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Dennis Baker, Mayor
Members of the City Council
City of Mechanicville
36 North Main Street
Mechanicville, NY 12118

Report Number: 2012M-162-F

Dear Mayor Baker and Members of the City Council:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. The Office also works to develop and promote short-term and long-term strategies to enable and encourage city officials to reduce costs, improve service delivery and account for and protect their city's assets. In accordance with these objectives, we conducted an audit of the City of Mechanicville (City) to assess the City's financial operations. As a result of our audit, we issued a report in February 2013 identifying certain conditions and opportunities for City management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the City in January 2015 to review its progress in implementing our recommendations. Our follow-up review was limited to interviews with City personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, it appears that the City has made some progress in implementing our recommendations. Of the 10 audit recommendations, five recommendations were fully implemented, two recommendations were partially implemented and three recommendations were not implemented.

The City Council has the responsibility to initiate corrective action to address the findings and recommendations in our report. Furthermore, as noted in our audit report, New York State General Municipal Law calls for the City to prepare and forward a corrective action plan (CAP) to our office within 90 days of the release of the report. At the time of our follow-up audit work, the City had not yet prepared a CAP to address our audit findings and recommendations. Our audit staff discussed with City officials in February 2015 the need for preparing and filing a CAP, and our office had issued a notice dated May 29, 2013 reminding the City it had not yet submitted a CAP.

Recommendation 1 – Plan to Address Financial Records

The Council should develop a plan to correct the financial recordkeeping deficiencies and determine the correct balances in the accounting records.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Council has not established a formal plan to correct the financial recordkeeping deficiencies and to correct the balances in the accounting records; however, the Council hired a consultant to assist with updating the accounting records and ensuring the records were accurate.

Recommendation 2 – Accounting Records and Bank Reconciliations

The Commissioner should ensure that the City’s accounting records are accurate, maintained timely and contain sufficient detail to support cash and other general ledger balances. On a monthly basis, the Deputy should reconcile bank statements to cash balances per the accounting records and post all transactions to the records.

Status of Corrective Action: Implemented

Observations/Findings: At the time of our follow-up, the accounting records were up-to-date and bank reconciliations had been prepared through November 30, 2014. We reviewed the accounting records for the year ending December 31, 2013 and the City’s progress in closing the 2014 fiscal year’s records. For 2013, we traced 15 selected balance sheet accounts including cash, receivables and payables among the City’s three operating funds (general, water and sewer) to supporting reconciliations, schedules and other supporting details to ensure that the accounting records were accurate. For example, we traced the real property tax receivable to the real property reconciliation and unpaid detailed list maintained by the City Clerk. We also traced 10 cash receipts and 10 disbursements recorded in the general ledger to supporting documentation¹ to verify that cash receipts and disbursements were recorded properly. We found that the balance sheet accounts and selected transactions were properly supported. Also, the City’s December 31, 2013 cash balances per the accounting records agreed with the December 31, 2013 reconciled bank balances.

At the time of our follow-up, the Commissioner of Finance was working on closing the City’s 2014 accounting records and the December 31, 2014 bank reconciliations. We traced 20 cash collections in November and December 2014 and 10 disbursements made in December 2014 from source documentation to the general ledger to verify that the accounting records were accurate and timely. We found that cash receipts and disbursements were recorded accurately and in a timely manner. We also reviewed five judgmentally selected balance sheet accounts² as of December 31, 2014 (taxes receivable – current, taxes receivable – overdue, water receivable, sewer receivable and school taxes receivable) and found that four of the accounts’ records were supported; however, the account balance for school taxes receivable on the accounting system did not agree with the

¹ For collections we examined bank statements, deposit slips and daily cash books. For disbursements we examined purchase orders, invoices and bank statements.

² We selected accounts with larger balances.

City Clerk's reconciliation of school taxes receivable because the Commissioner had not yet posted the November 2014 school taxes receivable of \$295,618 to the accounting system. This is primarily due to the Commissioner not yet completing a year-end reconciliation with the City Clerk's collection records. The Commissioner said she was working on completing the December 2014 bank reconciliation and year-end adjustments and planned to have the 2014 accounting records closed by March 2015.

Recommendation 3 – Monthly Reports to Council

Monthly reports to the Council should include the cash balance for each fund and year-to-date budget-to-actual comparisons. The Council should review this information and take appropriate action to avoid additional financial problems.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council received monthly reports through December 2013. However, after the current Commissioner of Finance took office in 2014, the Council no longer received routine monthly reports. The Commissioner stated she did not give monthly reports to the Council because when she took office the accounting records were not up to date and accurate. In June 2014, the Commissioner started providing the Council with monthly cash balance reports; however, in subsequent months she provided the Council with year-to-date budget-to-actual comparison only for June, July and August 2014. The Commissioner said that, once the accounting records are finalized for 2014, she will provide the Council with a year-end budget-to-actual report, monthly cash balance reports and quarterly budget-to-actual reports.

Recommendation 4 – Annual Update Document (AUD)

The Commissioner should file the City's AUD with OSC by May 1 each year.

Status of Corrective Action: Implemented

Observations/Findings: At the time of our 2012 audit, the City had not filed its 2010 and 2011 AUDs with our office. The Commissioner filed the City's 2012 AUD in June 2014 and the 2013 AUD in August 2014. The Commissioner stated that she planned to file the City's 2014 AUD prior to May 1, 2015. Subsequent to fieldwork, we verified that the 2014 AUD was filed on April 30, 2015, which was within the required timeframe.

Recommendation 5 – Budget Preparation and Monitoring

The Council should develop a formal Budget Policy that sets forth procedures to guide City officials in preparing a reasonable budget with realistic estimates. The procedures should also address the monitoring of actual results during the year and the related modification of original budget amounts when necessary.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Council has not adopted a formal Budget Policy or procedures for monitoring of actual results during the year and budget modifications when necessary. However, after the Commissioner of Finance was elected in November 2013, she became involved with the City's 2014 budget development process. The current and former Commissioners requested departmental budget estimates for 2014 from the four other department heads (Mayor, Commissioner of Accounts, Commissioner of Public Safety and Commissioner of Public Works) and received budget estimates from the police and fire heads³ and the Commissioner of Public Safety. The current Commissioner of Finance worked with these department heads to establish budget estimates and met with the other department heads and helped them with their departmental budget estimates.

For the 2015 budget, the Commissioner distributed worksheets to the other four department heads in October 2014 to assist them in preparing the 2015 budget estimates for their departments. The spreadsheets included actual expenditures for 2012, 2013 and through October 6, 2014 by account code, as well as a column for the budget estimates. All four departments provided their estimates to the Commissioner.

Recommendation 6 – Budgetary Amendments/Controlling Expenditures

When monthly budgetary status reports show signs of budget problems, such as accounts that are almost depleted, the Council should act promptly to avoid overexpending appropriations by restricting additional expenditures in the accounts or amending the budget in a timely manner.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council does not receive routine monthly budget-to-actual reports for revenues and expenditures; as a result, it cannot effectively monitor budget and actual results and restrict expenditures or amend the budget when warranted. For example, during 2014, the Council authorized one budget amendment on August 6, 2014 and two budget amendments on November 5, 2014, increasing the 2014 general fund budgeted revenues and appropriations from \$4,887,811 to \$5,088,000. No budget amendments were adopted for the water and sewer fund budgets. While the Commissioner of Finance has not closed the accounting records for 2014, we examined the 2014 year-end budget-to-actual results for the general, water and sewer funds generated from the accounting system on February 3, 2015. While the Commissioner indicated that the City does not anticipate exceeding the general fund amended budget, 70 individual budgetary accounts were overexpended by a total of \$144,509, without budget amendments. For the water fund, the overall adopted budget was overexpended by \$8,478 and 10 individual accounts were overexpended by \$40,473. In the sewer fund, while the overall budget was not exceeded, five individual budget accounts were overexpended by \$34,323.

Recommendation 7 – Short- and Long-Term Plans for Fiscal Stress

The Council should develop short-term and long-term steps to alleviate the apparent fiscal stress in certain City funds.

³ Police and fire functions are under the Mayor's department.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council has not established short-term and long-term steps to alleviate the apparent fiscal stress in the general and water funds. From the end of 2012 to the end of 2013, the deficit fund balances increased in both funds. Based on our review of the accounting records, the general fund had fund balance deficits of \$135,354 at the end of 2012 and \$283,822 at the end of 2013. The water fund had fund balance deficits of \$134,309 at the end of 2012 and \$194,983 at the end of 2013.

For 2014, the City is projecting a general fund operating surplus of approximately \$590,000, which is anticipated to eliminate the general fund deficit. The City also anticipates an operating surplus of approximately \$6,500 in the water fund, which will reduce the fund deficit to approximately \$177,600 at the end of 2014.

Recommendation 8 – Structurally Balanced Budgets

The Council should adopt budgets that are structurally balanced and that contain realistic estimates, based on feedback from department heads, historic trend data and data obtained from outside sources, as available. Budget decisions should be supported by documentation.

Status of Corrective Action: Implemented

Observations/Findings: The Council did not adopt structurally balanced and/or realistic budgets for the general and water funds for 2013; however, the general fund and water fund budgets for 2014 and 2015 appear reasonable. While the sewer fund budgets were not structurally balanced due to the appropriation of fund balance in 2013, 2014 and 2015, there was an adequate level of fund balance on hand to partially finance sewer fund operations.

In its adopted general fund budget for the 2013 fiscal year, the Board planned to include \$396,136 in appropriated fund balance to offset budgeted expenditures. However, the general fund began 2013 with a fund balance deficit of \$135,354; therefore, the Board's intended appropriation of fund balance was in fact not available. As a result, the general fund balance deficit increased to \$283,822 at the end of 2013.

In the 2013 adopted water fund budget,⁴ revenues were overestimated by \$35,936 and expenditures were underestimated by \$13,862. As a result, the water fund's deficit fund balance increased to \$184,107 at the end of 2013.

The Council addressed our recommendation in preparing the 2014 and 2015 budgets by not appropriating fund balance in these years in the general fund. Further, in preparing the 2015 budget, the Commissioner of Finance provided the department heads with budget worksheets including actual results for 2012 and 2013, the 2014 adopted and adjusted budget, and actual results through October 6, 2014 to assist them in preparing their budget estimates. The department heads provided their estimates to the Commissioner, who compiled this information in preparing the City's 2015 budget and retained these estimates in her budget file.

⁴ No fund balance was appropriated in the 2013 water fund budget.

We compared the 2013 actual results to the 2014 adopted budget for both expenditures and revenues and compared the 2014 adopted budget to the operating results as of December 31, 2014.⁵ We also compared the 2014 operating results to the 2015 adopted budget and found the 2014 and 2015 budgets appear to be reasonable.

Our review of the 2014 general fund budget-to-actual operating results did not identify any significant revenue shortfalls or underestimated expenditures. In addition, revenues for 2014 are anticipated to exceed the original budget by over \$589,000.⁶ The Commissioner does not anticipate any additional significant expenditures. If year-end expenditures do not exceed the original general fund budget of \$4,887,811,⁷ the general fund will have a 2014 operating surplus of approximately \$589,000 which is projected to eliminate the general fund deficit for a surplus of approximately \$305,000.

Our review of the 2014 water fund budget-to-actual results found the 2014 and 2015 budgets to be more reasonable than they were previously. In 2014, while expenditures were underestimated by \$8,478, revenues were underestimated by \$15,000, resulting in an estimated operating surplus of approximately \$6,500 which is projected to reduce the fund deficit to approximately \$177,600 at the end of 2014.

Recommendation 9 – Budget Meeting Minutes on File

The City should be keeping minutes of the budget hearings and budget adoption meetings being held. The Commissioner of Accounts should keep official minutes of all Council meetings and have them on file in his office.

Status of Corrective Action: Implemented

Observations/Findings: We reviewed the meeting minutes on file in the Commissioner of Accounts' office and found that the City is maintaining the official meeting minutes for all Council meetings, including regular meetings, budget hearings and budget adoptions for the 2012 through 2015 fiscal years.

Recommendation 10 – Certified Adopted Budget on File

The Commissioner of Accounts should keep a certified copy of the adopted budget on file in his office.

Status of Corrective Action: Implemented

⁵ While the 2014 accounting records had not been closed as of February 2015, the Commissioner did not anticipate any additional significant revenues and expenditures that would impact our comparison to the 2013 operating results and 2015 budget.

⁶ The increase is primarily due to unanticipated revenue from the sale of City property and New York State Electric & Gas reimbursement for repair of roads due to underground line work.

⁷ The City has expended \$4,601,584, or 94 percent, of the original appropriation, and the Commissioner does not anticipate any additional significant expenditures for 2014.

Observations/Findings: A copy of each certified adopted budgets for the 2012 through 2015 fiscal years was on file in the Commissioner's office.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage City officials to continue with your efforts to implement our recommended improvements in your fiscal management.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Jeffrey Leonard, Chief Examiner of our Glens Falls Regional Office, at (518) 793-0057.

Sincerely,

Gabriel F. Deyo
Deputy Comptroller