 of appropriations needed to finance current operations. Consequently, we estimate that the general fund will sustain an operating deficit of about \$2 million by the end of the 2006 year, with the accumulated general fund deficit as of December 31, 2006 growing to approximately \$3.3 million.

We identified certain general fund revenues that will fall short of the amount budgeted by approximately \$2.5 million. However, since other general fund revenues will exceed the budgeted amounts by \$1.1 million, we project a net revenue shortfall of \$1.4 million. The following revenue items make up most of the expected general fund revenue shortfall of \$2.5 million:

**Table 5**  
**2006 General Fund Revenue Shortfalls**

	<b>2006 Budget</b>	<b>Projected as of 12/31/06</b>	<b>Revenue Shortfall</b>
Contribution From CDA/IDA	\$674,190	\$0	(\$674,190)
Building Permits	\$726,700	\$136,433	(\$590,267)
Real Property Tax	\$18,199,890	\$17,900,000	(\$299,890)
Mortgage Tax	\$1,750,000	\$1,550,000	(\$200,000)
FEMA Reimbursement	\$100,000	\$0	(\$100,000)
Total	\$21,450,780	\$19,586,433	(\$1,864,347)

- A Community Development Agency (CDA) official confirmed that the CDA owes the City \$637,200. This amount is the balance owed from the transfer of City properties to the CDA designated for the "Glen Cove Waterfront Revitalization Plan." However, this amount is payable upon the availability of funds and is contingent upon the sale of property for development. We were informed by a Council member that, at the time the 2006 budget was adopted, City officials expected the property to be sold and the revenue realized in 2006. However, as of October 11, 2006, the property has not been sold and a CDA official confirmed that the CDA does not have the funds to pay the City this year. Revenues from sale of property are considered "one shots" and should not be

used to fund recurring expenditures, but used to finance non-recurring expenditures, such as construction of capital assets or redemption of long-term debt. In addition, since the sale of this property was not definite when the budget was adopted, this estimated revenue should not have been included in the 2006 adopted budget.

- The estimated revenue from building permits is not supported by historical trends. As a result, revenue is over-estimated in the 2006 budget. In 2005 the City budgeted \$455,000 for this revenue but only realized \$157,000. Despite that, the estimated revenue in the 2006 budget was increased by 60 percent to \$726,700. City officials stated that this budgeted increase was based on their expectation that the waterfront development would occur, thereby resulting in an increased demand for building permits. This has not materialized. As of July 2006, the City had collected only \$62,612 from building permits. If this trend continues, we project that less than \$140,000 will be collected this year, resulting in a revenue shortfall of \$590,000.
- The single largest revenue in the 2006 budget is real property taxes which, at \$18.2 million, remained unchanged from the 2005 budget. Historically, the City collects approximately 98 percent of the annual tax levy. Therefore, we project that approximately \$300,000 of real property taxes will not be collected in 2006. We note that the City does not use a tax overlay to make up for the amount of uncollected taxes needed to fund current operations.
- In the last few years, the City collected mortgage tax revenues in excess of the budgeted amount because of an increase in the real estate market and because the City had been conservative in estimating this revenue. Although the revenue estimate of \$1.75 million included in the 2006 adopted budget was reasonable at the time the budget was adopted, the real estate market has since slowed. August 2006 receipts were 16 percent less than the amount received in the prior year. If this trend continues, we project that the City may only collect \$1.55 million, resulting in a revenue shortfall of \$200,000.
- The budget includes estimated revenue for FEMA Reimbursements of \$100,000. As of September 15, 2006, this revenue had not been collected. The City could not provide documentation to show that this revenue will be collected during 2006. Therefore, we project a revenue shortfall of \$100,000.

Our analysis also shows that certain general fund appropriations will be over-expended by approximately \$2.2 million while other appropriations will be under-expended by \$1.5 million during 2006. Therefore, we project a net over-expenditure of approximately \$680,000. The following five appropriation accounts account for approximately 50 percent of the projected over-expenditures.

**Table 6  
2006 General Fund Overexpenditures**

	<b>2006 Budget</b>	<b>Projected as of 12/31/06</b>	<b>Over- Expenditure</b>
Police Termination Pay	\$345,888	\$786,940	\$441,052
Police Overtime	\$344,095	\$650,295	\$306,200
Refuse and Garbage Contractual Services	\$849,632	\$994,209	\$144,577
Legal Fees	\$70,000	\$158,982	\$88,982
City Council Contractual Services	\$87,500	\$161,973	\$74,473
<b>Total</b>	<b>\$1,697,115</b>	<b>\$2,752,398</b>	<b>\$1,055,284</b>

- As of August 31, 2006, the appropriation for Police Termination pay was over-expended by \$441,052. The City anticipated the retirement of the Deputy Police Chief in 2006 and budgeted accordingly. However, two additional police officers retired in the summer of 2006 which required additional payments of \$455,370. The City's budget did not include an appropriation for these expenditures. Assuming no other police officer will receive termination payments for the remainder of 2006, the over-expenditure of \$441,052 will remain unchanged.
- The appropriation for Police Overtime has traditionally been under-budgeted. From 2002 to 2005, the average actual Police Overtime expenditure exceeded the amounts budgeted by approximately 69 percent. The over-expended amounts ranged between \$107,000, in 2002 and \$327,000 in 2005. As of August 2006, \$380,000 in police overtime has been paid, exhausting and exceeding the amount appropriated in the 2006 budget. If this trend continues for the remainder of the year, we project an over-expenditure of \$306,000.
- We projected expenditures for Refuse and Garbage Contractual Services, Legal Fees, and City Council Contractual Services based on prior year results. Based on that information, we project that collectively these expenditures will exceed the budget by \$308,032.

Water and Sewer Fund — The 2006 adopted budget for the water and sewer fund included estimated revenues of \$6.45 million, mainly from water and sewer charges. Although the City adopted a budget that is seemingly balanced, we project approximately \$1.3 million in budgeted revenues will not be available to fund current expenditures. This revenue shortfall may be partially offset by \$143,000 in additional revenue and \$189,000 in under-expenditures, resulting in an operating deficit of approximately \$1 million. Therefore, we project the water and sewer fund accumulated deficit will approximate \$2.7 million by the end of 2006.

The revenue shortfall is attributable to over-estimation of the following three revenues:

**Table 7**  
**2006 Water and Sewer Funds Revenue Shortfalls**

	<b>2006 Budget</b>	<b>Projected 12/31/06</b>	<b>Revenue Shortfall</b>
Water Fund Charges	\$4,350,000	\$3,961,342	(\$388,658)
Sewer Annual Charges	\$775,000	\$113,219	(\$661,781)
Sewer Fund Charges	\$1,250,000	\$972,548	(\$277,452)
Total	\$6,375,000	\$5,047,109	(\$1,327,891)

- The Council increased water and sewer rates effective August 2004. The 2006 budget includes a revenue estimate for water fund charges of \$4.35 million. In 2005, the same amount had been budgeted for water charges. However, only \$4.2 million was collected in 2005, resulting in a revenue shortfall of about \$140,000. We project water fund collections will be approximately \$4 million in 2006. City officials indicated that the revenue shortfall is mainly attributable to the impact of increased rainfall on water consumption.
- The Council estimated revenue from Sewer Annual Charges of \$775,000 in the 2006 budget, even though only \$95,400 had been collected in 2005, which was \$404,600 less than budgeted. City officials stated that the budget was based on a planned expansion and modernization of the City’s sewage receiving station to accommodate waste from entities outside City limits, thereby increasing revenue. However, the project was never enacted. Based on prior and current trends, we project this revenue to be approximately \$660,000 less than budgeted in 2006.

- We also noted a revenue shortfall for sewer fund charges in 2006. Based on prior year's results, we project that less than \$1 million will be collected from this revenue source, resulting in a revenue shortfall of \$277,000 in 2006.

Recreation Fund — The 2006 budget included estimated revenues of \$2.8 million, of which \$1.64 million related to revenues from golf fees, and a \$615,000 subsidy was from the general fund. For the fiscal year ended December 31, 2006, we project an operating deficit in this fund of approximately \$600,000, increasing the accumulated fund deficit at year-end to \$2.3 million. Most of the 2006 operating deficit is attributable to over-estimation of golf fees of about \$487,000. We also project that expenditures will exceed appropriations by \$87,000.

Debt Service Fund — The debt service requirements for 2006 were budgeted at \$6.7 million and financed as follows:

**Table 8**  
**2006 Debt Service Fund Estimated Revenue**

	<b>Estimated Revenues</b>
Transfers From General Fund	\$4,770,275
Transfers From Sewer Fund	\$712,561
Transfers From Water Fund	\$539,075
Contributions From CDA/IDA	\$352,092
CHIPS Reimbursement	\$335,000
Transfers From Recreation Fund	\$14,400
Total	\$6,723,403

We project a 2006 operating deficit of approximately \$356,000, increasing this fund's accumulated deficit from \$217,000 as of 2005 year-end to \$573,000 as of December 31, 2006. This operating deficit is mostly attributable to the fact that the contribution from CDA/IDA of \$352,092 will likely not be collected in 2006. We based our conclusions on the following:

- In 2003, the amount budgeted as a contribution from CDA/IDA was \$50,000, which was not received.
- The 2004 and 2005 budgets included estimated revenues of \$538,619 and \$345,000 respectively as a contribution from CDA/IDA, neither of which was realized.

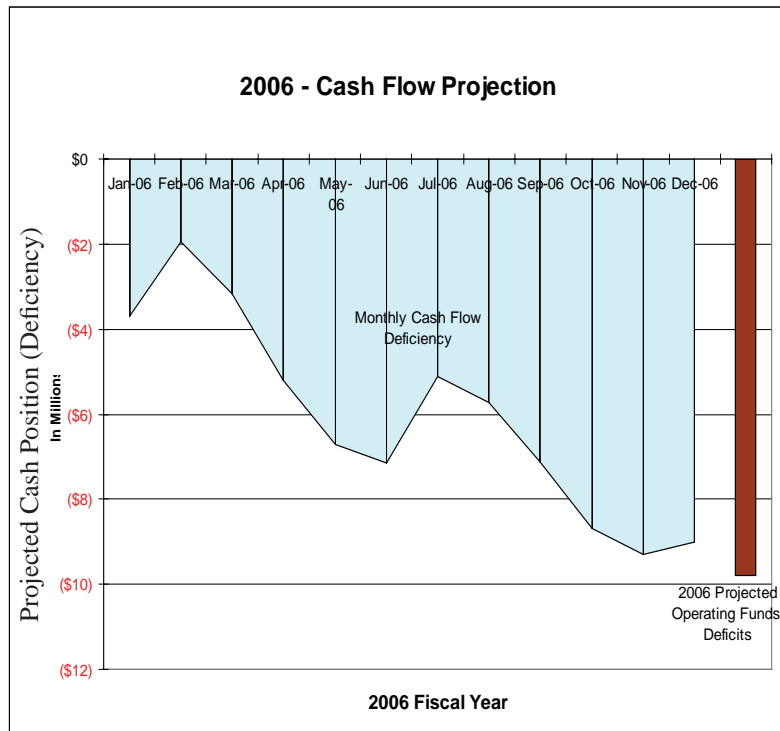
- A CDA/IDA official informed us that the CDA/IDA does not have the money available to pay its portion of the EFC<sup>3</sup> loans.

The amount of CHIPS (Consolidated Highway Improvement Program System) aid allocated to the City in the 2006-2007 NYS Department of Transportation's budget is \$348,982. The City requested \$233,000 in August 2006 for CHIPS reimbursement from NYS. Unless additional requests for reimbursement are submitted in 2006, the balance of \$102,000 will not be attained by December 31, 2006, the end of the City's fiscal year.

## Cash Flow

The analysis of cash flow is an indispensable financial tool needed to evaluate the City's cash availability in the short-term and immediate future. There is no indication that the City prepared monthly cash flow projections during 2005.

The City Controller provided us with a cash flow analysis for the 2006 fiscal year that shows the combined operating funds' actual cash availability from January through August, and monthly projections through December 31, 2006. We reviewed the City's 2006 cash flow analysis and found that except for an over-estimation of \$230,000 in departmental income as of December 31, 2006, the City's cash flow projection appears reasonable. We adjusted the cash availability as of December 31, 2006 to reflect the lower estimate for departmental receipts and present our adjusted projection graphically below.



<sup>3</sup> Environmental Facility Corporation (EFC)

From January through August 2006, the City has been operating with negative available cash ranging from a low of \$2 million in February 2006 to a high of \$7.1 million in June 2006. As a result, significant amounts of checks for vendor payments were written but not released. Checks were kept in the City's vault and released as cash became available. For example, we identified 241 checks totaling \$4,059,315 held in the City's vault on June 1, 2006, because there was no cash available in the City's bank account to cover the payments.

The City projects that its cash position will worsen through the remainder of the year when it is likely to be at a negative \$9 million, which closely reflects the accumulated fund deficits in the City's operating funds. The analysis also includes an estimated \$4.5 million in real property tax revenue that represents the portion of tax collections for the 2007 fiscal year that will be collected in December 2006. Generally, the use of next year's tax collection to fund current year's expenditures is inappropriate.<sup>4</sup> If the \$4.5 million is deducted from the analysis, the City's cash availability will be a negative \$13.5 million as of December 31, 2006.

## Multiyear Financial Plan

During the first quarter of 2006, the City submitted a multiyear financial plan for fiscal years 2007 through 2009 to the New York State Division of Budget and the Office of the State Comptroller. This plan makes certain assumptions based on historical trends and forecasts the results of operations of the general and water and sewer funds through 2009. The plan does not include the recreation fund. The City's plan indicates that if revenue and expenditures continue to increase based on prior years' trends and if action is not taken to structurally balance future City budgets, the general and water and sewer funds will sustain annual operating deficits from 2007 through 2009 aggregating \$16.3 million.

**Table 9**  
**Summary of City's Multiyear Financial Plan**

City's Multiyear Financial Plan	Estimated	Budget	Projected			Total
	2005	2006	2007	2008	2009	
<b>General Fund</b>						
Operating Surplus (Deficit)	(\$375,008)	\$0	(\$3,758,145)	(\$4,860,494)	(\$5,991,640)	
<b>Water and Sewer Fund</b>						
Operation Surplus (Deficit)	(\$348,044)	\$7,500	(\$438,940)	(\$567,022)	(\$695,476)	
<b>Combined Operating Surplus (Deficit)</b>	<b>(\$723,052)</b>	<b>\$7,500</b>	<b>(\$4,197,085)</b>	<b>(\$5,427,516)</b>	<b>(\$6,687,116)</b>	<b>(\$17,027,269)</b>

<sup>4</sup> As far back as 1995, in our report 95M-138, we cautioned the City that "the use of property taxes should be restricted to the purpose for which they were levied, and property taxes levied to finance operations in the subsequent year should not be used to relieve cash flow problems of the current year."

The City's multiyear financial plan proposes potential strategies, averaging approximately \$9 million annually, to eliminate the general and sewer fund budget shortfalls in future years. The major components of these strategies are:

- Increase property taxes by 7 percent in 2007 which results in an average of \$1.3 million of additional revenue per year. The multiyear plan already includes a 3 percent annual tax increase. Therefore, the City's multiyear plan proposes a 10 percent tax increase in 2007 and a 3 percent annual increase thereafter.
- Begin charging fees for residential garbage collection or privatize the service, resulting in average annual revenue or savings of \$1.9 million.
- Implement a 10 percent budget savings in each City department through attrition or layoffs which would reduce average expenditures by \$2 million per year.
- Doubling court fines which would generate an additional \$200,000 per year.
- Tripling sewer rates beginning in fiscal 2007, which would generate an additional \$3.4 million annually.

The City's plan does not address how it would eliminate the projected accumulated fund deficits in the recreation, debt service and internal service funds at December 31, 2006. We contrast the City's estimates in its Multiyear Financial Plan as summarized in Table 9 to actual results of reported operations for 2005 and our projected results of operations for 2006 as adjusted in Table 10 on the following page.

**Table 10**  
**OSC's Adjustments to the City's Multiyear Estimates**

Adjusted Multiyear Financial Plan	Actual	Projected		Projected		Total
	2005	2006	2007	2008	2009	
<b>General, Water and Sewer Funds</b>						
Combined Operating Deficit	(\$1,084,737)	(\$3,036,326)	(\$4,197,085)	(\$5,427,516)	(\$6,687,116)	(\$20,432,780)
<b>Recreation Fund</b>						
Operating Deficit	(\$353,994)	(\$611,591)	(\$600,000)	(\$600,000)	(\$600,000)	(\$2,765,585)
<b>Debt Service Fund</b>						
Operating Deficit	(\$219,102)	(\$355,909)	\$0	\$0	\$0	(\$575,011)
<b>Internal Service Fund</b>						
Unfunded Deficit	(\$672,450)	(\$161,225)	\$0	\$0	\$0	(\$833,675)
<b>Combined Operating Deficit</b>	<b>(\$2,330,283)</b>	<b>(\$4,165,052)</b>	<b>(\$4,797,085)</b>	<b>(\$6,027,516)</b>	<b>(\$7,287,116)</b>	<b>(\$24,607,052)</b>
Cumulative Fund Deficit as of January 1	(\$3,301,190)	(\$5,631,473)	(\$9,796,525)	(\$14,593,610)	(\$20,621,126)	
Cumulative Fund Deficit as of December 31	(\$5,631,473)	(\$9,796,525)	(\$14,593,610)	(\$20,621,126)	(\$27,908,242)	

A comprehensive and realistic multiyear financial plan provides the Council and the public with the means to assess future budget gaps and provide viable options to close those gaps. Our analysis shows that the City's estimates for the general and water and sewer funds' results of operations for 2005 and 2006 were overstated by \$3.4 million. In addition, by not including all operating funds in the plan, an additional \$4.2 million of potential operating deficits were not considered. Therefore, if the assumptions in the plan remain unchanged, the City would have to provide other revenues or cost-saving options to eliminate the additional \$7.6 million of existing and projected deficits in future budgets.

**Other Factors Contributing to Fiscal Stress**

There were a number of other factors that contributed to the accumulation of a projected combined fund deficit of approximately \$9.8 million as of December 31, 2006. The Council failed to properly budget and monitor appropriations and revenues. There is also a lack of timely and sufficient financial information available to Council members and City officials.

Timely and sufficient financial information is essential for the preparation of a structurally balanced budget. In addition, such information is required to quickly and effectively deal with problems affecting financial condition, and to successfully monitor appropriations and revenues. The lack of timely financial information was a significant contributing factor that led to the preparation of poorly constructed budgets, and the inadequate monitoring of appropriations and revenues.

Audited financial statements are usually not issued timely after the end of the fiscal year. As a result, the Council and City officials are not fully aware of the condition of City finances until well into the

succeeding fiscal year. For example, in September 2004, during our review of the proposed 2005 budget, the City had not prepared its annual report for the year ended December 31, 2003, and the audited financial statements had yet to be issued. The audited financial statements for the period ended December 31, 2004 were not issued until February 8, 2006. In August 2006, during our current audit of the City's financial condition, only a draft copy of the audited financial statements for the year ended December 31, 2005 was available for our review. We question how the Mayor and Council can effectively prepare the budget for an upcoming fiscal year without the assurance of audited financial statements for the prior year.

Prior to May 31, 2006, Council members did not request and were not provided with periodic budget reports. One of the Council's primary responsibilities is to ensure that City expenditures do not exceed the budget. In addition, if revenue shortfalls occur during the year, it is the responsibility of the City Controller to recommend and the Council to adopt budget amendments that will either reduce spending or provide additional revenues so that there are sufficient resources to finance expenditures.

The lack of formal procedures and budget oversight over the procurement process also contributed to over-expending budget appropriations. The procurement of goods and services is mostly controlled by the various department heads, not by the Purchasing Agent. Consequently, appropriations become over-expended because budgeted spending limits are not strictly monitored and enforced.

The Council does not receive cash flow projections and the Controller's bi-weekly reports do not reflect the true cash position of the City. At the May 23, 2006 Council meeting, the Controller reported a current cash balance of \$971,990 and investments of \$388,045. However, the amount reported was the prior day's bank balance, not the balance in the City's books, which was negative for the entire month of May 2006. The cash balance per the City's books would have provided the Council with a more accurate account of the City's cash position. For further details on the City's cash position, refer to the report section titled *Cash Flow*.

## **Recommendations**

1. City officials should immediately take what actions they can to reduce the 2006 operating deficits in the general, water and sewer, recreation, and debt service funds.

2. The City should adopt a 2007 budget that is conservatively estimated and ensures that recurring revenues are sufficient to fund recurring expenditures. The 2007 budget should begin to deal with the City's accumulated deficits as well as the projected budget shortfalls in the out-year budgets, 2007 through 2009.
3. The City Controller should provide financial information to Council members timely, so that they may properly assess proposed budgets and monitor the status of current budgeted revenues and appropriations.
4. Formal procedures should be implemented to monitor the procurement process and prevent expenditures from exceeding available appropriations.
5. In addition to providing monthly reports of bank cash balances to the Council, the City Controller should submit cash flow projections showing actual and projected monthly receipts and disbursements and cash balances for the current period and the next 12 months.
6. The Council should require its independent public accountant to issue the audited financial statements within six months after the close of the City's fiscal year.
7. The Council should consider establishing a reserve for compensated absences to provide funding for unexpected employee termination payments.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



CITY OF GLEN COVE

City Hall  
9 Glen Street  
Glen Cove, NY 11542-4106

October 11, 2006

██████████  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, NY 11788-5533

Dear ██████████:

I am in receipt of your Draft Report of Examination (2006M-146) for the time period January 1, 2005 through August 31, 2006.

I have read this report from cover to cover and wish to commend you and your team for your thorough analysis, review and documentation of the financial condition of the City of Glen Cove. Your findings not only confirm the severity of the city's worsening financial condition it also validates the spirit and direction with which I am preparing my 2007 Operating Budget, the first of my administration. The city controller and I have put together a proposed budget with obtainable results that include a 27.81% tax increase for the city portion of the property taxes paid by local residents and property owners. This increase will bring an additional five million dollars of much needed revenue which will offset the rising contractual obligations and annual growth of other operating expenses.

This audit also provides me and the city council with a mutual point of reference and understanding as we strive to work together to implement strategic, tangible and sustainable budgets as we move forward.

In addition, I will be working with my controller and city council to address the documented deficit through 2005 and the projected deficit for the year ending 2006. I will stay in communication with your office as these plans are formulated and implemented.

I also thank the NYS Comptrollers Office on behalf of the citizens of Glen Cove for recognizing and responding to the urgency of my request to commence this audit in a timely fashion.

Thank you for your attention to this matter.

Sincerely,



Ralph V. Suozzi  
Mayor

RVS/msb

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objectives, we interviewed appropriate City officials and employees, tested selected records and transactions, and examined pertinent documents for the period January 1, 2005 through August 31, 2006. Our examination included the following:

- We analyzed the changes in fund balance of the general, water and sewer, recreation, and debt service funds for the 2001 through 2005 fiscal years to determine the combined fund deficit trends, as reported in independent audit reports, and evaluated the major factors contributing to operating deficits for those years.
- We analyzed the results of operations for the general, water and sewer, recreation, and debt service funds for fiscal year 2005 to determine if the estimated revenues and appropriations in the adopted 2006 budget were realistic.
- We reviewed actual revenues and expenditures for January 1, 2006 through July 31, 2006 and compared them to the City's revenues and expenditures for the same period in fiscal year 2005 to project the results of operations for the major operating funds as of December 31, 2006.
- We analyzed real property taxes collected in December of each year, from 2001 through 2005, to determine what percentage of the subsequent years' tax levy was used to fund those respective years' operating expenditures.
- We reviewed the City's 2006 cash flow projection for reliability. To accomplish this objective, we verified selected revenues received and expenditures incurred during July and August of 2006 and analyzed cash receipts and disbursements from September through December of 2005 to determine if the City's cash projection through December 2006 is consistent with 2005 cash receipts and disbursement activity.
- We analyzed the City's Multiyear Financial Plan to determine if it is a complete representation of the City's current and projected financial condition through the 2009 fiscal year.
- We confirmed with officials of the City's CDA/IDA the likelihood of whether certain 2006 budgeted revenues in the general and debt service funds would be realized in 2006.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and conduct our audit to adequately assess those municipal operations within our audit scope. Further, those standards require that we understand the municipality's management controls and those laws, rules and regulations that are relevant to the municipality's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

## APPENDIX C

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**DIVISION OF LOCAL GOVERNMENT SERVICES**  
**AND ECONOMIC DEVELOPMENT**

Mark P. Pattison, Deputy Comptroller  
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