Office of the New York State Comptroller

Division of Local Government
& School Accountability

City of Ithaca

Departmental Operations

Report of Examination

Period Covered:

January 1, 2010 — September 21, 2011

2012M-41

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

August 2012

Dear City Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and council governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the City of Ithaca, entitled Departmental Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

The City of Ithaca (City) is located in Tompkins County and has approximately 30,000 residents. The City is governed by a 10-member Common Council (Council). The Mayor is the chief executive officer of the City and is responsible, along with other administrative staff, for the City's day-to-day management. The Council has the power and responsibility to adopt realistic budgets and levy taxes on real property located within the City. The Mayor has the responsibility to supervise, direct and control the administration of all City government departments. The Controller is the chief fiscal officer and is responsible, along with the Council, for preparation of the budget and the issuance of debt. The Controller also is responsible for the general management and control of the City's financial affairs.

The City's General Fund budget for the 2011 fiscal year was $49,207,984, funded primarily by real property taxes, sales and use taxes, and State aid. The primary services financed by the General Fund are police and fire, street maintenance and repair, youth programs, and general government support. The City also provides refuse services, which had a budget of $644,371 for 2011. Refuse revenue is generated from the sale of trash tags.

Scope and Objective

The objective of our audit was to determine if the City could achieve cost savings opportunities for the period January 1, 2010 to September 21, 2011. We extended our scope to review bond anticipation notes and bonds that were issued prior to our scope but still outstanding as of September 21, 2011. Our audit addressed the following related questions:

- Are City officials ensuring that various departmental operations and functions are operating at the lowest possible cost to taxpayers?[1]

Audit Results

We identified a total of up to $709,000 in annual cost savings opportunities for the City in the areas of debt issuance, police department overtime, use of the centralized garage, and the refuse fund.

As of December 31, 2010, the City spent $5 million in principal payments and $3 million in interest for its $62.5 million in outstanding debt. The issuance of bond anticipation notes, along with the renewal of debt with varying periods of probable usefulness, results in purchases being financed for longer

[1] Our audit focused on the following cost saving areas: debt issuance, refuse collection and tipping fees, assessed fees, police department overtime costs, and use of the centralized garage.

than their useful lives. We determined that, if City officials budgeted for these items instead of issuing bonds, taxpayers could have saved approximately $7.4 million over the 30-year bond terms, with an estimated average savings of approximately $250,000 per year. Further, if the City had not first issued bond anticipation notes for these items, and instead included the costs in the budget, the City could have saved an additional $502,000 from 2002-2010,[2] an estimated $63,000 a year.

The City paid police officers more than $722,000 for working 17,470 hours in overtime during 2010. In addition to paid overtime, police officers are able to earn compensatory (comp) time. Comp time may be used as time off or can be paid out at any point during the year. In 2010, the officers earned 28,321 hours of comp time totaling approximately $976,000. The Police Chief told us that the Police Department had not filled five open positions because the Council had not authorized it to do so until October 2011. We estimate that, on average, $46,800 a year could be saved per position filled, not including training costs (if the City chose to hire new officers).[3] If the City filled all five positions, it could save a minimum of $204,000 in overtime costs per year. However, this savings could be significantly higher if current officers are reassigned to patrol work.

The City has a centralized garage that provides maintenance to the majority of City vehicles. However, the Fire and Police Departments are not using the centralized garage and are therefore spending more than necessary on labor charges for vehicle maintenance. Because these departments used vendors instead of the centralized garage, their average annual vehicle maintenance labor costs were up to 48 percent more than necessary, which resulted in average excessive costs ranging between $9,000 and $66,000 a year.

Between 1997 and 2010, the refuse fund experienced operating deficits averaging approximately $60,000 annually. However, this trend is increasing; the 2010 fiscal year had a $126,000 operating deficit. We found that, while City officials have recognized the deficit in the refuse fund, they have not sufficiently evaluated their refuse collection services. We found that the City is not routing in an efficient manner. The City has a five-day route schedule that has been in place with only minor adjustments for the past 30 years. The decline in participation in the City's refuse operation has resulted in trucks only being filled to half of their capacity.[4] By seeking to increase the number of customers and/or reducing expenditures, the City could eliminate the consistent operating deficits in the refuse fund and save at least $126,000 annually.

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 take corrective action. Appendix B includes our comments on the issues raised in the City's response letter.

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[2] Bond anticipation note information was not reviewed for the 1997 – 2001 bonded items.

[3] We estimate training costs to be a one-time cost of at least $1,400 per employee based on the available information on a provider's website.

[4] On average, trucks contain 3.66 tons but are insured to hold six tons.

Introduction

Background

The City of Ithaca (City) is located in Tompkins County and has approximately 30,000 residents. The City is governed by a 10-member Common Council (Council). The Mayor is the chief executive officer of the City and is responsible, along with other administrative staff, for the City's day-to-day management. The Council has the power and responsibility to adopt realistic budgets and levy taxes on real property located within the City. The Mayor has the responsibility to supervise, direct and control the administration of all City government departments. The Controller is the chief fiscal officer and is responsible, along with the Council, for preparation of the budget and the issuance of debt. The Controller also is responsible for the general management and control of the City's financial affairs.

The City's General Fund budget for the 2011 fiscal year was $49,207,984, funded primarily by real property taxes, sales and use taxes, and State aid. The primary services financed by the General Fund are police and fire, street maintenance and repair, youth programs, and general government support. The City also provides refuse services, which had a budget of $644,371 for 2011. Refuse revenue is generated from the sale of trash tags.

Objective

The objective of our audit was to determine if the City could achieve cost savings opportunities. Our audit addressed the following related question:

- Are City officials ensuring that various departmental operations and functions are operating at the lowest possible cost to taxpayers?[5]

Scope and Methodology

We examined accounting records of the City's departments for the period January 1, 2010 to September 21, 2011. We extended our scope to review bond anticipation notes and bonds that were issued prior to our scope but still outstanding as of September 21, 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

[5] Our audit focused on the following cost saving areas: debt issuance, refuse collection and tipping fees, assessed fees, police department overtime costs, and use of the central garage.

Comments of Local Officials and Corrective Action

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 take corrective action. Appendix B includes our comments on the issues raised in the City's response letter.

Departmental Operations

City officials should ensure departmental operations and functions are operating at the lowest possible cost to taxpayers. To do so, City officials always should avoid unnecessary expenditures and choose the lowest cost option, with like quality. For proper equity among City residents, fee-based services provided by the City should be self-funding (i.e., revenues earned by these services should cover the costs to provide the services).

We identified a total of up to $709,000 in annual cost savings opportunities for the City in the areas of debt issuance, police department overtime, use of the centralized garage, and the refuse fund. We found that City officials have incurred, or expect to incur, avoidable expenditures for interest payments totaling $313,000 on debt that was longer than the items' useful lives. The City also could save a minimum of $204,000 per year in Police Department overtime costs by filling the five open positions. Further, the Fire and Police Departments are paying, on average, up to $66,000 per year more for vehicle maintenance services than necessary. We found that City officials have not sufficiently evaluated their refuse collection services. As a result, the City has incurred consistent operating deficits in the refuse fund, and the 2010 operating deficit was $126,000. The City could eliminate these deficits by decreasing its costs and/or increasing participation in its refuse operation.

Debt

Issuing debt allows localities to provide vital capital infrastructure and equipment that they might not otherwise be able to afford through annual budget appropriations. However, when governments rely excessively on debt, the long-term interest costs will impact current and future operating budgets by limiting financial flexibility and the ability to finance essential capital projects in the future. Therefore, City officials should only issue debt to purchase assets with longer useful lives, and use current budget appropriations to finance assets with shorter useful lives. Local Finance Law defines the "useful life" of capital assets and applies these lives as the limits on the terms that debt may be issued when financing their acquisition. The issuance of debt for longer than an item's useful life can generate more interest expenditures than necessary.

The Controller recommends the issuance of debt in an effort to limit the impact on the real property tax levy each year. He told us that he will attempt to fund the projects with short-term bond anticipation notes (BANs) and issue permanent financing (bonds) when necessary. As of December 31, 2010, the City spent $5 million in principal

and $3 million in interest payments for the City's $62.5 million in outstanding debt. The issuance of BANs, along with the renewal of debt with varying periods of probable usefulness, results in purchases being financed for longer than their useful lives.

We reviewed all 298 bonds outstanding as of September 2011, totaling approximately $62.5 million. We identified 108 items totaling approximately $17.5 million that had debt issued between one and 14 years longer than their useful lives, as defined by Local Finance Law.[6] For example, the City bonded a solid waste truck for 14 years although the useful life is only nine years. In addition, the City bonded parking meters for 18 years although the useful life is estimated at five years.

Issuing debt and paying interest for assets and other purchases beyond their useful lives has resulted in taxpayers paying for items that they are no longer benefiting from. While it may not be possible to pay cash outright for every item purchased, with proper planning, City officials could include certain items in the budget, purchase them outright, and avoid issuing so much debt. In fact, we determined that, between 2003 and 2010, the City reported an average annual available fund balance of $3.3 million. City officials could have included appropriations in the budget and/or used a portion of available fund balance to purchase some of the items and avoided charging future taxpayers for items that they will not be benefiting from.

We determined several cost-savings options for City officials in terms of issuing debt. If City officials budgeted for the 108 items discussed above instead of issuing bonds, taxpayers could save approximately $7.4 million over the 30-year bond terms, with an estimated average savings of approximately $250,000 per year. Alternatively, if City officials had bonded only for the useful lives of the items, they could save approximately $3.3 million over the 30 years, or approximately $110,000 per year. In addition, 49 of the 108 items had BANs issued prior to the issuance of the bond. If the City had not issued these BANs and instead included the costs in the budget, the City could have saved an additional $502,000 from 2002-2010,[7] an estimated $63,000 a year.

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[6] Based on the description of the bonds, the useful lives may vary depending on the various products used. For 294 of the bonds we reviewed, we used the higher of the possible useful lives. For four projects, the bonds were less than $10,000, so we used the lower of the possible useful lives.

[7] BAN information was not reviewed from the 1997 – 2001 bonded items.

Overtime

Personal service costs represent a significant portion of the City's budget. While overtime pay can be an expected cost of doing business, it is a cost that must be carefully monitored and controlled. Overtime should only be incurred when unplanned or unforeseen circumstances arise and should not be incurred when these circumstances can be avoided. Although some hours of overtime are unavoidable, the majority of hours earned as a result of shift coverage can be avoided. City managers should continually monitor and analyze all costs relating to overtime to identify potential cost savings alternatives. This is especially important because these costs can quickly accumulate and have a significant impact on the City's budget.

The City paid police officers more than $722,000 for working 17,470 hours of overtime during 2010. In addition to paid overtime, police officers are able to earn compensatory (comp) time. Comp time may be used as time off or paid out at any point during the year. In 2010, the officers earned 28,321 hours of comp time totaling approximately $976,000.[8] The Police Department's records for overtime only included general categories by function and did not identify the actual cause of the overtime.[9] Therefore, we were not able to analyze the causes of the overtime. The largest amount of overtime (84 percent) was charged to "Patrol." The average cost of salary and benefits for a new officer is $81,700 per year. We estimate that, if the Police Department filled vacant positions in place of paying for overtime, on average, it could save $46,800 a year per position filled, not including training costs (if the City chose to hire new officers).[10]

As of August 2011, the City had five unfilled positions for patrol officers. The Police Chief told us that the Police Department had not filled open positions because the Council had not authorized it to do so until October 2011. The Police Department also was holding off on hiring new officers because it did not want to have to lay them off due to a budget reduction.

More effective assignments of job duties also would aid in covering the open patrol positions. At the exit conference, the Mayor told us that the City is pursuing a plan to convert five patrol officers that are currently doing non-patrol work and put them back on patrol. For example, one officer is currently acting as the Department's fleet manager. However, the fleet is serviced by an outside vendor and the

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[8] Some of this amount could have been paid out as overtime during 2010 (that exact number cannot be determined because the Police Department does not keep records of comp time that was earned and paid out as overtime during the same pay period).
[9] For example, for contractual holidays, court appearances, shift carryover and trainings, officers are required to work overtime and earn comp time.
[10] We estimate training costs to be a one-time cost of at least $1,400 per employee, based on the available information on a provider's website.

City operates a centralized garage that could be used as well. On July 31, 2012 the Police Chief informed us that, effective September 1, 2012, the duties of two officers, including those of the fleet manager, are to be redistributed so that those officers are available to go back on patrol and cover shifts.

If the City fills the five positions by reassigning job duties of currently staffed officers to cover shift gaps or by hiring new officers, it would save a minimum of $204,000 a year in avoidable overtime costs. However, this savings could be significantly higher if current officers are reassigned to patrol work.

Centralized Garage

The City has a centralized garage that provides maintenance to the majority of City vehicles. However, the Council has allowed department heads to decide where to have their vehicles serviced. Therefore, the Fire and Police Departments are not using the centralized garage and are spending more than necessary on labor costs for vehicle maintenance services. The Police and Fire Departments paid $252,925 to private vendors for vehicle maintenance services during our audit period. On average, they paid $137,700 a year in total vehicle maintenance costs, which included $66,000 in labor costs to the vendors. The City could have saved, on average, anywhere from $9,000 to the entire $66,000 a year in labor costs for work that could have been performed by the centralized garage, as illustrated in Table 1.

Table 1: Maintenance Savings

Type of Maintenance	Potential Average Annual Savings
Routine maintenance[a]	$9,000
All maintenance (not including fire apparatus)	$21,000
All maintenance (including fire apparatus)	$66,000

[a] Routine maintenance is defined as work requiring minimal skill requirements, such as oil changes, State inspections, tire repairs and battery changes.

While the Department of Public Works Supervisor told us that the City's centralized garage staff would be able to maintain the police and fire vehicles, Police and Fire Department personnel expressed concerns over the quality of the work, capability of the employees, and the wait times for the services at the City's centralized garage. In addition, the Police Chief did not feel that the centralized garage could handle the work load and stated that the garage employees were not available when the Police Department needed them. The current Fire Chief said that he decided to have the centralized garage perform general maintenance on Fire Department vehicles[11] beginning at the start of the 2012 fiscal year.

[11] Excluding fire apparatus

Using a vendor instead of the centralized garage to perform vehicle maintenance services resulted in excessive costs averaging up to $66,000 a year. Therefore, on average, the City paid up to 48 percent more than necessary for annual vehicle maintenance labor costs. Even if the Fire and Police Departments used the City's centralized garage for only limited aspects of vehicle maintenance, maintenance costs would still be reduced by at least $9,000 per year.

Refuse

Cities providing solid waste collection should periodically evaluate these services to determine if opportunities for cost savings exist. Such evaluations should include analyzing the collection time for transporting solid waste and the number of vehicles required, assessing the efficiency of the routes used to collect refuse, and ensuring that the rates charged are reasonable and fully finance the operation.

Between 1997 and 2010, the refuse fund experienced operating deficits averaging approximately $60,000 annually. However, this trend is increasing; the 2010 fiscal year had a $126,000 operating deficit. While City officials are aware of the deficit in the refuse fund, they have not sufficiently evaluated their refuse collection services.

The general fund has subsidized the refuse fund from 1997 through 2009, for an aggregate of $581,000.[12] These annual subsidies from the general fund are the equivalent of an additional $23 per property[13] that are paid through the general fund taxes regardless whether taxpayers use the City refuse collection service. Since 2009, the refuse fund has also received $116,500 from funds other than the general fund. We identified several actions that City officials could implement to increase revenues and/or decrease costs, as detailed in the sections below.

Opportunities to Increase Revenues − Not all City residents use the City's refuse collection services, and instead use private haulers. This trend has been increasing to the detriment of the financial viability of the City's refuse collection services.

- Based on the current customer base and cost of operations, the City would need to significantly increase the rates charged to customers by about 50 percent to fully fund operating costs. The increased rates would be 51 percent more than the rates of neighboring municipalities and private haulers within the County.[14] Therefore, increasing the rates may further reduce

[12] Based on transfers in; 2010 –11 numbers were not available during our audit.

[13] We calculated this per property number based on the tax roll, which includes vacant land.

[14] For example, the City currently charges $3.50 for a 35-pound bag, which is in the range of rates charged by other providers. However, to fully finance the operations, the City would need to charge $5.27 per 35-pound bag.

participation due to competition from private haulers, which would result in even fewer revenues to fund operations.

- Alternatively, if the City did not raise rates, to break even, it would have to increase the sale of garbage tags from 139,000 to 197,000 per year, an increase of 42 percent.

- In another approach, the City could adopt a local law to impose a special assessment on properties that are benefited by the availability of the City garbage collection service, in proportion to the benefit received by the property. For example, if the City were to determine that a flat assessment of $22 represented a reasonable proportionate amount to charge each benefited property for the availability of the garbage collection services, the fee would generate revenues of $126,000 per year - the amount of the refuse fund's 2010 operating deficit that was subsidized by other funds in 2010.

Cost-Cutting/Transfer Opportunities − The operation's fixed costs[15] consume more than 88 percent of the revenue collected. We estimate that fixed costs should not exceed more than 63 percent of the City's revenue for trash tags to ensure operations are self-sufficient. The high costs to collect refuse are driven by two primary causes: truck routing and worker scheduling. We found that the City is not routing in an efficient manner. The City has a five-day route schedule that has been in place, with only minor adjustments, for the past 30 years, although participation has been steadily declining. The decline in participation has resulted in trucks only being filled to half of their capacity.[16] This current routing system also overlaps routes, which has the sanitation workers driving 27 more miles than the 136 lane miles in the City. If City officials examined the routing system and adjusted it to ensure that trucks are filled to capacity and routes are not overlapping, they would likely achieve cost savings.

In addition, the sanitation workers' contract guarantees the workers 40 paid hours per week. Sanitation workers have interpreted the contract language to mean that they can go home after they finish their work and get paid for 40 hours. On average, the workers leave more than three hours early a day; therefore, we estimate that the City is paying the sanitation workers approximately $50,000 in salary payments per year for hours that they have not worked.[17] Further, the five-day

[15] Fixed costs are salaries, employee benefits, and debt principal and interest. Variable costs consist of vehicle operation and tipping fees.

[16] On average, trucks contain 3.66 tons but are insured to hold six tons.

[17] We tested four months throughout the year (one in each season) and found the average cost savings to be $4,100 for each month tested. If similar activity occurred throughout the year, we would expect the City to save about $50,000 a year.

trash collection schedule allows the workers to earn overtime during holiday weeks without working 40 hours. During a holiday week, the routes are shifted by one day, requiring the sanitation workers to work on Saturdays. This practice cost the City over $15,000 in salary payments in 2010.

The DPW Supervisor told us that he could use more workers to perform certain duties, such as picking up yard waste or mowing lawns. We determined two possible cost savings scenarios by having the sanitation workers also work for the DPW Department:

- If the City changes its refuse routing schedule from five days to four days, the sanitation workers could work for DPW on day five (on weeks in which there are no holidays). This would equate to a cost savings of $23,600 for salaries that the City could charge DPW and a $15,000 cost savings in overtime (what the City paid the sanitation workers in 2010 to work on Saturdays because of the holiday).

- If the City continues its current routing system but has the sanitation workers work at DPW for the remaining three hours of the day instead of going home, the City could charge DPW $50,000 in salary per year that it currently pays the workers for leaving for the day after finishing their trash collection duties.

If the City intends to continue providing refuse collection services, it must ensure that this fund becomes self-supporting. By seeking to increase the number of customers and/or reducing expenditures, the City could eliminate the consistent operating deficits in the refuse fund and save at least $126,000 annually.

Recommendations

1. City officials should not issue debt for longer than an item's useful life.

2. The Council should consider filling open police officer positions by reassigning current officers' duties or by hiring new officers to reduce overtime costs.

3. The Council should require that the Police and Fire Departments use the centralized garage for vehicle maintenance.

4. City officials should evaluate the refuse collection operations and develop a plan to ensure that the refuse fund is self-supporting. Such an evaluation should focus on participation rates of residents, routing, and work schedules.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

CITY OF ITHACA
108 East Green Street Ithaca, New York 14850

OFFICE OF THE MAYOR • SVANTE L. MYRICK
Telephone: 607/274-6501 Fax: 607/274-6526

August 2, 2012

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building – Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Mr. Eames:

The City wishes to thank the New York State Comptroller's Office for conducting an audit of city operations to determine potential cost savings and/or revenue enhancements. The audit covered the period January 1, 2010 to September 21, 2011. We appreciate the expert analysis of our operations by the Comptroller's Office. The Staff of the Finance Department and various other Departments of the City of Ithaca takes their fiduciary responsibilities to the taxpayers of the City very seriously and we appreciate the recommendations presented to further produce city operational savings and revenue enhancements. We are striving to provide the greatest possible service at the lowest possible cost to the City taxpayer.

All city departments continue to approach their responsibilities and duties with fewer resources. While we agree with most of the State Comptroller's four recommendations for cost savings and revenue enhancements, and in some cases have already implemented some of the recommendations, we stress that when developing the overall City Budget, we have to look at the entire City operations and make decisions that are in the best interest of the City at the time. In some cases, these decisions will not always produce the greatest amount of savings in the long term, but make the most sense and produce the greatest savings in the short-term for the City.

We have briefly outlined our responses to each of the four audit recommendations as follows:

1. **City Officials should not issue debt for longer than an item's useful life** – We agree that debt should not be issued for longer than an asset's useful life. In most cases we do not issue debt for longer than its useful life. However, in some cases the asset can not fit into the city operating budget without increasing the tax rate to the City taxpayer and must be bonded for. In these cases, the city will borrow short-term notes for up to a five year period and then issue long-term notes. In a few cases, the asset gets spread out in the long-term note and can be bonded for the entire useful life at the time of the long-term debt. These practices are all

See Note 1 Page 18

allowable and acceptable. In some cases, this may result in a debt being issued for a longer period of time. Our practice, which minimizes the period of probable usefulness during the short-term note issue and maximizes the period of probably usefulness during the long-term note issue, allows our budget to absorb the lowest annual debt service cost. The City's annual budget is strained in every way, from lack of state aid and revenues to very high annual costs for state pensions and other expenses. It is also very likely that we are keeping our assets much longer than the useful life due to the lack of funds for the assets replacement. We try to find the right balance of operating expenses, revenues and annual tax rates. Trying to find this balance is extremely difficult with all the operational demands the city has to fund. The audit does not mention that in some cases we pay off debt sooner than the useful life of an asset. In addition, depending on the market conditions, we issue short-term debt for as long as possible to enjoy the savings of the short-term interest rate market which produces greater savings than the long-term interest rates. In some cases, we are able to pay off the debt sooner than the period of probable usefulness all within the short-term interest rate market, saving the taxpayer the most possible within this debt structure. Of course, the best case scenario would be to pay for all projects with cash and not have to borrow for the capital projects. This is just not possible if we are to fund all the operational and capital demands the city has. Therefore, we find the balance that keeps the tax rate at a reasonable level and provides the greatest amount of services to the taxpayer on an annual basis.

See Note 2 Page 18

2. **The Council should consider filling open police officer positions by reassigning current office duties or hiring new officers to reduce overtime costs** – We would like to thank the Comptroller's office for their recommendation that overtime should be reduced and for two recommended strategies to achieve that goal. While we agree filling open officer positions may decrease overtime, we more strongly feel that reassigning shifts and positions will save the taxpayers of the city the most money and we will pursue that route. Since late 2008 we have been carefully examining all open City positions, including police officers, to determine if the position is needed to be filled. Some positions were filled, some were filled at a later date, some were not filled at all and some were reassigned. As a result, since 2008, we have saved over $900,000 dollars in payroll and benefit costs for the City. In some cases, overtime was necessary as a result of the open positions, but in many cases overtime was not needed. While the report mentions the $234,000 savings in overtime costs if five officers were filled, it does not mention the $409,000 in budget savings as a result of the delay in hiring. We look at every open position and evaluate it on a case by case basis to determine if the position needs to be filled. An analysis of the cost/benefit for each position is determined. We are currently evaluating all police shifts and the number of officers on those shifts. In addition, we are examining each officer not currently on patrol and determining if these officer's duties need to be reassigned. Our goal is to make sure we have the appropriate number of police officers on the street at any given time so that the maximum service at the lowest possible cost

See Note 3 Page 18

can be achieved. This examination of officers and shifts will continue for the next several months.

3. **The Council should require that the Police and Fire Departments use the centralized garage for vehicle maintenance –** We agree with this recommendation. In fact, we have been discussing this for years and in 2012 have begun to utilize the garage for more and more of the routine vehicle maintenance items. We did provide this service to the Police and Fire vehicles many years ago, but found the level of service and timing was not adequate for the needs of the two departments. The larger Fire vehicles need a specialized mechanic on staff, which the City does not currently have. We are trying to phase in the routine maintenance for Police and Fire vehicles at the DPW Garage. We will continue to evaluate the service and determine if we can increase the internal service from the DPW garage, see if we need additional mechanics on staff or if we have to continue to do this service externally. It may be a combination of items for a period of time. Again, our goal is to provide the lowest cost and most effective service to both the city departments and the taxpayer.

4. **City Officials should evaluate the refuse collection operations and develop a plan to ensure that the refuse fund is self-supporting** – The solidwaste fund has been a difficult fund to manage ever since we moved it out of the General Fund several years ago. It was the goal for the fund to be self-supporting from the start. It was self-supporting for a few years, but when costs began to increase, trash tag prices had to increase and recycling became a requirement, the fund began to lose money. As recycling became more of the standard, we would have to increase the trash tag price to compensate. Each time we would increase tag prices less revenue was generated. We have been looking at various ways to improve operations and cut costs. A four day collection schedule is currently being developed. In addition, a route change is being examined. We are even looking at the possibility of getting out of the business of trash collection. There are a few options with many logistical problems associated with each option.

Again, we thank the State Comptroller's Office for performing this cost savings and revenue enhancement audit. We appreciate the recommendations put forth by the Comptroller's Office. We will continue to review each of these areas for further cost savings measures. In addition, we are examining all city operations for both cost savings and efficiencies and revenue enhancements. Due to years of budget reductions driven by the current economic state, reductions in State and Federal aid and rising fringe benefit costs, our resources to perform the operations of the City have become more limited. We continue to provide efficient services to the City taxpayer at the most effective costs.

Sincerely,

Svante Myrick, Mayor

APPENDIX B

OSC COMMENTS ON THE CITY'S RESPONSE

Note 1

We found that 36 percent of items were bonded for longer than their useful lives. When assets for smaller amounts and with shorter useful lives are bonded together with larger items with longer useful lives, the bond is issued based on the average useful life for all items covered by that bond. As a result, even if BANS are not issued prior to the bonds, the smaller items are bonded for longer than their useful lives.

Note 2

Paying off debt sooner than the asset's useful life would save the interest for the remaining life of the bond or BAN. Our audit only addressed the bonds issued for longer than the items' useful lives.

Note 3

Our cost savings calculation does account for the $409,000 in savings the City achieved by delaying filling these positions. While the City is saving $409,000 in salaries and benefits by not filling open positions, it also is paying $613,000 in avoidable overtime costs to cover shifts related to these open positions. Therefore, the City is spending $204,000 more than necessary by not filling these positions.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

We analyzed departmental revenues and expenditures and identified the functions that represented the highest cost to the taxpayer and had the most material opportunities for cost savings and improvement. We determined during planning that the areas that had the most opportunity for cost savings were debt issuance, refuse collection and tipping fees, police department overtime costs, and use of the centralized garage. We performed the following procedures:

- We interviewed City officials, and reviewed minutes, policies and contracts to gain an understanding of internal controls over selected financial operations.

Debt

- We analyzed the outstanding bonds as of September 21, 2011 and determined the items that were bonded for longer than their useful lives.

- We sampled 10 items identified to have a longer financing period than a useful/practical life to determine if debt issued was approved and supported.

- We determined the interest costs to the City for issuing debt for bonds that exceed the useful life of the item, instead of financing it through budget appropriations.

- We determined what percentage of the Constitutional Tax and Constitutional Debt Limits the City has reached.

- We verified that excess debt proceeds are being used to pay down the City's debt.

Overtime

- We reviewed year to date budget reports and detail check history reports to determine the amount spent on Police Department overtime and the reasons for the overtime.

- We calculated the cost of a new police officer by projecting salary based on a trend history, projecting retirement costs based on the highest percentage in our trend, and projecting insurance costs and clothing allowances based on labor contracts and historical trends.

- We reviewed budget documents and employee listings to determine the number of unfilled patrol officer positions during our scope period.

- We calculated the total overtime and comp time hours that could be eliminated if the City filled the five vacant positions.

Garage

- We reviewed invoices to identify the labor and parts costs associated with the maintenance of Police and Fire Department vehicles for the audit period.

- We interviewed City officials to verify that the maintenance work could be performed at the centralized garage without additional expenses such as increasing staff or purchasing new equipment.

Refuse

- We reviewed the sanitation workers contract and identified the stipulated terms relevant to achieving cost savings in accordance with our audit objective. We identified any other policies and procedures that related to the refuse collection routing and sanitation workers' work schedule.

- We documented the number of sanitation workers, job titles, duties and applicable details relating to any other functions that they may have been able to perform (limitations, etc.).

- We examined time cards from June 2010, December 2010, March 2011, and September 2011 to document actual hours worked and compared the hours worked for sanitation workers to the hours that they were paid for according to the payroll registers.

- We reviewed landfill vendor invoices to document drop-off times and tons per day per truck.

- We compared the drop-off times at the landfill to the drivers' clock-out times to determine the amount of time spent returning from the landfill and clocking out.

- We determined how much overtime was paid to sanitation employees from working weekends due to holidays and identified the potential savings that would be obtained by those employees not needing to work on weekends due to the rerouted pickup schedule.

- We compared the rates charged for tipping fees against other municipalities within the County.

- We analyzed fixed and variable costs to determine the break-even point.

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.

APPENDIX D

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APPENDIX E

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