



City of Jamestown

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

January 1, 2011 — January 31, 2013

2013M-72



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2013

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 City 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 Jamestown, entitled Internal Controls Over Selected Financial 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 Jamestown (City) is located in Chautauqua County and has a population of approximately 31,000. The City is governed by the City Charter (Charter), general laws of the State of New York, and local laws and ordinances. The City has an elected Mayor and a nine-member City Council (Council), an appointed City Comptroller, and a Director of Financial Services.¹ The Council develops City policies and enacts laws, ordinances, and resolutions. The City's Board of Public Utilities (BPU) consists of the Mayor (who is the President of the Board), the City's Director of Public Works, two Council representatives, and five community members. The BPU has an appointed General Manager and employs a Business Manager.

The Council, City Comptroller, Director of Financial Services, and BPU management are responsible for establishing proper internal controls that effectively safeguard City assets. The Comptroller, Director of Financial Services, and BPU Business Manager are responsible for day-to-day operations, including the maintenance of complete and accurate accounting records.

The City provides services to its residents, including police and fire protection, street maintenance, utilities (electric, water, and wastewater), and parks and recreation programs. The City's 2012 general fund budget totaled \$33 million and was funded primarily by property taxes, sales taxes, and State aid. The BPU's 2012 budget includes the following divisions: electric (\$41 million), water (\$5.1 million), wastewater (\$4.7 million), solid waste (\$2 million), and heating/cooling (\$2 million).² All of these divisions are funded primarily through user charges.

Scope and Objective

The objective of our audit was to review the City's internal controls over procurement and cash receipts for the period January 1, 2011, through January 31, 2013. Our audit addressed the following related questions:

- Does the City procure goods and services in accordance with City and statutory requirements and use competitive methods when procuring professional services?
- Are internal controls over cash receipts appropriately designed and operating effectively to adequately safeguard City assets?

¹ The Director of Financial Services is also the City Clerk.

² These budget amounts include capital project funding of electric (\$6 million), water (\$1.3 million), solid waste (\$200,000), heating/cooling (\$530,000), and wastewater (\$1.3 million).

Audit Results

We found the City's procurement policy was not reviewed by the Council annually, as required by law, or consistently followed by City officials. The BPU did not seek bids for purchases from six vendors who were paid \$387,763, and the City did not seek bids for purchases from one vendor who was paid \$65,864. In addition, BPU officials did not seek competition, such as using requests for proposals (RFPs), when procuring \$596,763 in professional services from five vendors and could not provide written agreements with two of those vendors. We also found that purchases totaling approximately \$83,569 were made without requesting quotes, as required by the City and BPU purchasing policies. Without a consistent use of competition when procuring goods and/or services, City officials cannot assure taxpayers that they are obtaining goods and services at the most favorable terms and without favoritism.

The City has failed to segregate duties or provide adequate oversight of the cash receipt process. Users of the six electronic collection systems can collect, record, and prepare deposits, and make adjustments in the system with minimal or no oversight. In addition, City and BPU officials could not provide a reasonable explanation for 47 missing receipts. Utility customer accounts and payments were adjusted and parking fines were dismissed without supervisory approval and had no supporting documentation. We also found that cash collections were substituted with personal checks. As a result, City officials cannot be assured that all money collected is being deposited into City bank accounts.

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 that they have taken, or plan to initiate, corrective action. Appendix B includes our comments on issues raised in the City's response letter.

Introduction

Background

The City of Jamestown (City) is located in Chautauqua County and has a population of approximately 31,000. The City is governed by the City Charter (Charter), general laws of the State of New York, and local laws and ordinances. The City has an elected Mayor and a nine-member City Council (Council), an appointed City Comptroller, and a Director of Financial Services (Director).³ The Council develops City policies and enacts laws, ordinances, and resolutions. The City's Board of Public Utilities (BPU) consists of the Mayor (who is the President of the Board), the City's Director of Public Works, two council representatives, and five community members. The BPU has an appointed General Manager and employs a Business Manager.

The City provides services to its residents including police and fire protection, street maintenance, utilities (electric, water, and wastewater), and parks and recreation programs. The City's 2012 general fund budget totaled \$33 million and was funded primarily by property taxes, sales taxes, and State aid. The BPU's 2012 budget includes the following divisions: electric (\$41 million), water (\$5.1 million), wastewater (\$4.7 million), solid waste (\$2 million) and heating/cooling (\$2 million).⁴ All of these divisions are funded primarily through user charges.

Procurement policies govern the procedures that personnel must follow when procuring goods and services. The Council and the BPU have each adopted a procurement policy.

The Director is responsible for the collection, receipt, custody, and deposit of all City revenue. During the 2012 fiscal year, the City Clerk's Office collected approximately \$40 million in receipts, including property taxes, parking tickets, and building permits. The BPU Business Manager has direct responsibility for business operations at BPU facilities. Utility receipts processed by BPU and City staff totaled approximately \$59 million during 2012.

Objective

The objective of our audit was to review the City's internal controls over procurement and cash receipts. Our audit addressed the following related questions:

- Does the City procure goods and services in accordance with City and statutory requirements and use competitive methods when procuring professional services?

³ The Director of Financial Services is also the City Clerk.

⁴ These budget amounts include capital project funding of electric (\$6 million), water (\$1.3 million), solid waste (\$200,000), heating/cooling (\$530,000), and wastewater (\$1.3 million).

- Are internal controls over cash receipts appropriately designed and operating effectively to adequately safeguard City assets?

**Scope and
Methodology**

We examined the internal controls over certain City financial operations for the period January 1, 2011, through January 31, 2013.

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 is included in Appendix C of this report.

**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 that they have taken, or plan to initiate, corrective action. Appendix B includes our comments on issues raised in the City's response letter.

The Council has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Council to make this plan available for public review in the City Clerk's office.

Purchasing

City officials are responsible for designing internal controls that help ensure the prudent and economical use of City moneys when procuring goods and services, and protect against favoritism, extravagance, fraud, and corruption. The primary objective of an effective procurement process is to obtain services, materials, supplies, or equipment of the desired quality and specified quantity, on a timely basis, in an efficient manner, and at the lowest overall cost, in compliance with applicable laws and properly established Council requirements. Detailed written purchasing policies and procedures help to establish essential control and ensure that taxpayer dollars are expended with integrity and in the most efficient manner.

We found that the City's procurement policy was not reviewed by the Council annually, as required by law, or consistently followed by City officials. We also found that the BPU did not seek bids for purchases from six vendors who were paid \$387,763 and that the City did not seek bids for purchases from one vendor who was paid \$65,864. In addition, BPU officials did not seek competition, such as using requests for proposals (RFPs), when procuring \$596,763 in professional services from five vendors and could not provide written agreements with two of those vendors. We also found that goods totaling approximately \$83,569 were purchased without requesting quotes, as required by the City's and BPU's purchasing policies. Without a consistent use of competition when procuring goods and/or services, City officials cannot assure taxpayers that they are obtaining goods and services at the most favorable terms and without favoritism.

We selected a sample of 58 claims totaling \$1,886,895 to determine if purchases were made in compliance with the City's and the BPU's procurement policies and statute. We found the following:

Competitive Bidding — The BPU's procurement policy and General Municipal Law (GML) require that purchase and public work contracts in excess of \$20,000 and \$35,000, respectively, during a fiscal year be publicly advertised for bids and awarded to the lowest responsible bidder. The key difference in the City's procurement policy is that it requires the purchase of goods exceeding \$10,000 to be bid. The City policy and GML require the Board/Council to review the policy annually.

The City purchased three trucks for \$65,864 from the same vendor during 2012 without bidding. City officials indicated the vendor told them the purchase was at the State bid price. However, the vendor

was not the State bid-award vendor. There is no authority for the City to circumvent bidding by purchasing items at the State bid price from other than the State bid-award vendor. Because the State bid-award vendor was not used, the City should have formally sought bids for these three trucks.

BPU officials did not seek bids for the purchase of liquid chemicals (\$48,987 in 2011, and \$28,671 in 2012) and a boiler repair (\$82,227 in 2011). In addition, purchases from four vendors for tires (\$51,288 in 2011, and \$31,103 in 2012), chemical gases⁵ (\$93,134 in 2012), computer control panel modifications (\$27,774 in 2011), and the rental of tanks (\$24,579 in 2011) were considered to be proprietary purchases by the BPU. According to the BPU's purchasing policy, when it is impractical to bid, there must be a BPU resolution, approved by three-fourths of the BPU, stating why the item is not subject to competitive bidding. The decisions to purchase from these four vendors were not documented in BPU resolutions as impractical to bid.

Quotes — The BPU's purchasing policy requires purchases between \$2,000 and \$20,000 to have a minimum of three written quotes. The City's purchasing policy requires purchases between \$3,000 and \$9,999 to have at least three written or verbal quotes. The BPU policy requires purchases from \$500 to \$2,000 have at least two verbal quotes and public works contracts between \$0 and \$34,999 to have three written quotes. City policy requires two verbal quotes for purchases or public works contracts between \$500 to \$2,999, two written quotes for public works contracts between \$3,000 and \$4,999, and three written quotes or requests for proposals for public works contracts between \$5,000 and \$34,999.

We found that four BPU purchases totaling \$58,501⁶ and three City purchases totaling \$25,069⁷ were made without seeking written quotes, as required.

Professional Services — GML does not require competitive bidding for professional services that involve specialized skill, training, and expertise; use of professional judgment or discretion; and/or a high degree of creativity. The BPU's procurement policy does not require officials to seek any competition for professional services. The policy states that professional service providers must be chosen based on many factors, including accountability, reliability, skill, and education and training, judgment, and integrity, qualities that are not

⁵ Nitrogen and hydrogen

⁶ KVFI tester \$9,073, printed material \$12,230, vehicle repairs \$17,427, and boiler cleaning \$19,771

⁷ Motor oil \$5,351, vehicle repairs \$8,118, and screening brick \$11,600

always found in the vendor who offers the lowest price. However, without obtaining comprehensive proposals from multiple vendors, BPU officials are not in a position to compare the various relevant factors, including total cost, and ensure they select the most suitable vendor.

During our audit period, five professional service providers from our sample received payments totaling \$596,763.⁸ BPU officials did not use any competitive methods to request and evaluate proposals or select the service providers. Two of the five providers, who received \$140,163 during our audit period, did not have written contracts available to describe the services to be provided. In fact, the only evidence of the intended service was included in the resolution adopted by the BPU. Without the benefit of comparative proposals, BPU officials cannot demonstrate that they are expending ratepayer moneys in the most prudent manner. Without the benefit of written contracts, BPU officials cannot ensure they receive the services they require at the agreed price. Without using a competitive process when procuring professional services, BPU officials cannot be sure that they obtained these services at the most favorable terms in the best interest of taxpayers.

Recommendations

1. City officials should seek bids and quotes as required by City policy and State statute to help ensure they receive the desired quality of goods and services at the lowest overall cost.
2. City officials should ensure that a BPU resolution is adopted when it is determined that it is impractical to bid, as required by the BPU's procurement policy.
3. City officials should obtain written contracts with vendors to ensure that they are receiving the proper prices and that there is a defined contract period listed.
4. City officials should consider seeking requests for proposals for professional services to aid in determining if they are receiving the desired service at a competitive price.

⁸ \$560,543 for 2011 and \$36,220 for January to October 2012

Cash Receipts

The Director of Financial Services is responsible for the collection, receipt, custody, and deposit of all City revenue. The Director supervises a staff of five who assist with the daily operations of the office. The BPU Business Manager has direct responsibility for the oversight of the business operations at the BPU facilities. Currently, the City uses six different electronic software programs in the collection process. Because of the complexities involved in the various systems, officials must be knowledgeable about the systems and the resources they provide to assist in oversight of their departments.

The City does not have an adequate system of internal controls over the cash receipt process. Clerks in the Director's and BPU offices⁹ process most of the transactions, receive cash, prepare deposits, and make adjustments without documentation or obtaining supervisory authorization. We found 47 missing receipts¹⁰ (gaps) that could not be accounted for by officials. Further, cash collections were substituted with personal checks and, therefore, were not deposited intact. This lack of internal controls could allow misappropriation to occur and go undetected.

Electronic Collection and Reporting System

The extent to which the City uses computer processing in significant accounting applications and the complexity of that processing determines the specific risks that information technology poses to the City. The City should adopt policies and procedures to address the inherent risks in such a system, including the segregation of incompatible duties, ability to access data, ability to change data, and procedures for accurately processing data. The Director and BPU Business Manager should control and monitor access to the system and activity within it to reduce the risk of misuse and/or manipulation of data.

User Access — Access to computer functions should be restricted to only those that are required by individual employee job duties, and user rights should be granted to individuals so that a proper segregation of duties is maintained.

⁹ Individuals responsible for collections at the BPU facilities began making their own deposits on October 1, 2012. Prior to that date, BPU collections were deposited through the Director's office.

¹⁰ Twenty of those receipts were missing from City Clerk and Tax collection records, and 27 were missing from BPU collection records.

We found that officials did not restrict access to computer functions and, therefore, did not mitigate the lack of segregation of duties within the system. For example, individuals responsible for collecting parking ticket fines also have the capability to dismiss fines and/or penalties within the system without authorization. Users of the utility collection program¹¹ can make adjustments on customer accounts without supervisory approval. This type of access results in a lack of segregation of incompatible duties, allowing users to collect moneys and adjust accounts without oversight. These weaknesses increase the risk that individuals can change or delete transactions to hide the misappropriation of City funds which may not be identified.

Audit Logs — A computerized financial system should provide a means of determining who is accessing the system and what transactions are being processed. Audit logs (also known as audit trails) maintain a record of activity by system or application process. The audit log should provide information such as the identity of the person who has accessed the system, the time and date of the access, and what activity occurred. Officials should then review the audit log to monitor individual accountability and reconstruct events, when necessary.

We found that, although all of the systems being used have an audit log available, officials are not using this administrative tool. Officials' lack of review of these reports increases the risk that malicious activity could occur and go undetected. This is especially important due to the lack of segregation of incompatible duties within the system.

Receipts

A good system of internal controls over cash receipts consists of policies and procedures that allow a local government to provide reasonable assurance that cash receipts are properly accounted for. Management should establish, enforce, and communicate clearly defined cash collection policies. We selected four collection dates for review¹² which included receipts such as City and County taxes, utilities, City Clerk fees, parking violations, health insurance fees, and recreation fees. We found weaknesses in several areas.

Adjustments — Making adjustments to the financial records is sometimes necessary to ensure that the records are accurate and reflect actual activity. However, it is imperative that an individual not involved with the transactions review adjustments so that any errors or irregularities can be detected and corrected. Further, it is important that all adjustments be made in a consistent manner and adequately documented to determine their purpose.

¹¹ This is the only program used by the BPU have access to.

¹² July 10, August 28, September 20, and October 26, 2012. For information on the sample selection, see Appendix B.

Users of the utility collection system can make adjustments without any oversight.¹³ We obtained a report that listed 3,978 adjustments totaling \$146,228¹⁴ made to customer bills or payments for the four dates we reviewed.¹⁵ We selected a judgmental sample of 17 adjustments totaling \$9,338, to determine the reason for the adjustments. Although officials provided reasonable explanations for the adjustments, they were unable to provide any supporting documentation. In addition, there was no indication that supervisory approval was obtained for 13 of the 17 adjustments totaling \$7,700.¹⁶ We also found that the BPU Information Services Manager can completely delete utility transactions from the system without supervisory approval and does not retain supporting documentation for the deletions.

Clerks using the parking ticket collection system can dismiss fines without supervisory approval. For the four dates we reviewed, \$4,120 of assessed parking ticket charges were processed, for which \$2,670 in fines and penalties were collected, and \$1,300 (32 percent) in fines and penalties were dismissed.¹⁷ Other than a written note on the ticket indicating that the charge was dismissed, there was no documentation of the reason and no evidence of supervisory approval. Moreover, we found no authority for the individuals in the Director's office to dismiss fines.

Allowing the same individual to collect receipts and make adjustments to collection records without supervision increases the risk that City funds could be misappropriated and not be detected.

Missing Receipts — To ensure that all receipts are properly accounted for, it is essential that officials maintain detailed records of all transactions. When a receipt contains an error and must be voided, documentation of the reason and authorization should be maintained to substantiate the void. Further, to ensure proper accountability, reports should identify all receipts in sequential order, including those that were voided. If systems do not allow for this type of recordkeeping,

¹³ Limited to users at the BPU

¹⁴ More than \$120,000 was for meter reading errors. In addition, we found that one account could have multiple adjustments (for each utility) for one error correction. Each adjustment would be counted individually in the total adjustments.

¹⁵ Some of the reasons for the adjustments included penalties being applied in error, deposits that were applied but not required (or paid), meter reading errors, adjustments to balanced billing accounts, and payments that were applied to the wrong utility (i.e., electric instead of water).

¹⁶ These were adjustments made by employees who are not in a supervisory capacity. However, supervisors making adjustments do not have management review of their adjustments, either.

¹⁷ All of the parking ticket collection is done in the Director's office.

officials should ensure they are providing the proper oversight to ensure accountability of all receipts. Four of the six systems used in the collection process¹⁸ are designed to automatically generate sequential receipt numbers when transactions are recorded.

For the four dates we reviewed, three systems¹⁹ had a total of 47 missing receipts, or gaps, in the receipt sequence.²⁰ Officials could not provide us with any documentation indicating the reason for the missing receipts. Further, officials were not aware of the gaps until we informed them of the missing receipts. Officials subsequently told us that if a receipt is started and an adjustment is made, or the transaction is not completed and the user exits the system, the receipt will be voided and deleted from the system and a new receipt number assigned. Regardless, records must not be deleted because such actions increase the risk that funds could be misappropriated without detection or correction. These processes should be reviewed and corrective action taken to prevent receipt gaps from occurring.

Depositing Intact — Properly recording the amount and form of payment received (i.e., cash or check) enables officials to trace these transactions from the point of collection through the accounting records to bank deposits and daily collection reports. Collections should be deposited in the same form and sequence they were received.

We reviewed bank deposits for the four dates, totaling \$727,858,²¹ and found deposits were not made intact on any of the four dates. Eighteen personal and third-party checks, totaling \$1,702, were substituted for cash collections. We found 15 personal checks totaling \$1,412 that were cashed in the Director's office, and three totaling \$290 that were cashed at the BPU facilities. City officials indicated that they thought this practice had been discontinued some time in 2011. A memo dated February 16, 2011, stated that personal checks, for employees only, would be allowed to be cashed, but third-party checks were specifically excluded. Officials at the BPU indicated they allowed this practice for employees. Allowing personal checks to be substituted for cash collections compromises internal controls over receipts.

¹⁸ Clerk's fees, utilities, and the City and County tax systems, but not the City collection or parking ticket systems

¹⁹ Clerk's fees, utilities, and City tax systems

²⁰ The Clerk's fees system had two missing receipts, utilities system had 27 missing receipts, and the City tax system had 18 missing receipts.

²¹ For July 10, August 28, and September 20, 2012, 15 checks totaling \$1,412 were cashed by the clerk. For October 26, 2012, three checks totaling \$290 were cashed by the BPU.

Throughout our audit, we communicated the control deficiencies identified and, in some instances officials took action to address our concerns. For example, we found that County tax receipts were not being deposited in a timely manner and officials indicated this practice would be corrected. In addition, officials indicated they would no longer cash personal checks. We encourage City officials to continue making improvements to properly account for and safeguard receipts.

Recommendations

5. The Director and BPU Business Manager should establish system access levels to promote adequate segregation of duties.
6. The Director should properly segregate duties, including computer access, so that individuals are not responsible for receiving, recording, and depositing moneys, or develop and implement appropriate mitigating controls such as review of audit logs.
7. The Director and BPU Business Manager, or designees, should ensure that all adjustments are approved and have supporting documentation prior to being made.
8. The Director and BPU Business Manager should review receipt logs and investigate any gaps in the receipt sequence and document the results. In addition, the processes should be reviewed and corrective action should be identified and implemented to prevent the sequence gaps from occurring.
9. The Director and BPU Business Manager should ensure that all moneys are deposited intact.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



May 31, 2013

Mr. Robert Meller
Chief Examiner
Buffalo Regional Office
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Dear Mr. Meller:

Please be advised that we have completed our review of the draft audit completed by your office of the City of Jamestown's purchasing and cash receipts practices covering the period January 1, 2011 – January 31, 2013.

The following constitutes my comments as prepared in conjunction with the City's Administrative and Finance Team.

Purchasing – Pages 8-10

Competitive Bidding:

The City concurs with the comment that bids should have been sought for three trucks purchased for a total of \$65,864. Prior to this matter being brought to our attention by your staff, we were under the impression that if a local vendor met the state contract price, a formal bid process was not required. Moving forward, we will certainly correct this procedure and seek bids in all required situations. It should be noted however, that in this instance, the local vendor's price, versus the state contract amount, resulted in a savings for our taxpayers of \$150 per truck. In addition, it should be noted that all three trucks were acquired via emergency purchase resolutions as approved by the Jamestown City Council on March 28, 2012 (2 trucks) and May 21, 2012 (1 truck). The three vehicles in question were badly rusted, unable to pass New York State inspection, no longer safe for staff to operate, needed to be scrapped and all were essential for the continued delivery of vital public services to our taxpayers.

See
Note 1
Page 21

Quotes:

- A. **Brick Screening:** The City's Procurement Policy required that three quotes be obtained for this purchase and normally, this would have occurred. However, in

this instance, the vendor was already providing screening on a nearby similar project. Therefore, there was no additional charge to the city for mobilization and set-up of the screening equipment. A significant labor savings was achieved due to the continuity of the screening work that was already underway. This resulted in a savings to the city of 10% or more (over \$1,000). In the future, we will make a more effective effort to adhere to the letter of our purchasing policy.

- B. Motor Oil: The City's Procurement Policy requires three quotes be obtained for this type of purchase. In the future, we will follow our policy or use vendors from the approved Chautauqua County bid for motor oil.
- C. Vehicle Repairs: The City's Procurement Policy requires three quotes be obtained for these types of transactions. It should be noted that these specific items dealt with the repair of leaf springs on the city's heavy-duty dump trucks. The vendor selected is the only local supplier of these heavy-duty springs. Other potential suppliers in the region would have had to purchase these springs from this vendor and obviously mark-up the cost to the city. As an alternative, the city could have obtained quotes from vendors in other Upstate New York areas, but transportation costs (i.e. hauling of vehicles) would need to be factored in, making this option more expensive and possibly cost prohibitive.

Again, in the future, despite the inconvenience, lost time and possible higher costs to the taxpayer, the city will exercise greater care to comply with the adopted procurement policy.

Competitive Bidding – Board of Public Utilities: The City, through its Board of Public Utilities (BPU) agrees that bids should have been sought for the purchase of liquid chemicals and boiler repairs. We also agree that purchases for tires, chemical gases, computer control panel modifications and rental of tanks, while proprietary and impractical to bid, should have been authorized by a resolution approved by three-fourths of our Board of Public Utilities. In investigating these concerns, however, at no time did we find evidence that additional quotations, or a different procurement process, would have achieved lower cost results. We have implemented additional controls in our purchasing process to eliminate these exposures in the future and staff members have been reminded to obtain the necessary 3/4 Board authorizations in all such instances.

Quotes: The City's BPU staff agrees that it should have obtained a minimum of three quotes for purchases of a KVFI tester, printed materials, vehicle repairs and boiler cleaning to ensure that the most suitable vendor was selected. Each example, however, occurred for a different reason (i.e. prior bid for the same purchase), therefore, standardization was required. Please be advised that we are committed to make improvements in this area going forward.

Professional Services: Our BPU staff and legal counsel understand that GML does not require competitive bidding for professional services that require specialized skill, training and expertise. We agree however, that we should have used some type of evaluative method/process to demonstrate that the City's BPU was expending public funds in the most prudent manner for arc flash training, legal, consulting and engineering services. Also, we agree that our BPU should have had contracts available for two of these vendors to better delineate the services which were provided. This is an improvement opportunity that we will certainly implement going forward.

Cash Receipts – Pages 11-14

Electronic Collection and Reporting System:

The City does in fact utilize six (6) different electronic software programs for the collection of revenue; Treasurer – (e.g. ██████████ – City/County/School Tax Collection, Board of Public Utilities – Electric, Water, Sewer, Sanitation, District Heat); Retiree Insurance ██████████; ██████████ – Parking Ticket (non-moving violation) collection; Chautauqua County – delinquent City/County/School Real Estate Tax collection, ██████████ – (retiree insurance, miscellaneous revenue); ██████████ ██████████ – Dog licensing, Vital Statistic (birth, death, marriage), General licensing, miscellaneous cash.

The electronic collection systems utilized are all specialized to the respective field, (e.g. tax collection, utility collection, etc) and to date, we have been unable to identify and secure other opportunities to utilize a “one stop shopping” electronic collection system for all of the respective fields.

Due to severe budget limitations, the City Clerk/Treasurer's Office is restricted to a staff of only five (5) individuals (including the Director) to undertake its varied work. With this limited staffing, it is difficult for each employee to have a separate cash drawer for each transaction area. The cash receipts are balanced on a daily basis with the oversight of the Director/City Clerk and City Comptroller. If questions remain after the end of the day, balancing is the responsibility of the Director/City Clerk to determine the inconsistency.

Despite previous directives to the contrary, the audit determined that some staff members had on occasion, dismissed non-moving violation fines as they relate to tickets issued for expired inspections and expired vehicle registrations. Apparently, this procedure was occasionally followed in order to reduce the amount of tickets forwarded to the City Court for adjudication.

Upon learning of this, a directive was immediately issued to all personnel reaffirming our prior directive that city staff should not be involved at any time with the waiver of any ticket obligations and that only the Judicial Branch is empowered to perform this function. Furthermore, beginning January 1, 2013, an appeal form for parking and other non-moving violations (i.e expired registrations and inspections) was produced with the

cooperation of the Jamestown City Court. All challenged parking tickets and other non-moving violations are now forwarded to the Jamestown City Court for review and final determination. When dismissing a parking ticket in the Complus System, after its receipt back from the Jamestown City Court, the staff member processing the dismissal is required to place their initials in the comment field along with a description. Furthermore, final dismissal entries must now be approved by the Director/City Clerk.

We appreciate your effort to bring these items to our attention and are confident that this matter has been resolved once and for all.

The electronic collection systems used by the City Clerk and Treasurer's Office were directly related to the software utilized by [REDACTED] and [REDACTED]. Please be advised that recently completed updates to the [REDACTED] software will now allow for the tracking of all receipts. An upgrade to the [REDACTED] software to the Enterprise System now allows for the tracking of missing receipts in the Tax Collection System. It should also be noted that after the completion of the field audit, the City has eliminated the use of the [REDACTED] and now uses [REDACTED] for the collection of retiree insurance and miscellaneous billing.

It was also brought to our attention during the field audit, that the previously banned practice of cashing personal checks for employees was still occurring on occasion, with some staff members. Please be advised that our policy prohibiting this was immediately reinforced with all staff. Efforts will continue to insure that this practice is never again resumed.

The City Clerk/Treasurer's Office will work with the City Comptroller and the Information Services Office to develop policies and procedures related to the use of accounting applications.

During the field audit, we were encouraged to utilize the audit logs available within the electronic collection software. This practice has begun and will continue with all electronic collection software.

The deposit of funds from the collection of real property taxes, utilities, parking violations and miscellaneous cash is now systematically completed on a daily basis. Deposit of delinquent tax monies through the Chautauqua County Real Property Tax collection system, is also now completed on a daily basis.

User Access: The City's BPU will look at various access levels to promote adequate separation of duties as is feasible, in accordance with staffing levels set by the Board.

Audit Logs: The City's BPU will use audit logs as a tool to investigate any gaps in receipt sequence and identify corrective actions to prevent sequence gaps from occurring.

Adjustments: The City's BPU is committed to setting a policy to ensure that all material adjustments are reviewed, approved and have supporting documentation prior to being made.

Depositing intact: As previously indicated, the City's BPU has discontinued the practice of cashing personal checks and is now in compliance with the previously established policy.

On behalf of the 35,000 residents of the City of Jamestown, the members of the City Council, and the professionals comprising our Administrative and Financial Management group, I would like to thank the members of the on site audit team for their professional efforts, cooperation and patience during this process. Clearly, we recognize and accept this initiative as a valuable performance enhancement tool as we seek to improve the level and quality of service that we provide to our residents, taxpayers and municipal utility customers.

During the coming weeks, we look forward to receiving the final version of the audit report so that we may proceed with the preparation and submission of the required Corrective Action Plan.

In the mean time, should additional questions arise or if we can provide any further clarification of issues or assistance in this process, please, do not hesitate to contact me.

Sincerely,

Samuel Teresi
Mayor

cc: Jamestown City Council Members
James Olson, Director of Financial Services/City Clerk
Joseph Bellitto, City Comptroller
David Leathers, Board of Public Utilities General Manager
Michael Anderson, Board of Public Utilities Business Manager

APPENDIX B

OSC COMMENTS ON THE CITY'S RESPONSE

Note 1

The Council resolution for the emergency purchase was dated March 26, 2012. However, the invoices for two of the trucks were dated May 17, 2012, and May 30, 2012. As such, it is unlikely that the City would have been in a position to wait approximately two months for the replacement equipment, if a true emergency existed.

Note 2

Neither during fieldwork nor at our exit conference with City officials was any mention made of another project that was using brick screening services.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard City assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk.

During the initial assessment, we interviewed City officials, performed limited tests of transactions, and reviewed pertinent documents such as City policies, Council minutes, and financial records and reports. We also conducted an assessment of general controls over the City's computerized environment. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. We then decided on the reported objectives and scope by selecting for audit the areas with the highest risk. We included purchasing and cash receipts for further audit testing.

To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following steps:

Purchasing

- We interviewed appropriate City and BPU officials and employees regarding procurement policies and procedures.
- We reviewed the Charter, minutes of the Council's proceedings, quotes, and various other purchasing documents.
- We reviewed the City's and BPU's procurement policies to determine if they adequately address the procurement of goods and services.
- We reviewed bid documents and supporting documentation to determine if purchases were made in compliance with GML and the procurement policies.
- We reviewed the City's adopted code of ethics.
- We obtained City and BPU vendor history reports for the period January 1, 2011, through October 31, 2012, and selected a sample of claims for testing. For our sample, we identified those City and BPU purchases with total vendor payments over \$20,000 and chose 20 percent of the total vendors over this threshold. The sample vendors were selected using a random number generator. Once the vendor was selected, for the City we chose the first payment over \$5,000 for our sample, and for the BPU we applied the random number generator for any of those payments over \$5,000.

Cash Receipts

- We interviewed appropriate City and BPU officials and employees to gain an understanding of the internal control policies and procedures related to cash receipts.

- We interviewed officials and employees and reviewed records and reports to identify all revenue sources for the Director’s office.
- We selected four sample dates for various types of receipt testing. For the period July 1, 2012, through September 28, 2012, we selected a random sample of three daily collections: July 10, August 28, and September 20, 2012, and also selected a focused sample date, October 26, 2012, based on information we identified during planning. We determined that the four months selected would include a representative sample of the various types of receipts collected by the City and BPU.
- For each of the dates selected, we obtained information and performed various tests on identified receipts (City Clerk, miscellaneous City receipts, taxes, utilities, and parking violations) for that date including the following:
 - o Intact Deposits — We obtained and reviewed bank statements, duplicate deposits slips (for cash deposits), and remote detail deposit reports (for checks), to identify in what form amounts were deposited. We then obtained and reviewed the General Receipts Update List (City receipts), Final Totals of all Payments Collected reports (parking violations), Daily Cash Reports (City Clerk’s receipts), and Electronic Payment Reports (utilities), to determine the amount of recorded cash receipts. Using the daily collection reports, we identified the cash and check payments and then traced the listed payment (checks) on the daily payment registers to the physical checks. For certain utility payments made on October 26, 2012, we traced certain check payments to scanned check images.
 - o Utilities Adjustments — We obtained an electronic adjustment report for any adjustments made to utility payments or bills made on the four selected dates for the period July 10, 2012, through November 21, 2012. We selected a judgmental sample based on the amount, if no explanation was listed, and an unusual or limited description for an adjustment. We also included adjustments to bills, and payments or penalties made by both administrators and cashiers. We discussed the adjustments with the BPU Information Services Manager and the Senior Account Clerk for billings and collections.
 - o Parking Violations Adjustments — Using the Final Totals of all Payments Collected report, we identified the total amount of the parking violations collected and dismissed for each of the four dates and traced them to the parking tickets (if an entire ticket’s fine amount was dismissed) or payment stubs (if payments were made).
 - o Missing Receipts — We identified which of the systems used for collections issued an electronic receipt number. For the three identified systems (Clerk’s fees, utilities, and City taxes), we obtained the daily receipt logs and identified any gaps in the receipt sequence. We discussed these gaps with City and BPU officials and contacted the software vendors to determine possible explanations for the missing receipts.
- We assessed the reliability of computer-processed data in our testing.
- Over the course of the audit, we reviewed various types of reports, including general ledger journal reports and trial balances.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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