



City of Geneva

Financial Management

Report of Examination

Period Covered:

January 1, 2012 – March 31, 2015

2015M-105



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2015

Dear City Officials:

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

Following is a report of our audit of the City of Geneva, entitled Financial Management. 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 City of Geneva (City) is located in Ontario County and has a population of approximately 13,200 residents. The City Common Council (Council) serves as the legislative and governing body. The Mayor serves as the Council's presiding officer. The Council is responsible for adopting local laws and policies and overseeing the City's financial condition. The Council appoints a City Manager to serve as the chief executive officer who is responsible for ensuring legislation adopted by the Council is implemented, preparing and administering the budget and informing the Council of the City's financial condition.

The City employs 225 full- and part-time employees. The City provides services for its residents, including public safety, road maintenance, health, home and community services, economic opportunity and development, culture and recreation, water, sewer and general government support. These services are financed primarily by real property taxes, sales tax, State aid and user fees. The City's total budgeted appropriations for the 2014 fiscal year were approximately \$23.9 million¹ and for the 2015 fiscal year are approximately \$24.2 million.²

Scope and Objective

The objective of our audit was to assess City officials' financial management for the period January 1, 2012 through March 31, 2015. Our audit addressed the following related question:

- Are City officials effectively managing the City's financial condition?

Audit Results

The City Manager did not use historical trends or prior year actual amounts from the 2012 through 2014 fiscal years when preparing the budgets. Therefore, the general fund budgets that the Council adopted were not realistic. City officials prepared and the Council adopted budgets that underestimated revenues by a total of \$2.62 million in 2012 and 2013, or 6.8 percent and 10.7 percent, respectively. Although City officials improved the estimation of revenues for 2014, some individual revenue accounts still had large budget variances that offset each other. City officials underestimated expenditures in all three years by a total of \$4.4 million, ranging from a low of 2.2 percent of appropriations in 2014 to a high of 16 percent of appropriations in 2013.³ The general fund budgets also relied on the appropriation of

¹ General fund appropriations of \$16.07 million, water fund appropriations of \$3.4 million and sewer fund appropriations of \$4.46 million

² General fund appropriations of \$16.16 million, water fund appropriations of \$3.3 million and sewer fund appropriations of \$4.73 million

³ For 2012, underestimated expenditures were 10.1 percent of appropriations.

fund balance to finance operations, particularly in 2012 and 2013. However, when larger than planned deficits occurred totaling \$525,256 and \$1,049,788, respectively, additional fund balance was used to offset the deficits and overall fund balance levels decreased significantly. As a result, unrestricted fund balance was reduced to less than \$165,000 as of December 31, 2013, which was 1 percent of the ensuing year's appropriations. This was not in accordance with the City's newly adopted financial policy, which required unreserved fund balance to be between 10 and 15 percent of the most recently adopted budget, exclusive of appropriated fund balance.

City officials also did not use the Uniform System of Accounts to maintain the City's accounting records or prepare the adopted budgets. In addition, the Council did not receive adequate information to monitor the budget. Therefore, City officials did not make budget modifications in a timely manner. City officials also did not implement corrective action on similar findings previously identified through their annual independent audits. As a result, the City's general fund experienced larger than planned operating deficits leading to its diminished financial condition in recent years. Finally, City officials did not establish an adequate multiyear financial plan.

City officials have recently implemented some improved budgeting practices and certain cost saving measures. For example, in 2015 the City entered into a shared services agreement with the City of Canandaigua for an Information Technology Director. Each municipality pays half of the salary for this position, resulting in a total annual cost savings of approximately \$17,000. The City is in the process of developing a similar shared services agreement with the City of Canandaigua for the Assessor's position. The City also recently entered into a shared services agreement with Ontario County for dispatch services starting in 2016, which the City anticipates will result in savings of approximately \$1.38 million over the next five years. We identified additional cost saving and revenue enhancement opportunities. For example, City officials should determine if the general fund is being reimbursed the proper amount by the water and sewer funds for services provided by the general fund. In addition, the City should consider imposing an interest charge on installment tax payments. We estimate that such a charge could generate additional revenue of \$38,000 to \$89,000 annually.

Comments of Local Officials

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

Introduction

Background

The City of Geneva (City) is located in Ontario County and has a population of approximately 13,200 residents. The City Common Council (Council) serves as the legislative and governing body. The Mayor serves as the Council's presiding officer. The Council is responsible for adopting local laws and policies and overseeing the City's financial condition. The Council appoints a City Manager to serve as the chief executive officer who is responsible for ensuring legislation adopted by the Council is implemented, preparing and administering the budget and informing the Council of the City's financial condition.

The City Manager appoints a City Comptroller to serve as the chief financial officer. The City Comptroller is responsible for the administration of the City's financial affairs, including receiving, disbursing and maintaining custody of City funds; maintaining accounting records in accordance with the Uniform System of Accounts; and assisting the City Manager in preparing the annual budget. The City Manager and Comptroller, along with department heads, are responsible for the City's daily operations.

The City employs 225 full- and part-time employees. The City provides services for its residents, including public safety, road maintenance, health, home and community services, economic opportunity and development, culture and recreation, water, sewer and general government support. These services are financed primarily by real property taxes, sales tax, State aid and user fees. The City's total budgeted appropriations for the 2014 fiscal year were approximately \$23.9 million⁴ and for the 2015 fiscal year are approximately \$24.2 million.⁵

Objective

The objective of our audit was to assess City officials' financial management. Our audit addressed the following related question:

- Are City officials effectively managing the City's financial condition?

Scope and Methodology

We assessed the City's financial management for the period January 1, 2012 through March 31, 2015.

⁴ General fund appropriations of \$16.07 million, water fund appropriations of \$3.4 million and sewer fund appropriations of \$4.46 million

⁵ General fund appropriations of \$16.16 million, water fund appropriations of \$3.3 million and sewer fund appropriations of \$4.73 million

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 Management

City officials are responsible for the City's financial management. To properly oversee the City's financial condition, the Council must adopt structurally balanced budgets for all operating funds that provide sufficient revenues to finance recurring expenditures, while providing desired services on a continuing basis. The budget reflects the Council's goals and priorities for the ensuing year. Monitoring the budget against actual results of operations during the year is a critical part of the Council's financial responsibilities in order to ensure that the goals established by the budget are achieved. Finally, City officials should develop detailed multiyear plans to identify developing revenue and expenditure trends and set long-term visions and goals to avoid large fluctuations in tax rates.

The City Manager prepared and the Council adopted general fund budgets that were not realistic and based on historical trends or prior year actuals for the years 2012 through 2014. The general fund budgets also relied on the appropriation of fund balance to finance operations. City officials did not maintain the City's accounting records or prepare the adopted budgets in accordance with the Uniform System of Accounts. The Council also did not receive adequate information to monitor the budget, and City officials did not make budget modifications in a timely manner. In addition, City officials did not implement corrective action on similar findings previously identified through their annual independent audits. As a result, the City's general fund experienced larger than planned operating deficits leading to its diminished financial condition in recent years. Although City officials have recently implemented some improved budgeting practices and certain cost saving measures, additional cost saving and revenue enhancement opportunities exist. Finally, City officials did not establish an adequate multiyear financial plan.

Budgeting and the Use of Fund Balance

It is essential that the Council adopts structurally balanced budgets in which recurring revenues finance recurring expenditures and reasonable levels of fund balance are maintained. A key measure of the City's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. Maintaining a reasonable level of fund balance is a key element of effective financial management.

An appropriation of fund balance is the use of unexpended resources from prior years to finance budget appropriations and is a one-time financing source. This is an acceptable and reasonable practice when the City has accumulated an adequate level of unrestricted

fund balance. However the City must maintain a reasonable level of available fund balance to provide for cash flow and to have a sufficient financial cushion for unanticipated costs. While not required by law, it is important for the Council to adopt and adhere to a policy or standards that address the appropriate level of fund balance it desires to be maintained from year-to-year to provide guidelines for City officials during the annual budgeting processes. The City's March 6, 2013 adopted fund balance policy requires the City to maintain an unreserved general fund balance of 10 to 15 percent of the most recently adopted budget, exclusive of appropriated fund balance.

The Council is also responsible for monitoring the adopted budget throughout the year and making budget modifications if necessary. In order to effectively monitor the budget and manage fund balance, it is imperative that the Council receive complete and accurate monthly budget-to-actual reports that are presented in accordance with the Uniform System of Accounts, prescribed by the Office of the State Comptroller per General Municipal Law, and required by the City's charter. Additionally, an important part of effective financial management is the timely correction of audit findings by implementing audit recommendations. Audits can serve as effective management tools when City officials promptly focus on the findings and recommendations in audit reports, formally document their responses and implement corrective action.

Budget Preparation – The City Manager, with the assistance of the City Comptroller, is responsible for preparing and submitting the budget to the Council for adoption. The budgets presented to the Council were not prepared using the prescribed Uniform System of Accounts as required, but instead used the City's own account code system. This is problematic because recurring transactions are not recorded in the same account codes from year-to-year, which made preparing trend analyses difficult. In addition, the budget was prepared in a narrative format per the Council's request. Although the narrative presentation provided extensive details⁶ of individual departments' revenues and expenditures, it was difficult to ascertain the overall picture based on this format because the information was disjointed and focused more on a narrative explanation rather than figures.

We reviewed the budget-to-actual results for the general fund for the fiscal years 2012 through 2014. We found that the City Manager did not prepare and the Council did not adopt realistic budgets, which resulted in declining financial condition. City officials prepared and adopted budgets that underestimated revenues by a total of \$2.62

⁶ A 30 page document for the general fund budget

million in 2012 and 2013, or 6.8 percent and 10.7 percent, respectively. Although City officials improved the estimation of revenues for 2014, some individual revenue accounts still had large budget variances that offset each other. City officials underestimated expenditures for the fiscal years 2012 through 2014 by a total of \$4.4 million, ranging from a low of 2.2 percent of appropriations in 2014 to a high of 16 percent of appropriations in 2013.⁷ The City's adopted 2012 through 2014 budgets were also structurally imbalanced because omitted taxes,⁸ totaling \$84,079,⁹ were included as a separate line item in the budgets and again within the property taxes revenue line, double counting this anticipated revenue and putting the budget out of balance.

Figure 1: General Fund Budget-to-Actual Analysis				
	2012	2013	2014	Totals
Estimated Revenues ^a	\$14,788,379	\$15,170,183	\$15,564,490	\$45,523,052
Actual Revenues ^a	\$15,787,669	\$16,791,819	\$15,432,353	\$48,011,841
Over/(Under) Estimated	(\$999,290)	(\$1,621,636)	\$132,137	(\$2,488,789)
Appropriations	\$15,088,379	\$15,811,183	\$16,324,318	\$47,223,880
Actual Expenditures	\$16,612,925	\$18,332,607	\$16,679,588	\$51,625,120
Over/(Under) Estimated	(\$1,524,546)	(\$2,521,424)	(\$355,270)	(\$4,401,240)

^a Interfund transfers have been excluded from both budget and actual amounts.

During the 2012 through 2014 fiscal years, the Council charged the City Manager with preparing budgets with no tax increases because it wanted to avoid overburdening taxpayers with higher taxes. City officials stated that taxes are inherently high in the City because over 50 percent of the properties in the City are tax exempt. However, as shown in Figure 2, the Council's adopted budgeted appropriation increases for 2013 and 2014 outpaced the property tax increases. As a result, the Council had to significantly raise taxes in 2015 by overriding the property tax cap limit to avoid reducing services.

Figure 2: Real Property Taxes				
	2012	2013	2014	2015
Budgeted Real Property Tax Revenues	\$6,300,000	\$6,376,000	\$6,509,889	\$6,783,172
Percentage Change From Prior Year	(2.02%)	1.21%	2.10%	4.20%
Budgeted Appropriations	\$15,088,379	\$15,811,183	\$16,324,318	\$16,160,464
Percentage Change From Prior Year	(11.04%)	4.79%	3.25%	(1.00%)

⁷ For 2012, underestimated expenditures were 10.1 percent of appropriations.

⁸ "Omitted taxes" is a broadly used term for several types of real property tax adjustments that are billed in a subsequent year. For example, if a tax exempt property changes to a non-exempt property, the new owner is responsible for the pro-rated portion of the taxes on the property for the remainder of the tax year. However, that pro-rated amount is not billed to the new owner until the next tax billing cycle.

⁹ \$19,379 for 2012, \$32,000 for 2013 and \$32,700 for 2014

In order to balance the budgets caused by the revenue shortfall, the Council relied on the appropriation of fund balance to finance the increased appropriations. However, when larger than planned deficits occurred in 2012 totaling \$525,256 and 2013 totaling \$1,049,788, additional fund balance was used and overall fund balance levels decreased significantly.

Even though fund balance was significantly depleted at the end of 2013, City officials planned to use approximately one-third of the total remaining fund balance, or \$291,327, to finance operations in 2014. As a result, unrestricted fund balance was reduced to less than \$165,000 as of December 31, 2013, which was 1 percent of the ensuing year’s appropriations. This decision by City officials was not in accordance with their newly adopted financial policy, which required unreserved fund balance to be between 10 and 15 percent of the most recently adopted budget, exclusive of appropriated fund balance. The City would have ended 2014 with another larger than planned operating deficit without unbudgeted transfers from other funds totaling \$1,530,068.

Figure 3: Fund Balance - General Fund

	2012	2013	2014
Beginning Fund Balance	\$2,509,390	\$1,984,134	\$901,846
Operating Surplus/(Deficit)	(\$525,256)	(\$1,082,288)	\$751,333
Year End Fund Balance	\$1,984,134	\$901,846	\$1,653,179
Less: Restricted Funds	\$905,836	\$445,799	\$445,799
Less: Appropriated Fund Balance	\$32,500	\$291,327	\$291,327
Unassigned Fund Balance	\$1,045,798	\$164,720	\$916,053
Unrestricted Fund Balance as a Percentage of the Ensuing Year's Budget	6.6%	1.0%	5.7%

City officials began implementing their March 6, 2013 adopted fund balance policy with the creation and adoption of the 2015 budget, which did not include the appropriation of fund balance as a revenue source. Along with this we found that, for the general fund, City officials budgeted more reasonably for revenues by basing estimates on historical trends and significantly reduced the total amount of appropriations to more realistic estimates. Overall, we recognize City officials’ attempt to implement some improved budgeting practices.

Budget Monitoring – The Council does not receive adequate financial information to monitor the budget throughout the year. The monthly financial reports that the City Manager provides the Council do not include detailed budget-to-actual information for revenues and expenditures. Instead, the reports include budget status highlights and a thematic description of the City’s financial condition at a specific point in the fiscal year.¹⁰ City officials primarily rely on department heads

¹⁰ A specific point in time would be as of the prior month that the report is provided.

to monitor their own budgets. Department heads consult with the City Comptroller through monthly meetings on the status of their individual budgets, including identifying areas where budget transfers may be needed.

The fact that the City does not use the prescribed Uniform System of Accounts also presents additional difficulties in budget monitoring. We found several instances where entries that should have been made in the same account in the financial system were instead in a new account created for the entries. Therefore, the different accounts would have to be added together in order to appropriately monitor the City's budget status. City officials also did not make budget modifications timely and appropriately, resulting in appropriations being overexpended.

Corrective Action – City officials have not taken effective corrective action in response to audits completed by a certified public accounting firm (CPA). The findings in the 2012 and 2013 CPA's management letters, as part of its annual audits, were similar to the findings included in this report. Specifically, the City's independent auditor included findings related to the City's diminished fund balance, lack of budget monitoring and untimely or lack of budget modifications in the years 2012 and 2013. Although City officials were already made aware of these issues prior to the beginning of our fieldwork, the issues remained uncorrected. City officials did not develop written corrective action plans in response to the CPA's findings, or even begin to implement corrective action until the development of the 2015 budget.

City officials did not properly oversee the City's financial condition because they did not adopt structurally balanced budgets, monitor the budgets or implement corrective action to the CPA's management letters. As a result of larger than planned operating deficits, the City's financial condition deteriorated to precariously low levels. For 2015, City officials have made progress in their budgeting practices, including the use of fund balance.

Cost Saving Strategies and Revenue Enhancements

The Council has implemented certain cost saving measures in an effort to improve the City's financial condition. For example, City officials told us that the City has reduced the number of its employees over the past five years by not backfilling the positions of employees who have retired or separated from City service. Additionally, in 2015 the City entered into a shared services agreement with the City of Canandaigua for an Information Technology Director, with each municipality paying half of the salary for this position. This resulted in a total annual cost savings of approximately \$17,000. The City is also in the process of developing a similar shared services agreement

with the City of Canandaigua for the Assessor's position. Finally, the City recently entered into a shared services agreement with Ontario County for dispatch services starting in 2016, which the City anticipates will result in savings of approximately \$1.38 million over the next five years.

In addition to these cost saving strategies, we identified another cost saving opportunity for City officials to consider. During our audit period, City officials made an annual transfer from the water and sewer funds to the general fund to pay for the cost of services performed by general fund employees on behalf of the water and sewer funds. Average annual transfers from the water and sewer funds to the general fund were approximately \$500,000, or around 6 percent of the total budgets for the water and sewer funds and 3 percent of the general fund budget. City officials told us that an analysis of actual water and sewer costs paid by the general fund has not been performed and these transfers are based solely on conservative estimates. As a result, the general fund may be subsidizing water and sewer fund costs. An analysis of the actual costs would provide a more accurate basis for officials to support these interfund transfers and possibly reduce some of the strain on the general fund if it is determined that additional transfers should be made. Additionally, transferring these costs directly to the water and sewer funds would result in financing these costs through user charges rather than taxes, which is important for City officials to consider given the lack of taxable property in the City.

We also identified a potential revenue enhancement for City officials to consider. The City offers a program to its taxpayers that allows for the payment of property taxes in two installment payments. However, the City does not charge a fee or assess an additional interest charge when it allows residents to participate in this program.¹¹ Essentially, the City provides the taxpayers in this program with interest-free financing. Approximately 800 taxpayers, who pay approximately \$2.5 million in property taxes, participate in this program. If the City were to impose a fee or assess an additional interest charge for participating in this program it could generate additional revenues. We determined that the City could have generated between \$38,000 and \$89,000 annually in additional revenue if an interest charge was imposed on the payments made by taxpayers participating in this program.¹² Figure 4 details the potential revenue that could be generated using surrounding municipalities' fee schedules for similar programs.

¹¹ Each installment payment is one half of the total tax bill, with the first installment due by January 31st and the second installment due by May 31th.

¹² Based on fee schedules for similar programs implemented by municipalities in the City's general area

Figure 4: Tax Installment Payment Interest Charge

Potential Interest Charge	Annual Revenue Generated
1.5% of total tax bill (due with first installment)	\$38,270
3.5% of total tax bill (due with first installment)	\$89,298
4% of second installment (1% interest per month, paid by current due date of May 31st)	\$51,027

We commend City officials for identifying opportunities to reduce City expenditures. City officials should continue working to identify additional cost saving and revenue enhancements. Officials should also consider the opportunities presented in this report.

Multiyear Financial Planning

Multiyear financial planning is a tool City officials can use to improve the budget development process. It is important for City officials to develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and enable City officials to identify developing revenue and expenditure trends, set long-term priorities and goals, consider the impact of near-term budgeting decisions on future fiscal years and avoid large fluctuations in tax rates. Multiyear plans also allow City officials to assess the effect and merits of alternative approaches to address financial issues, such as the use of unrestricted fund balance to finance operations and the accumulation of money in reserve funds. Long-term financial plans work in conjunction with Council-adopted policies and procedures to provide the necessary guidance to employees on the financial priorities and goals set by the Council. Any long-term financial plan must be monitored and updated on a continuing basis to provide a reliable framework for preparing budgets and to ensure that information used to guide decisions is current and accurate.

The City does not have a multiyear financial plan. City officials stated that this plan was in development at the time of our fieldwork. The City has developed a five-year capital plan through 2019 which identifies the primary funding of projects through bonding and does not use reserves as a funding source. However, without a financial plan, there is no guarantee that the capital plan is feasible.

Because the City has not developed a multiyear financial plan which includes specific estimates for revenues, expenditures, reserves and fund balance, the City's ability to effectively manage its finances and implement its capital plan is limited.

Recommendations

The Council and City officials should:

1. Use the Uniform System of Accounts, as prescribed by OSC, in maintaining the accounting records.

2. Adopt structurally balanced budgets that include realistic estimates of revenues and expenditures, based on historical trends and future projections.
3. Continue to reduce reliance on fund balance as a financing source.
4. Monitor the budget-to-actual results throughout the year and ensure expenditures are within appropriations.
5. Ensure that corrective action is taken to resolve identified audit deficiencies.
6. Continue to evaluate and explore ways to cut costs and/or increase revenues.
7. Consider implementing the cost saving and revenue enhancement opportunities identified in this report.
8. Develop a multiyear financial plan for a three- to five-year period that is sustainable which includes information related to the plan's establishment, anticipated funding and the appropriation of fund balance.

The City Manager, with the assistance of the City Comptroller, should:

9. Provide the Council with detailed monthly budget-to-actual reports that are focused on financial results.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



August 13, 2015

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
Division of Local Government and School
Accountability
The Powers Building
16 West Main Street, Suite 522
Rochester, New York 14614

Chief Examiner Grant:

The City of Geneva has received and reviewed the draft results of the financial conditions audit performed by your staff. We found this document, and the audit process under which it was developed, to be fair, impartial, insightful and professional. Your team is to be commended for the thorough and helpful approach.

We find no issue of fact with the items outlined in the draft. The recommendations are echoed in audits performed in normal course by our external auditing firm. As such, and as your report notes, the City began to take action on many of these recommendations prior to the commencement of your work in Geneva and prior to the release of the draft report.

An example of that work is the detailed internal audit of general, water, and sewer funds, which resulted in the recapturing of general fund revenues resulting from expense items being improperly categorized. That work alone bolstered the unrestricted General Fund balance substantially, as indicated by our most recent audit of the 2014 financial statements.

That recommendation by your team, along with each of the others presented in the report, will chart the City of Geneva on a course toward financial health. In the coming months, we will develop a detailed corrective action plan to address each of the concerns raised by your team.

Office of the City Manager

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Many thanks to [REDACTED] who was an excellent point-of-contact and a solid resource to us during this effort. Her and the entire team are to be commended for their performance.

Please don't hesitate to contact me with any questions or further requests.

Sincerely,

Matt Horn
City Manager

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

OSC's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using a local government's annual update document (AUD)¹³ and information from the United States Census Bureau, the New York State Department of Labor and the New York State Education Department, among other sources. The City has demonstrated signs of fiscal stress in several areas.

Our overall goal was to assess the City's financial condition and identify areas where the City could realize efficiencies. To accomplish this, we performed the following procedures:

- We reviewed the City's policies and procedures for developing and reporting information relevant to financial and budgeting activities. This included determining the fiscal responsibilities of City officials.
- We reviewed Council meeting minutes for the audit period.
- We interviewed City officials to gain an understanding of the City's budget process and financial situation.
- We reviewed and analyzed the City's financial records and reports for all funds, including balance sheets, budget reports and statements of revenues and expenditures.
- We reviewed any established multiyear plans to determine if they were up-to-date and adequate.
- We reviewed the management letters and financial statements prepared by the City's independent auditor for 2012 and 2013.
- We reviewed the City's available reserves and reserve activity¹⁴ for the general, water and sewer funds for the years 2012 through 2014 and determined if reserves were legally established and funded adequately.
- We compared the City's AUDs, audited financial statements and accounting records for the audit period to determine the reliability of the data. In instances where data from one source was found to be unreliable, we relied on the figures contained within the reports and other documents that were corroborated.
- We prepared a detailed budget-to-actual analysis for the general fund to determine any significant variances in account balances.
- We discussed the cost savings previously implemented by City officials and reviewed the documentation supporting the cost savings.

¹³ Required to be submitted annually by the City to OSC

¹⁴ The City had funds that were considered reserve funds. However, the funds were not properly established as reserve funds and the amounts were not adequate for the City's needs.

- We reviewed the City’s water and sewer cost allocation calculation to determine reasonableness and if this was an area for potential cost savings or revenue enhancements for the general fund.
- We reviewed the City’s property tax installment payments for 2014 and 2015. We researched fee schedules for similar programs implemented by municipalities in the City’s general area. From this information, we determined the potential amount of additional revenue that the City could generate by implementing fees to participate in this program.

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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