



City of Troy

Financial Condition

Report of Examination

Period Covered:

January 1, 2012 — May 31, 2015

2015M-185



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Table of Contents

| | Page |
|---|------|
| AUTHORITY LETTER | 1 |
| EXECUTIVE SUMMARY | 2 |
| INTRODUCTION | 5 |
| Background | 6 |
| Objective | 6 |
| Scope and Methodology | 7 |
| Comments of Local Officials and Corrective Action | 7 |
| FINANCIAL CONDITION | 8 |
| Operating Funds | 9 |
| Capital Projects | 18 |
| Financial Reports | 22 |
| Long-Term Planning | 24 |
| Recommendations | 25 |
| APPENDIX A Response From Local Officials | 27 |
| APPENDIX B Audit Methodology and Standards | 30 |
| APPENDIX C How to Obtain Additional Copies of the Report | 32 |
| APPENDIX D Local Regional Office Listing | 33 |

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2016

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 Troy, entitled Financial Condition. 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 New York State 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 nine-member City Council (Council) is the City of Troy's (City) legislative branch, which consists of the President and eight other elected members. The Mayor is the chief executive officer and is responsible for the administration of all City affairs. The City Comptroller (Comptroller) is the chief fiscal officer and is responsible for the oversight and accountability of all of the City's financial activity. The City Charter (Charter) governs City operations and outlines the powers and duties of the Council, Mayor and Comptroller. The City's budgeted appropriations for the 2015 fiscal year were approximately \$83.1 million, which were funded primarily with revenues from real property taxes, sales tax and water and sewer charges.

Scope and Objective

The objective of our audit was to review the City's financial condition for the period January 1, 2012 through May 31, 2015. Our audit addressed the following related question:

- Does the Council adopt realistic budgets that are structurally balanced, routinely monitor financial operations and take appropriate actions to maintain the City's fiscal stability?

Audit Results

The financial condition of the City's general and water funds have declined over the last three fiscal years. The Council adopted budgets for the general fund that were not structurally balanced, but instead the Council routinely relied on appropriating significant amounts of reserves to finance operations. As a result, the general fund realized planned operating deficits, a declining fund balance and a declining cash balance from 2012 through 2014. The general fund's unassigned fund balance was \$1.1 million at the end of 2014, or only 1.6 percent of the 2015 general fund adopted appropriations. The general fund's financial condition will likely decline further during 2015 because the adopted budget for the fund was again not structurally balanced.

In addition, the Council-adopted budgets for the water fund were not realistic because revenue estimates for metered water sales could not be realized based on the water rates in effect. In addition, the budgets contained increasing amounts of interfund transfers to the general fund to subsidize the general fund's operations and did not include interfund transfers that were made to the capital projects fund totaling nearly \$4.4 million and more than \$1.6 million during 2013 and 2014, respectively. As a result, the water fund realized operating deficits of \$4.8 million and \$1.3 million during 2013 and 2014, respectively, and declining fund balance and cash from 2013 to 2014. The total fund balance in the City's water fund has decreased by more than \$6.1 million or 67 percent over the last three fiscal

years, from nearly \$9.2 million at the start of the 2012 fiscal year to \$3 million at the end of the 2014 fiscal year. The adopted budget for the water fund for 2015 again did not include funding to finance water improvements totaling \$1.2 million that were included in the City's capital plan. If the Council decides to make interfund transfers to the capital projects fund to finance these water improvements, this could significantly impact the financial condition of the water fund during 2015.

The Council also adopted budgets for the sewer fund that were not realistic because revenue estimates for sewer rents could not be realized based on the sewer rates in effect. However, the City realized operating surpluses during 2013 and 2014 because the revenue shortfalls were offset by the City not expending the amount of budgeted appropriations in 2013 and 2014 and because the City received an unbudgeted revenue of \$352,147 in 2014 for an emergency disaster assistance reimbursement. As a result, the sewer fund's fund balance and cash balance increased from 2012 through 2014. However, the sewer fund's cash balances at the end of the last three fiscal years were not sufficient to repay the amounts owed to the general and water funds. As a result, although the financial condition of the sewer fund improved, the sewer fund is still not fiscally healthy. The adopted budget for the sewer fund for 2015 again does not contain realistic estimates for sewer rents but will likely be offset again by overestimated appropriations.

The City is changing its method of accounting for retirement expenditures during 2015, which will result in the City recognizing only three quarters of its traditional retirement expenditures in 2015. As a result, the 2015 budget includes only three quarters, or approximately \$5.7 million, of the City's estimated retirement costs and excludes the approximate \$1.9 million in costs associated with the period January through March, 2016. However, in 2016 and in future years, the City will be required to recognize 100 percent of their retirement costs each year. As a result, if retirement costs remain at 2015 levels, the 2016 budget must include an increase of approximately \$1.9 million in retirement appropriations, an amount which represents approximately 10 percent of the 2015 tax levy.

We also found that the Comptroller failed to maintain individual accounting records for each capital project (project) and the Council did not monitor the financial activity of projects. As a result, one project that we reviewed was overspent by \$425,261, project expenditures were funded through the use of other projects' funds, debt proceeds have been improperly commingled with other City funds and \$85,334 in debt proceeds were used for an unauthorized purpose. Consequently, as of May 31, 2015, the general fund owed \$688,929 to the capital projects fund and \$85,334 to the special revenue fund, and the water fund owed \$466,753 to the capital projects fund, which will negatively impact the financial condition of these funds. In addition, the Council did not authorize the closing out of any completed projects during our audit period, resulting in at least 13 completed projects not being closed out in a timely manner. When the City closes out all of its completed projects, it is the responsibility of the operating funds to fund any deficits, which could significantly impact the financial condition of the operating funds.

The Council also did not receive quarterly financial reports of the City's operating funds during 2012 through 2014 and did not receive budget status reports for the City's projects during our audit period. In addition, the City's annual financial reports for the 2012 through 2014 fiscal years were not filed with the Office of the State Comptroller within the established time frame and the independent audits of the City's financial statements for the 2012 through 2014 fiscal years were not completed timely. Furthermore, the Council and City officials had not developed a multiyear financial plan and a comprehensive capital plan that was in accordance with the Charter. As a result, the Council's ability

to effectively monitor the financial operations and financial condition of the City and to make informed financial decisions has been hindered.

Comments of Local Officials

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

Introduction

Background

The City of Troy (City) is located in Rensselaer County (County) and has approximately 50,130 residents. The nine-member City Council (Council) is the City's legislative branch, which consists of the President and eight other elected members. The Mayor is the chief executive officer and is responsible for the administration of all City affairs. The City Comptroller (Comptroller) is the chief fiscal officer and is responsible for the oversight and accountability of all of the City's financial activity. The City Charter (Charter) governs City operations and outlines the powers and duties of the Council, Mayor and Comptroller.

The City's budgeted appropriations for the 2015 fiscal year were approximately \$83.1 million, which were funded primarily with revenues from real property taxes, sales tax and water and sewer charges. The City employs approximately 600 full- and part-time employees, who are assigned to various departments that provide services including general government support, road maintenance, snow removal, water and sewer services, law enforcement and fire protection.

During the 1990s, the New York State Legislature authorized the City to issue debt to liquidate cumulative deficits in the City's general fund for the years ending December 31, 1993, 1994 and 1995. At this time, the City of Troy Supervisory Board Act was enacted,¹ creating the Troy Supervisory Board (Supervisory Board).² The Supervisory Board has certain oversight powers and duties in connection with the finances of the City. In addition, the State Comptroller, pursuant to New York State Local Finance Law, conducts an annual review of the revenue and expenditure estimates in the City's proposed budget and may make recommendations to the City concerning those estimates.

In recent years, budget review letters to the City from the Office of the State Comptroller (OSC) have disclosed inadequately funded contingency appropriations, a lack of adequate funding for capital costs and declining financial trends in the general, water and sewer funds. These negative financial trends have increased concerns relating to the City's financial position. For example, the City's capital reserve balance has decreased from approximately \$6.5 million

¹ Laws of 1994, Chapter 721 as amended by, among other laws, Laws of 1995, Chapter 187

² The Comptroller serves as the Chair of the Supervisory Board. He may designate a representative to act on his behalf.

in 2006 to \$900,000 in 2014.³ Furthermore, the City has recently realized combined operating deficits in the general, water and sewer funds that have approached 1 percent of the combined expenditures. Such operating deficits can risk triggering the reimposition of the “emergency period” under the Supervisory Board Act and certain increased oversight of City finances by the Supervisory Board.

In 2007, the City, the Cities of Albany (represented by the Albany Water Board), Cohoes, Rensselaer and Watervliet and the Village of Green Island (the Albany Pool Communities or APCs) joined in a comprehensive intermunicipal venture led by the Capital District Regional Planning Commission (CDRPC) to develop a Phase I Combined Sewer Overflows (CSO)⁴ Long-Term Control Plan (Plan). The original draft Plan was submitted to the New York State Department of Environmental Conservation (NYSDEC) on June 11, 2011, with the final Plan approved by NYSDEC on January 15, 2014. The City’s participation is designed to help the City meet federal Clean Water Act goals by completing projects to prevent untreated effluent from entering the Hudson River.⁵ The entities will be charged for their proportionate share⁶ of the total expenditures incurred related to the Plan and any grant money that is received will be applied as a credit to the entities. According to the Plan Implementation Schedule (Schedule) dated February 4, 2015, the Plan will have an approximate \$32.3 million cost to the City over the next 13 years. CDRPC will be maintaining the accounting records over the duration of the implementation of the Plan.

The Council also approved 15 other projects with a combined maximum estimated cost of almost \$36.6 million during our audit period. These projects included, but were not limited to, the reconstruction of various City infrastructure that was damaged in 2011 by Tropical Storm Irene, installation of a water sprinkler system at the Frear Park golf course, court and police facility renovations and various street paving projects.

Objective

The objective of our audit was to review the City’s financial condition. Our audit addressed the following related question:

³ As reported by the City in its 2014 annual financial report filed with OSC

⁴ The APCs collectively own and operate 92 CSOs that discharge to the Hudson and Mohawk Rivers and their tributaries. Each of the APCs contributes combined sewage flow to a wastewater treatment plant owned and operated by either the Albany County Sewer District or the Rensselaer County Sewer District.

⁵ The City uses combined sewer systems that collect storm water runoff, domestic sewage and industrial wastewater in the same pipe. During heavy rain and snow events, the capacity of the sewer system can be exceeded and the combined sewer overflow will be discharged directly into the river.

⁶ The City’s proportionate share is 34.76 percent.

- Does the Council adopt realistic budgets that are structurally balanced, routinely monitor financial operations and take appropriate actions to maintain the City’s fiscal stability?

**Scope and
Methodology**

We reviewed the City’s financial condition for the period January 1, 2012 through May 31, 2015.

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 B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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 initiate corrective action.

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 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.

Financial Condition

Financial condition may be defined as a City's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A city in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a city with a declining financial condition usually struggles to balance its budget, suffers through disruptive service level declines, has limited resources to finance future needs and has minimal cash available to pay current liabilities as they become due.

The Council and officials are responsible for the financial planning and management necessary to maintain the City's fiscal health. To maintain good fiscal health, it is imperative that the Council and officials develop and adopt realistic and structurally balanced budgets; manage fund balance and cash balance levels; properly authorize capital projects (projects), monitor their financial activity and close-out completed projects in a timely manner; identify and adjust to long-term changes; and develop comprehensive multiyear financial and capital plans. To effectively monitor the City's financial operations and financial condition, the Council needs complete, accurate and timely financial information.

The financial condition of the general and water funds declined over the last three fiscal years because the Council adopted budgets for the general fund that were not structurally balanced and for the water fund that were not realistic and contained increasing amounts of interfund transfers to the general fund to subsidize the general fund's operations. The general fund's financial condition will likely decline further during 2015 because the adopted budget for 2015 is again not structurally balanced. In addition, the adopted budget for the water fund does not include funding to finance water improvements that were included in the City's capital plan. If the Council decides, as in recent years, to amend the budget during the fiscal year to finance these water improvements, this could significantly impact the financial condition of the water fund.

The Council adopted budgets for the sewer fund that were not realistic during the last three fiscal years. However, the City realized operating surpluses during 2013 and 2014 because revenue shortfalls were offset by the City not expending the amount of budgeted appropriations in 2013 and 2014 and because the City received a significant unbudgeted revenue in 2014. As a result, the financial condition of the sewer fund improved over the last three fiscal years. However, the sewer

fund's cash balances at the end of the last three fiscal years were not sufficient to repay the amounts owed to the general and water funds. As a result, the sewer fund is still not fiscally healthy. The adopted budget for the sewer fund for 2015 again does not contain realistic estimates for revenues but will likely be offset again by overestimated appropriations. As a result, the sewer fund's financial condition may not improve during 2015.

We also found that the Comptroller failed to maintain individual accounting records for each capital project (project) and the Council did not monitor the financial activity of projects. As a result, one project we reviewed was overspent, project expenditures were funded through the use of other projects' funds, debt proceeds have been improperly commingled with other City funds and \$85,334 in debt proceeds were used for an unauthorized purpose. In addition, the Council did not authorize the closing out of any completed projects during our audit period, resulting in at least 13 completed projects not being closed out in a timely manner. When the City closes out all of its completed projects, it is the responsibility of the operating funds to fund any deficits, which could significantly impact the financial condition of the operating funds.

The Council also did not receive adequate financial reports, the City's annual financial reports (AFRs) were not filed with OSC timely and the independent audits of the City's financial statements were not completed in a timely manner and did not include a finding related to the lack of appropriate accounting for capital projects. In addition, the Council and officials had not developed a multiyear financial plan and a comprehensive capital plan that was in accordance with the Charter. As a result, the Council's ability to effectively monitor the financial operations and financial condition of the City and to make informed financial decisions has been hindered.

Operating Funds

To maintain the City's fiscal stability, it is important for the Council to adopt realistic budgets that are structurally balanced (recurring revenues finance recurring expenditures) and monitor the actual results and budgeted estimates of each fund regularly throughout the year. It is also the responsibility of officials to ensure that the level of fund balance maintained is sufficient to provide adequate cash flow. A continuous decline in fund balance indicates a deteriorating financial condition. The City should maintain a reasonable level of unexpended surplus funds,⁷ which allows it to hedge against unanticipated expenditures, revenues shortfalls or both. This reasonable amount

⁷ Unexpended surplus funds consists of unassigned fund balance in the general fund and assigned unappropriated fund balance, less any amount for encumbrances, in the water and sewer funds.

should consider various factors such as timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations and reserves that have been established for various purposes. While fund balance can be appropriated in the budget to help finance operations, consistently doing so, instead of planning to use recurring revenue sources, can deplete the fund balance to levels that are not sufficient for contingencies and cash flow.

General Fund – During the last three fiscal years, the Council has adopted general fund budgets that have resulted in no significant budget variances in total. However, the Council budgeted for planned operating deficits⁸ in each of the last three fiscal years by appropriating reserves⁹ to help finance the budgets. As a result, we found that the City experienced planned deficits totaling \$1.9 million in those same years and a decline in total fund balance in the general fund. Figure 1 illustrates the general fund’s results of operations over the last three fiscal years.

| Figure 1: General Fund – Results of Operations | | | |
|---|--------------|--------------|----------------------------|
| | 2012 | 2013 | 2014 |
| Beginning Fund Balance | \$13,793,900 | \$13,773,569 | \$12,933,142 ^a |
| Operating Surplus/(Deficit) | (\$20,331) | (\$840,415) | (\$1,037,643) ^b |
| Ending Fund Balance | \$13,773,569 | \$12,933,154 | \$11,895,499 |
| ^a The difference between the beginning and prior year ending fund balance is due to a prior year adjustment. ^b Our review of the general fund’s accounting records for 2014 disclosed a receivable that was overstated by \$2,254. As a result, we reduced the general fund’s total revenues by this amount in order to properly calculate the general fund’s operating deficit. | | | |

We also found other factors that contributed to the general fund realizing operating deficits during the last three fiscal years. For example, the 2013 and 2014 adopted budgets contained revenues for the sale of real property that were not realized totaling \$650,000 and \$600,000, respectively. This contributed to revenues being overestimated by more than \$1.4 million for 2013 and \$539,688 for 2014. In addition, the general fund made interfund transfers to the capital projects fund during 2012 and 2013 that were not included in the adopted budget totaling \$911,470 and \$805,234, respectively. Instead, the Council amended the budgets during the fiscal year to make these interfund transfers. However, we found that the interfund

⁸ A planned operating deficit occurs when the Council intentionally adopts a budget in which estimated revenues are less than appropriations, with the difference to be funded with appropriated fund balance, reserves or both.

⁹ The Council appropriated reserves as a financing source in its budgets of \$1,782,200 for 2012, \$415,000 for 2013 and \$1,400,000 for 2014, for a total of \$3,597,200.

transfers that were made to the capital projects fund during 2012 and 2013 exceeded the amended budget amounts by \$211,470 and \$76,375, respectively.

The general fund would have realized more significant operating deficits during each of the last three fiscal years if the water fund did not subsidize the general fund's operations through interfund transfers totaling \$6,416,000.¹⁰ Without these subsidies, the general fund would have experienced operating deficits during each of the last three fiscal years totaling more than \$8.3 million.

Although the City has a substantial amount of total fund balance, a significant portion of it is restricted and may only be used for specific purposes. Specifically, between approximately \$8.6 million and \$9.2 million of the City's total fund balance at the end of the last three fiscal years was restricted for debt service associated with the bonds issued by the City to liquidate the cumulative deficits. These funds may only be used in accordance with the enacted deficit financing legislation. In addition, between approximately \$1.5 million and \$3.5 million, or as much as 25 percent of the City's total fund balance at the end of the last three fiscal years, was restricted for specific purposes for which the City had established the reserves. Figure 2 illustrates the composition of the fund balance of the general fund at the end of the last three fiscal years.

| Figure 2: General Fund – Fund Balance Composition | | | |
|--|--------------|--------------|--------------|
| | 2012 | 2013 | 2014 |
| Total Fund Balance | \$13,773,569 | \$12,933,154 | \$11,895,499 |
| Less: Reserve for Debt | \$8,631,412 | \$8,771,852 | \$9,179,373 |
| Less: Other Reserves ^a | \$3,483,133 | \$2,642,954 | \$1,457,522 |
| Less: Nonspendable Fund Balance | \$30,241 | \$38,950 | \$30,490 |
| Less: Assigned Unappropriated Fund Balance | \$684,841 | \$181,577 | \$153,625 |
| Unassigned Fund Balance | \$943,942 | \$1,297,821 | \$1,074,489 |
| ^a Other Reserves are comprised of a capital reserve, snow and ice removal reserve, insurance reserve, workers' compensation reserve and unemployment insurance reserve. | | | |

As a result, while the general fund has a healthy total fund balance, the general fund's unassigned fund balance of only \$1,074,489 at the end of 2014 is only 1.6 percent of the 2015 general fund adopted appropriations of \$66.1 million. In addition, the City's other reserves' balances have decreased by \$2.9 million or 67 percent over the last three fiscal years, from almost \$4.4 million at the start of the 2012 fiscal

¹⁰ The \$6,416,000 in water fund subsidies consisted of \$1,972,000 for 2012, \$1,972,000 for 2013 and \$2,472,000 for 2014.

year to \$1.5 million at the end of the 2014 fiscal year.¹¹ Furthermore, the general fund's cash balance¹² of only \$987,408¹³ at the end of 2014 is just 1.5 percent of the 2015 general fund adopted appropriations. The Council's adoption of budgets that were not structurally balanced during 2012 through 2014 resulted in the decline of the general fund's financial condition.

We reviewed the City's 2015 general fund budget and project that budgeted revenues for payments in lieu of taxes (PILOTs),¹⁴ mortgages taxes and interest and penalties on real property taxes have been overestimated¹⁵ by a total of \$225,000. In addition, the City again budgeted revenues for the sale of real property totaling \$650,000. This is the same property that the City budgeted to receive revenue for during 2013 and 2014 but for which no revenue was realized. As of May 31, 2015, the City had not realized any revenues for the sale of real property. However, the Mayor stated that the City is in the process of negotiating and finalizing a property sale for approximately \$650,000. If these budgeted revenues are not realized during 2015, it could significantly impact the general fund's results of operations.

We also question the reasonableness of certain budgeted appropriations. For example, budgeted appropriations for equipment and capital outlay totaled \$122,219, although the City's multiyear capital plan that is included in the adopted budget includes the purchase of vehicles and equipment totaling \$419,750. In addition, the budget only includes a \$650,000 contingency appropriation, which represents less than 1 percent of the total budgeted appropriations of \$66.1 million. As a result, we consider this amount not to be reasonable because it provides the City with limited flexibility in the event of unforeseen circumstances that require additional funds. Furthermore, all six of the City's collective bargaining agreements are expired and the 2015 budget does not contain provisions for any potential increased costs associated with settling the collective bargaining agreements. By underfunding the contingency appropriation, the City's ability to pay any liabilities which may arise from contract negotiations in

¹¹ The City had depleted its snow and ice removal reserve as of December 31, 2014.

¹² We used the general fund's cash balances that were recorded as unrestricted for our analysis.

¹³ Our review of the general fund's accounting records for 2014 disclosed receivables that were overstated by \$16,454. This resulted because checks that were received by the City prior to the end of the fiscal year were recorded as receivables, although they should have been deposited and recorded as cash since they were received before the end of the fiscal year. As a result, we increased the general fund's unrestricted cash by this amount for our analysis.

¹⁴ The Comptroller could not provide us with a PILOT schedule supporting this budgeted revenue during our review. Therefore, we used historical data to perform our analysis of this budgeted revenue.

¹⁵ The City budgeted a total of \$1,950,000 for these three revenues.

2015 will be limited. Lastly, budgeted appropriations for debt service payments are not reasonable because the City budgeted \$195,454 less than the amounts that were included in the City's debt service schedules.

We also found that the 2015 budget was not structurally balanced because the City is again relying on the appropriation of reserves totaling \$725,000, a subsidy from the water fund through an interfund transfer totaling almost \$2 million and the sale of real property totaling \$650,000, in order to finance the general fund's operations. As a result, the City continues the budgetary practice of reliance on fund balance and non-recurring revenues as a means to finance recurring expenditures, which will likely result in the further decline of the general fund's financial condition during 2015. Officials should closely monitor the general fund's operations during the remainder of the 2015 fiscal year and make any adjustments that are necessary to prevent a further decline in the general fund's financial condition.

Water Fund – The Council did not adopt realistic budgets during the last three fiscal years and the adopted budgets contained increasing amounts of interfund transfers to the general fund to subsidize¹⁶ the general fund's operations. Consequently, the water fund realized a small operating surplus of \$15,516 during 2012 and significant operating deficits of approximately \$4.8 million and \$1.3 million during 2013 and 2014, respectively. As a result, total fund balance in the City's water fund has decreased by more than \$6.1 million or 67 percent over the last three fiscal years, from nearly \$9.2 million at the start of the 2012 fiscal year to \$3 million at the end of the 2014 fiscal year. Figure 3 illustrates the City's water fund fund balance trends over the last three fiscal years.

Figure 3: Water Fund – Fund Balance

| | 2012 | 2013 | 2014 |
|--------------------------------------|-------------|---------------|----------------------------|
| Beginning Fund Balance | \$9,173,570 | \$9,189,086 | \$4,347,204 ^a |
| Operating Surplus/(Deficit) | \$15,516 | (\$4,841,883) | (\$1,311,807) ^b |
| Ending Fund Balance | \$9,189,086 | \$4,347,203 | \$3,035,397 |
| Less: Nonspendable Fund Balance | \$0 | \$0 | \$117,960 |
| Assigned Unappropriated Fund Balance | \$9,189,086 | \$4,347,203 | \$2,917,437 |

^a The difference between the beginning and prior year ending fund balance is due to a prior year adjustment.
^b Our review of the water fund's accounting records for 2014 disclosed a receivable that was overstated by \$352,147. As a result, we reduced the water fund's total revenues by this amount in order to properly calculate the water fund's operating deficit.

¹⁶ The water fund subsidies consisted of \$1,972,000 for 2012, \$1,972,000 for 2013 and \$2,472,000 for 2014, for a total \$6,416,000.

The Council did not adopt realistic budgets for the water fund during the last three fiscal years because they consistently budgeted revenue estimates for metered water sales for the City¹⁷ that could not be realized based on the water rates in effect. Specifically, during 2012 through 2014, the water fund realized revenues averaging \$4.6 million for metered water sales. However, the Council budgeted revenue estimates for metered water sales averaging \$5.1 million, resulting in metered water sales being overestimated by a total of nearly \$1.6 million over the last three fiscal years. This resulted although the Council and officials had historical data to accurately budget this revenue source because water rates for the City have not increased since 2007.

In addition, the water fund made interfund transfers to the capital projects fund during 2013 and 2014 that were not included in the adopted budget totaling \$4,360,000 and \$1,640,000, respectively. Instead, the Council amended the budgets during the fiscal year to make these interfund transfers. These unplanned transfers were a significant contributing factor to the total appropriations for the water fund being underestimated during 2013 and 2014 by \$4.2 million and \$831,778, respectively.

The water fund's cash balance has also steadily declined from \$4.9 million at the start of the 2012 fiscal year to \$2 million at the end of the 2014 fiscal year, or 15 percent of the 2015 water fund adopted appropriations. However, we found that the water fund had a net interfund liability at the end of 2014 totaling \$1.8 million. As a result, if the City had repaid all interfund receivables and liabilities at the end of 2014, the water fund would have had a cash balance of only \$188,049, representing approximately 1.5 percent of the 2015 water fund adopted appropriations. The Council's adoption of budgets that were not realistic and the general fund's continued reliance on subsidies from the water fund during 2012 through 2014 resulted in the decline of the water fund's financial condition.

We reviewed the City's 2015 water fund budget and found that the budgeted revenues were reasonable and the budget was structurally balanced because the water rates that are in effect during 2015 are sufficient to fund the operating expenditures of the water fund. However, we question the reasonableness of certain budgeted appropriations. For example, budgeted appropriations for equipment and capital outlay totaled \$127,250, although the City's multiyear capital plan that is included in the adopted budget includes the

¹⁷ The City also realizes revenues from the sale of water to the City of Rensselaer, Village of Menands and Towns of East Greenbush, North Greenbush, Brunswick, Poestenkill, Schaghticoke, Waterford and Halfmoon based on wholesale water contracts.

purchase of vehicles and equipment totaling \$460,000. Similarly, the budget did not include an interfund transfer to the capital projects fund, although the City's multiyear capital plan that is included in the adopted budget includes \$1.2 million in water improvements.¹⁸ If the Council decides, as in recent years, to amend the budget during the fiscal year to make interfund transfers to the capital projects fund to finance these expenditures, this could significantly impact the financial condition of the water fund during 2015. Officials should closely monitor the water fund's operations during the remainder of the 2015 fiscal year and make any adjustments that are necessary to prevent a further decline in the water fund's financial condition.

Sewer Fund – The sewer fund realized a significant operating deficit of \$306,964 during 2012 and operating surpluses of \$34,614 and \$736,029 during 2013 and 2014, respectively. As a result, total fund balance in the City's sewer fund increased over the last three fiscal years, from \$398,583 at the start of the 2012 fiscal year to \$862,266 at the end of the 2014 fiscal year. More importantly, the sewer fund went from a deficit \$615,356 unassigned fund balance at the end of the 2012 fiscal year to a \$482,594 assigned unappropriated fund balance at the end of the 2014 fiscal year, not including \$379,672 in recorded encumbrances.¹⁹ Figure 4 illustrates the City's sewer fund balance trends over the last three fiscal years.

| Figure 4: Sewer Fund – Fund Balance | | | |
|--------------------------------------|-------------|-------------|------------------------|
| | 2012 | 2013 | 2014 |
| Beginning Fund Balance | \$398,583 | \$91,619 | \$126,237 ^a |
| Operating Surplus/(Deficit) | (\$306,964) | \$34,614 | \$736,029 ^b |
| Ending Fund Balance | \$91,619 | \$126,233 | \$862,266 |
| Assigned Unappropriated Fund Balance | \$706,975 | \$385,142 | \$862,266 |
| Unassigned Fund Balance ^c | (\$615,356) | (\$258,909) | N/A |

^a The difference between the beginning and prior year ending fund balance is due to a prior year adjustment.

^b Our review of the sewer fund's accounting records for 2014 disclosed a receivable that was understated by \$352,147. As a result, we increased the sewer fund's total revenues by this amount in order to properly calculate the sewer fund's operating surplus for 2014.

^c The sewer fund's assigned unappropriated fund balance consisted of encumbrances that were in excess of the sewer fund's total fund balance at fiscal year-end 2012 and 2013, resulting in a deficit unassigned fund balance being recorded for those years.

Although the sewer fund's financial condition improved over the last three fiscal years, the Council did not adopt realistic budgets for the sewer fund during the last three fiscal years because they consistently

¹⁸ Expenditures for water improvements have been funded through an interfund transfer from the water fund to the capital projects fund in recent years.

¹⁹ Commitments related to unperformed contracts for goods and services predominately related to the Plan.

budgeted revenue estimates for sewer rents²⁰ that could not be realized based on the sewer rates in effect.²¹ Specifically, during 2012 through 2014, the sewer fund realized revenues averaging \$2.5 million for sewer rents. However, the Council budgeted revenue estimates for sewer rents averaging \$2.9 million, resulting in sewer rents being overestimated by a total of nearly \$1.1 million over the last three fiscal years. The City realized operating surpluses during 2013 and 2014 because the revenue shortfalls were offset by the City not expending the amount of budgeted appropriations and the City received an unbudgeted revenue of \$352,147 in 2014 for an emergency disaster assistance reimbursement.

The sewer fund's cash balance increased from \$189,272 at the start of the 2012 fiscal year to \$517,129 at the end of the 2014 fiscal year, or 12 percent of the 2015 sewer fund adopted appropriations of \$4.3 million. However, at the same time, the amount that the sewer fund owed to general or water funds at the end of the last three fiscal years also increased. Specifically, the sewer fund's interfund liability at the end of the last three fiscal years totaled \$327,000, \$655,767 and \$705,846. As a result, the sewer fund's cash balances at the end of the last three fiscal years of \$134,719, \$389,890 and \$517,129, respectively, were not sufficient to repay the amounts owed to the general or water funds. As a result, although the financial condition of the sewer fund has improved over the last three fiscal years, the sewer fund is still not fiscally healthy. In addition, the sewer fund's continued reliance on the general and water funds has contributed to their declining financial condition.

We reviewed the City's 2015 sewer fund budget and we question the reasonableness of certain budgeted revenues and appropriations. For example, the City has again budgeted revenue estimates for sewer rents that we project will not be realized based on the sewer rates in effect. Although the City increased sewer rates by \$0.679²² per 1,000 gallons (30 percent) from 2014 to 2015, we do not believe this rate increase will generate the additional \$1,107,827²³ of sewer rent revenue that was included in the 2015 budget compared to actual revenues realized in 2014. Instead, we project that the City will realize revenues for sewer rents of approximately \$3.7 million, resulting in a revenue shortfall of approximately \$300,000.

²⁰ The City also budgets another revenue for sewer rents from the County based on a contract with the County.

²¹ The City increased sewer rates by \$0.74 per 1,000 gallons from 2012 to 2013.

²² The City increased sewer rates from \$2.231 per 1,000 gallons of water usage in 2014 to \$2.91 per 1,000 gallons of water usage in 2015.

²³ When the City increased sewer rates by \$0.74 per 1,000 gallons from 2012 to 2013, this only generated approximately \$550,000 in additional revenue.

However, we project that this revenue shortfall will be offset because we do not anticipate that the City will expend the entire amount of the budgeted appropriations that were included in the 2015 sewer fund budget. Specifically, the sewer fund budgeted appropriations related to the CSO Plan are not reasonable. According to the Schedule dated February 4, 2015, the City will incur expenditures totaling \$1,235,718 related to the Plan in 2015. However, the adopted budget contains appropriations totaling \$1,788,000 or approximately \$550,000 more than the amount outlined in the Plan. As of May 31, 2015, the City had only incurred expenditures totaling \$260,388 related to the Plan.

Although the budgeted revenues and appropriations were not reasonable, we concluded the 2015 sewer fund budget was structurally balanced because recurring revenues are sufficient to meet recurring expenditures. Nonetheless, officials should closely monitor the sewer fund's operations during the remainder of the 2015 fiscal year and make any adjustments that are necessary to prevent a decline in the sewer fund's financial condition.

Subsequent to completion of fieldwork and before issuing this report, we conducted a budget review of the City's 2016 proposed budget. The budget review included findings detailing several revenues that appeared to be overestimated and several appropriations that appeared to be underestimated and cautioned that the provision for contingencies was minimal. City officials did not address our findings as they finalized the budget. To the contrary, the contingency appropriation was reduced by the City (from \$600,000 in the proposed budget to \$455,000 in the adopted budget). We again caution the City that this budget provides the City with limited flexibility in the event of unforeseen circumstances and could easily result in further deterioration of the City's financial condition.

Overall, the Council's budgeting practices and lack of monitoring significantly contributed to the City's declining fiscal health during our audit period. It is important that the Council adopt realistic and structurally balanced budgets and monitor the actual results and budgeted estimates of each fund regularly throughout the year. This will allow the Council to identify potential problems and take needed corrective action in a timely manner. The failure to do so could lead to a further deterioration of the City's financial condition.

Retirement Appropriations – Our review of the budgeted appropriations for the general, water and sewer funds also disclosed that the City is changing its method of accounting for retirement

expenditures²⁴ during 2015, which will result in the City recognizing only three quarters of their traditional retirement expenditures in 2015. As a result, the 2015 budget includes only three quarters, or approximately \$5.7 million, of the City's estimated retirement costs and excludes the approximate \$1.9 million in costs associated with the period January through March 2016. However, in 2016 and future years, the City will be required to recognize 100 percent of their retirement costs each year. As a result, if retirement costs remain at 2015 levels, the 2016 budget must include an increase of approximately \$1.9 million in retirement appropriations, an amount which represents approximately 10 percent of the 2015 tax levy.

Furthermore, the City should record a prior period adjustment to record only 2014 retirement costs in 2014. This would result in all of the 2015 retirement costs being recorded in 2015 even though the first quarters were paid in 2014 and the costs for the last three quarters' costs will be paid in 2016. The timing of the payment may help with cash flow, but it does not change when the actual costs were incurred.

Capital Projects

Complete and accurate accounting records for projects are necessary for project management and proper financial reporting. Because projects are budgeted on an individual project basis and legal and contractual requirements may vary from one project to another, an individual project fund should be established for each authorized project with corresponding individual accounting records maintained for each. The Comptroller is responsible for maintaining financial records for each project with sufficient information to document the project's complete financial history and establish accountability for resources provided for a particular purpose.

The Council should adopt a resolution at the inception of each project, identifying the project, authorizing the maximum estimated cost and establishing how the project will be financed. The Council is responsible for monitoring the status of each project by periodically reviewing financial reports that compare actual revenues and expenditures to the related budget. The failure to limit expenditures

²⁴ Historically the City has accounted for retirement expenditures using the cash basis of accounting by recording the entire amount paid each fiscal year as an expenditure in that year. However, the City's retirement bill, which the City has traditionally paid in December each year, is for the period covering April of the current year through March of the ensuing year. As a result, the City's payments have covered three quarters (nine months) of the current year's obligations and one quarter (three months) of the next year's obligations. In 2015, the City does not plan on making its payment in December, but will instead make its payment in February 2016. In addition, the City is planning to modify its method of accounting for this expenditure to record only the three quarters of the cost which is attributable to the period of April through December of 2015 in the 2015 fiscal year. The remaining three months will be recorded as an expenditure in 2016.

to available authorizations creates the risk that money may not be available when required for necessary expenditures. In addition, New York State Local Finance Law (Finance Law) provides that proceeds of bonds or bond anticipation notes may not be commingled with other City funds²⁵ and only can be expended for the purpose for which the obligations were issued. Furthermore, Finance Law authorizes cities to apply proceeds of bonds or bond anticipation notes to reimburse other city funds temporarily advanced to pay for projects, so long as the bonds or bond anticipation notes were authorized before the temporary advance of funds.

Once a project is completed, the Council should adopt a resolution to close the project and dispose of any unexpended balance based on the project's funding source(s). Unexpended funds originating from bonds or bond anticipation notes must be applied to the related debt (transferred to the debt service fund) and unexpended funds originating from interfund transfers or advances must be returned to the fund(s) that originally supplied the resources.

Accounting Records, Authorization and Monitoring – The City did not maintain individual accounting records for each authorized project. Instead, the Comptroller accounted for all of the City's authorized projects in one general ledger. As a result, we could not determine the assets, liabilities and fund equity of each of the City's projects nor could the Comptroller readily extract data on the revenues and expenditures of each individual project. This also contributed to budget status reports for the City's projects not being presented to the Council during our audit period. As a result, the Council could not effectively monitor the City's projects or ensure that expenditures did not exceed the authorized amounts.

Based on these weaknesses, we reviewed five projects²⁶ that were authorized by the Council during our audit period to determine if project expenditures remained within the maximum estimated cost that was established by the Council and if project financing sources that were established by the Council were sufficient to fund the expenditures incurred. We found that for one of the five projects, the

²⁵ The Council may, by resolution, deposit in a single special account the proceeds of two or more debt issuances but may not commingle debt proceeds with other City funds, except moneys appropriated for the same project for which the debt was issued.

²⁶ We used a computerized random number generator to select five projects that were authorized by the Council during our audit period. The five projects consisted of the Tomhannock Reservoir Dam – 2013 Water Improvements (project 604), 2014 General Fund Capital Plan (project 608), Riverfront North Extension (project 609), 2014 Street Paving Program (project 610) and 2014 Department of Public Utilities Capital Plan (project 611), which had authorized maximum costs of \$4,360,000, \$2,908,000, \$1,125,000, \$725,000 and \$1,640,000, respectively.

project expenditures exceeded the Council's authorized maximum cost of \$725,000²⁷ by \$425,261. Therefore, the project financing sources that were established by the Council were also not sufficient to fund the expenditures incurred. As of May 31, 2015, we found that the general fund had only transferred to the capital projects fund \$500,000 of the \$1,150,261 in cash needed to fund the expenditures that were incurred. Therefore, other projects' funds totaling \$650,261 were used to pay for this project's expenditures,²⁸ resulting in the general fund owing this amount to the capital projects fund.

Three²⁹ of the other four projects in our sample also used other projects' funds to pay for expenditures. However, as of May 31, 2015, only two of these three projects still owe the capital projects fund. Specifically, the City had incurred expenditures totaling \$38,668 for project 609³⁰ and \$466,753 for project 611,³¹ but no cash had been transferred from the general fund or water fund, respectively, to finance the expenditures that were incurred. As a result, as of May 31, 2015, other projects' funds totaling \$505,421 were used to pay for these two projects' expenditures, resulting in the general fund owing an additional \$38,668 to the capital projects fund and the water fund owing \$466,753 to the capital projects fund. However, because the City did not maintain individual accounting records for each authorized project and project funds were commingled in the same bank accounts, officials cannot determine which projects' funds have been used to pay other projects' expenditures and, correspondingly, which projects are owed.

The Comptroller's failure to maintain individual accounting records for each authorized project prevented the Council from being able to properly monitor the projects or determine the financial condition of each project. In addition, commingling cash without maintaining accurate records and accountability over each project's cash balance increases the risk that one project's cash could incorrectly be used to finance another project's or fund's operations. Without a reliable basis

²⁷ The Council established an authorized maximum cost for the project of \$725,000, which was to be financed with \$725,000 from the general fund's capital reserve through an interfund transfer from the general fund to the capital projects fund. This project was for the City's 2014 street paving program.

²⁸ The City actually incurred all of the expenditures for this project totaling \$1,150,261 prior to the City transferring \$500,000 in cash from the general fund to the capital projects fund on December 31, 2014. Therefore, the City used other projects' funds to finance all of the project's expenditures prior to any cash being transferred from the general fund to the capital projects fund.

²⁹ Project 604, 609 and 611

³⁰ This project was to be financed through the issuance of serial bonds in the amount of \$1,125,000.

³¹ This project was to be financed with \$1,640,000 in fund balance from the water fund through an interfund transfer from the water fund to the capital projects fund.

for officials to monitor the financial activity of projects and make informed financial decisions, the City is at risk of overexpending other projects without identifying and addressing these overexpenditures in a timely manner, which could significantly impact the financial condition of the operating funds.

Deposit and Use of Debt Proceeds – We reviewed all proceeds from obligations that were received by the City during our audit period to verify whether they were deposited into separate bank accounts where required. We found that all proceeds from obligations totaling \$15.2 million³² that were received by the City during our audit period were not deposited into separate bank accounts. Instead, the proceeds from obligations were all deposited into a commingled checking account³³ that contained some of the general fund’s cash and multiple projects’ cash. Specifically, as of December 31, 2014, the cash in this checking account corresponded to one general fund cash account and 22 capital projects fund cash accounts that were recorded in the accounting records. As a result, the City commingled proceeds of obligations with other City funds, which is not in compliance with Finance Law. Because the City commingled funds and did not maintain adequate accounting records, we could not determine if debt proceeds were being used for purposes other than for which the debt was issued.

However, we reviewed expense ledgers for each of the projects for which debt was issued during our audit period to determine if the corresponding claim³⁴ for each recorded expenditure was for a purpose for which the obligations were issued. We found exceptions with one of the debt issuances. Specifically, the City issued a bond anticipation note³⁵ on August 7, 2014 to be used for the demolition of buildings, and the Council authorized the issuance of this debt by resolution on April 3, 2014. As a result, the City would be eligible to reimburse moneys that were temporarily advanced to pay for expenditures that were incurred prior to the issuance of the debt but that were incurred subsequent to the date of authorization of the issuance of the debt. We found that the City incurred expenditures related to this project totaling \$446,329 prior to the Council authorizing the issuance of the bond anticipation note on April 3, 2014. However, we found that the City financed \$360,995 of the \$446,329 in expenditures that were incurred prior to the Council authorizing the issuance of the debt

³² The proceeds consisted of the issuance of seven bond anticipation notes, which included three renewals.

³³ Once deposited into this checking account, we verified that some of the proceeds from obligations were transferred to a money market account that contained funds of other projects and to a checking account that contained funds for the special revenue fund.

³⁴ The claims we reviewed totaled \$7,606,853.

³⁵ In the amount of \$2,083,000, with \$1,000,000 being for the demolition of buildings

through other financing sources, resulting in a balance of \$85,334. The City used proceeds from the bond anticipation note to reimburse the special revenue fund³⁶ for moneys that it advanced to pay for the \$85,334 in expenditures that were incurred prior to the authorization date of the debt, which is an unauthorized use of debt proceeds. As a result, the City will need to transfer \$85,334 from the general fund to the special revenue fund to reimburse the project for the previous unauthorized use of debt proceeds, which will negatively impact the general fund's financial condition.

Project Close-Out – The Council did not adopt a resolution to close any completed projects during our audit period. However, as of May 31, 2015, the City's balance sheet for the capital projects fund contained at least 13 projects³⁷ that officials stated had been completed but which had not been closed out. Due to the state of the City's accounting records and the commingling of project funds in the same bank accounts, we were not able to determine if any of the completed projects had an unexpended balance or a deficit.

Without a proper close-out of projects, the Council cannot determine the total cost of each project, may be unaware of project overruns and cannot be assured that any unexpended funds are properly disposed of. In addition, when the City closes out all of their completed projects, it is the responsibility of the operating funds to fund any deficits, which could significantly impact the financial condition of the operating funds.

Given the City's tenuous financial condition, it is particularly important to properly account for projects because they impact the financial condition of the operating funds. However, the Comptroller did not properly account for projects, the Council did not ask for financial information pertaining to projects and the independent auditors failed to bring this significant shortcoming to the attention of officials.

Financial Reports

The Council needs complete, accurate and timely financial information to effectively monitor the City's financial operations and financial condition. The Charter requires the Comptroller to prepare quarterly financial reports (quarterly reports) for the Mayor to present to the Council. The Comptroller should prepare a quarterly report to be presented to the Council that includes comparisons of actual revenues and expenditures with the amounts estimated in the annual budget (budget status reports) for each operating fund. In addition,

³⁶ The Comptroller accounted for this project in the special revenue fund, instead of the capital projects fund, because he considered it to be a community development project instead of a capital improvement.

³⁷ We identified these projects based on separate balance sheet accounts being recorded on the balance sheet that contained the projects' assigned number.

because the Council is responsible for monitoring the financial status of individual projects, it should receive periodic financial reports comparing actual revenues and expenditures for each project with the related budget as well.

The Comptroller is also required to prepare and file an AFR with OSC within 120 days after the close of the fiscal year. While it is the Comptroller's responsibility to prepare and file the AFR, the Council should have procedures in place to review the report and ensure that the Comptroller completes and submits it to OSC by the deadline. The City's financial statements are also audited by an independent auditor on an annual basis. Because independent audits express an opinion on the fairness of the presentation of the City's financial statements, can help identify conditions in need of improvement and can be a useful tool in providing oversight and review of financial operations, the Council should ensure that the City engages an independent auditor to audit the City's financial statements in a timely manner.

Quarterly Reports – We found that the quarterly reports for the City's operating funds were not prepared and presented to the Council during the 2012 through 2014 fiscal years. As a result, the Council could not effectively oversee the financial operations of the City's operating funds during these fiscal years. However, monthly budget status reports for the City's operating funds were prepared and presented to the Council for the months of January and February 2015. Subsequently, officials decided that the Council would only be provided with budget status reports for the City's operating funds on a quarterly basis. In addition, as previously mentioned, the Council was not presented with budget status reports for the City's projects during our audit period. As a result, the Council could not effectively monitor the projects or ensure that expenditures did not exceed the approved budgetary authorization.

AFRs – The Council did not ensure that the Comptroller prepared and filed the City's AFR with OSC within the established time frame. We found that the City's AFRs for the 2012 through 2014 fiscal years were filed on June 28, 2013, June 24, 2014 and May 29, 2015, or 59, 55, and 29 days late, respectively. The Comptroller stated that he has not filed the AFRs in a timely manner because of the limited staffing levels in his office. However, if the financial records are kept up-to-date and accurate during the year, completing the AFR should not require substantial work beyond reporting the account balances already recorded in the financial records. The failure of the Comptroller to file the City's AFRs with OSC in a timely manner hindered the Council's ability to monitor the City's financial operations and has resulted in the City not complying with General Municipal Law. In addition, it prevented the Council, taxpayers, the State and other interested parties

access to timely financial information which can be used to measure the City's overall fiscal health.

Independent Audit Reports – The City did not engage an independent auditor to audit the City's financial statements for the 2012 and 2013 fiscal years in a timely manner. As a result, the independent audit reports were issued approximately nine months³⁸ after the corresponding fiscal year. In addition, as of May 31, 2015, the independent audit of the City's financial statements for the 2014 fiscal year had not commenced. Therefore, the corresponding independent audit report will again not be issued in a timely manner. The Comptroller stated that the City does not engage an independent auditor to audit the City's financial statements until he has filed the corresponding fiscal year's AFR with OSC, which has resulted in the independent audit reports not being issued in a timely manner. As a result, crucial audited financial information has not been available in a timely manner to be used as a budgeting tool or to monitor the City's financial operations and financial condition.

Because performing an audit requires gaining an understanding of City operations, documenting internal controls in place and becoming familiar with the accounting system, an initial audit requires more work than subsequent audits. For this reason it is common to contract for audits for a few years. This allows auditors to factor in the time savings of subsequent years' audits into their price and to plan ahead to schedule and complete the audits in a timely fashion.

Long-Term Planning

An important oversight responsibility of the Council is to plan for the future by setting adequate long-term priorities and goals. Multiyear plans project operating and capital needs and financing sources over an extended period. The Charter requires the Mayor to prepare and submit a six-year capital plan to the Council no later than October 1st each year. Planning on a multiyear basis allows officials to identify developing revenue and expenditure trends, establish long-term priorities and goals and consider the impact of current budgeting decisions on future fiscal years. Any long-term plans should be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that decisions are guided by the most current and accurate information available.

The Council and officials did not develop a multiyear financial plan (financial plan). Had such a plan been developed, the Council would have had a valuable resource that would have allowed it to make more informed financial decisions, which may have prevented the City's declining fiscal health. Nonetheless, the development of a financial

³⁸ The independent audit reports for the 2012 and 2013 fiscal years were issued on September 30, 2013 and October 9, 2014, respectively.

plan would be a useful tool for the Council to identify recurring sources of revenue sufficient to finance anticipated recurring expenditures to maintain a reasonable level of unexpended surplus funds at year end.

We also found that, although the 2015 adopted budget³⁹ contained a multiyear capital plan (capital plan), the capital plan was not comprehensive because it did not include all of the elements required by the Charter. For example, the capital plan covered a five-year period instead of the six-year period required by the Charter. In addition, the capital plan did not include time schedules or the method of financing each improvement or capital expenditure, as required by the Charter. Because the City's capital plan did not include financing sources, it lacked a critical component that the Council would need to assess the impact that future capital expenditures would have on subsequent years' operating budgets.

The failure of the Council and officials to develop a financial plan and a comprehensive capital plan that is in accordance with the Charter may lead to the further depletion of the City's fund balance and undesirable constraints on the City's financial flexibility in future years.

Recommendations

The Council and officials should:

1. Closely monitor the City's finances during the 2015 fiscal year to prevent a further decline in the City's financial condition.
2. Develop and adopt general, water and sewer fund budgets that include realistic estimates for revenues and expenditures based on historical data and supporting source documentation and are structurally balanced.
3. Develop a plan to ensure that all outstanding amounts that are owed to other funds and projects are repaid.
4. Develop a plan to fund the City's increase in 2016 retirement appropriations based on the City's change in the method of accounting for retirement expenditures during the 2015 fiscal year.
5. Take appropriate action to ensure that debt proceeds are deposited and expended in accordance with the requirements of Finance Law.

³⁹ The City's adopted budgets for the 2012 through 2014 fiscal years also contained a similar multiyear capital plan.

6. Develop a comprehensive financial plan and a capital plan that includes all of the elements required by the Charter, and frequently monitor and update the plans.

The Comptroller should:

7. Maintain individual accounting records for all projects.
8. Provide the Council with periodic reports that compare actual revenues and expenditures to the amounts budgeted for each project to enable the Council to monitor projects to ensure that funds are available and expenditures are kept within the limits of each project's authorization.
9. Continue to prepare quarterly reports for the Mayor to present to the Council, as required by the Charter. The Council should use these reports as a means to monitor the City's financial operations.

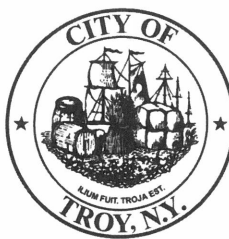
The Council should:

10. Ensure that the general fund reimburses the special revenue fund \$85,334 for the unauthorized use of debt proceeds identified in this report.
11. Adopt a resolution to close out completed projects and develop procedures to ensure that projects are closed in a timely manner and that the Comptroller properly disposes of any unexpended funds.
12. Ensure that the Comptroller maintains accurate and timely financial records to enable him to file the City's AFR with OSC in a timely manner.
13. Ensure that City officials engage an independent auditor to audit the City's financial statements in a timely manner and verify that the financial statements can be relied on to report the City's complete financial position, including the impact of capital project activity.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Wm. Patrick Madden
Mayor, City of Troy

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Troy, New York 12180

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mayorsoffice@troyny.gov

January 28, 2016

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, New York 12801-4396

Dear Mr. Leonard:

I would like to thank you for the draft Financial Condition Report of Examination for the City of Troy, covering the period of Jan.1, 2012—May 31, 2015, and for the opportunity to discuss it with [REDACTED] on January 12, 2016. I would also like to thank the local field staff from your office for their professionalism and courtesy in the conduct of the audit.

As a new mayor, I'm very pleased that the State Comptroller issued a clear, thorough and most helpful analysis of the City's financial condition at the beginning of my term. The audit covers a period from five years ago to two years ago, encompassing two prior administrations and three previous City Councils. Obviously I cannot speak to the intentions or motivations of prior city officials. My task, however, is clear. I intend to repair the problems identified by the auditors without assessing or fixing blame. The goals of my administration will be to remedy each shortcoming noted in the audit, and establish safeguards and procedures to ensure the future integrity of City financial operations. We have begun to analyze the proper level of staffing in the City Comptroller's Office, and will be seeking staff resources to address the deficiencies noted in your audit. As the current Comptroller has recently retired, my administration has begun the process of recruiting a replacement, and has designed the professional requirements with your important recommendations in mind. I look forward to the City Council's unwavering support at this difficult time, as we assess potential solutions and find the resources to implement them.

The audit and the subsequent recommendations fell into three main categories: 1. accurate budgeting; 2. financial accounting and reporting, and 3. City Council monitoring of the financial operations of the City. I would like to offer our response to each of these main areas of recommendations.

1. Budgeting. The auditors' findings in this area are clear and need an immediate remedy. My administration intends to enhance the resources of the Comptroller's Office to assist with the detailed historical research necessary to more accurately prepare the City budget. Once in place, the analysis will become an on-going responsibility of the Comptroller's financial operation, and will serve to make the preparation of the annual City budget a much more nuanced, skilled, and informed process. This will aid the Council in their review of the budget and help to ensure that only complete and balanced budgets are enacted.

2. Financial accounting and reporting. As noted above, the recruitment of a new Comptroller has begun. This recruitment is happening at the same time as the year-end reconciliations and preparation of the 2015 AFR. There will be a significant amount of training as well as research required to ensure that the 2015 financial statements are complete and accurate. In 2016, my administration intends to seek additional resources for the Comptroller's Office to provide additional accounting, analysis and reporting support. In addition, we will work with the City's outside auditors to ensure that the 2015 audit incorporates a thorough review of the Capital Projects Fund.

3. City Council monitoring of the City's financial condition.

Both the Mayor and the City Council need accurate financial reports in order to manage and monitor the City's financial operations. The new Comptroller will be hired specifically to establish internal procedures to ensure timely and accurate accounting and reporting, and provide those reports to the Council at least quarterly. I intend to ensure that both my administration and the Council will be able to carry out their respective responsibilities with clear and accurate information.

These comments are offered, at your invitation, as a response to your draft audit. We look forward to the continued assistance of the Comptroller's Office as we work to bring the City of Troy out of its multi-year financial stress.

Sincerely,

Wm. Patrick Madden
Mayor

CC: Hon. Carmella Mantello, Troy City Council President
Hon. Lynn Kopka, Troy City Council Minority Leader
[REDACTED]

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the City's financial condition for the period January 1, 2012 through May 31, 2015.

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

- We interviewed the President and other officials to gain an understanding of the City's financial management policies and procedures. This included inquiries about the City's budgeting practices, the City's monitoring and accounting procedures for the operating funds and projects, the preparation of financial and capital plans and the development of plans to maintain the City's fiscal stability.
- We reviewed the City's accounting records for the general fund, water fund and sewer fund for fiscal year 2014 to determine if they were accurate. Specifically, we reviewed balance sheet accounts to verify whether they were properly recorded and supported and revenues and expenditures to determine if they were supported and recorded in the proper fund.
- We compared the adopted budgets for the general fund, water fund and sewer fund for fiscal years 2012 through 2014 with the actual results of operations to determine if the budgets were realistic and structurally balanced.
- We analyzed the City's financial records and/or independent audit reports for the general fund, water fund and sewer fund for fiscal years 2012 through 2014 to determine if the financial condition of the general fund, water fund and sewer fund had declined. We also evaluated any factors contributing to any decline.
- We reviewed the adopted budget for the general fund, water fund and sewer fund for fiscal year 2015 to determine if the budgeted revenues and appropriations were reasonably based on historical data and supporting source documentation and whether the budgets were structurally balanced.
- We reviewed the City's accounting records for projects during our audit period to determine if adequate accounting records were maintained for each project.
- We assessed the adequacy of the financial reports provided to the Council during our audit period.
- We reviewed five projects that were authorized by the Council during our audit period to determine if project expenditures remained within the maximum estimated cost that was established by the Council and if project financing sources that were established by the Council were sufficient to fund the expenditures incurred.

- We reviewed all proceeds from obligations that were received by the City during our audit period to determine if they were deposited into separate bank accounts where required.
- We reviewed expense ledgers for each of the projects for which debt was issued during our audit period to determine if the corresponding claim for each recorded expenditure was for a purpose for which the obligations were issued.
- We reviewed the Council minutes during our audit period to determine if the Council adopted resolutions to close out completed projects. We also attempted to review all projects that were completed during the 2014 fiscal year and all projects that were previously completed that were still accounted for in the capital projects fund as of May 31, 2015 to verify whether any unexpended funds were properly disposed of.
- We verified the dates the Comptroller filed the City's AFRs for the 2012 through 2014 fiscal years with OSC to determine whether they were filed within 120 days after the close of the fiscal year.
- We verified the dates that the City engaged an independent auditor to audit the City's financial statements for the 2012 through 2014 fiscal years to determine whether they were timely. We also verified the dates that the corresponding independent audit reports for the 2012 and 2013 fiscal years were issued to determine whether they were timely.
- We reviewed the City's capital plan for the 2015 fiscal year to determine whether it included all of the elements required by the Charter.

We conducted this performance audit in accordance with 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 C

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