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Mr. Daniel J. Mandell, Mayor
Members of the City Council
City of Elmira
City Hall, 3rd Floor
317 East Church Street
Elmira, New York 14901

Report Number: 2017M-90-F

Dear Mr. Mandell 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 to account for and protect their City's assets. In accordance with these objectives, we conducted an audit of the City of Elmira (City) to assess the City's financial condition. As a result of our audit, we issued a report, in August 2017, 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 May 2020 to review progress in implementing our recommendations and verify the implementation of the City's corrective action plan (CAP) submitted for the 2017 audit. 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 progress implementing corrective action. Of the nine audit recommendations, three recommendations were fully implemented, five recommendations were partially implemented and one recommendation was not implemented.

Recommendation 1 – Financial Reports

City officials should require routine financial reporting during the year and timely annual update document (AUD) filings at year-end.

Status of Corrective Action: Partially Implemented

Observations/Findings: Monthly, the City Chamberlain (Chamberlain), Chief Fiscal Officer, provides an income statement to the City Manager (Manager) who in turn provides copies to the Mayor and Council. Our review of the April 2020 income statement found it included budgeted revenues and appropriations, month and year-to-date actual amounts and encumbrances, as well as the percent of the budget received or used. However, the Mayor and Council do not receive a monthly balance sheet.

Although the Mayor and Manager were aware that the Chamberlain waits to file the annual update document (AUD) until after the independent auditor completes the City's financial statement audit, the Council was unaware of the impact that the audit timing had on the AUD filing requirement. Further, until this year, the Chamberlain did not have sufficient staff to timely prepare year-end reconciliations and adjustments for the independent audit. As a result, the AUD filing for years ended 2016 through 2019 ranged from 633 (2016) to 46 (2019) days late. Although this is a significant improvement, the 2019 AUD was still filed late.

The failure to provide monthly balance sheets and file AUDs in a timely manner hindered City officials, the public and other stakeholders' ability to monitor the City's financial position and activities.

Recommendation 2 – Monitor Finances

City officials should closely monitor the City's finances, including available fund balance and cash balances, to prevent further decline in financial condition.

Status of Corrective Action: Partially Implemented

Observations/Findings: Although the Chamberlain prepares a monthly income statement, no balance sheet is provided that allows City officials to monitor available fund balance and cash balances throughout the year. We do recognize that the City's financial condition improved over the last four years by approximately \$2 million because of a 25 percent increase in real property taxes and a reduction in personal services and employee benefits. However, the City's reliance on short-term debt increased and some shared services may not continue with Chemung County in 2020. These factors highlight the importance of providing the balance sheet to properly monitor the City's finances.

Recommendation 3 – Short-Term Debt Repayment

City officials should include appropriations in the subsequent year's budget to redeem RANs (revenue anticipation notes) or require that revenues are restricted for repayment.

Status of Corrective Action: Fully Implemented

Observations/Findings: We reviewed the 2019 and 2020 budgets and found both included an estimated revenue for the renewal of the tax anticipation note¹ (TAN) and appropriation to repay the TAN.

Recommendation 4 – Fund Balance Policy

City officials should adopt a policy setting forth the reasonable amounts of fund balance that the City should maintain to ensure that a financial cushion is available for unanticipated expenditures, revenue shortfalls or cash flow purposes.

Status of Corrective Action: Partially Implemented

Observations/Findings: On October 30, 2017 the Mayor and Council adopted a CAP to our audit (2017M-90) that only included a brief paragraph entitled fund balance policy and several options to improve the City’s financial condition. The adopted policy is not adequate because it does not address how much fund balance should be maintained. Instead, the policy paragraph states City officials’ intent is to eliminate the fund balance deficit within 10 years and rebuild fund balance by a minimum of 1 percent annually. Because the fund balance policy does not specify the appropriate level of unassigned fund balance to be maintain from year-to-year to provide a financial cushion, the guidance necessary for use in the budget process and long-term planning is lacking.

Recommendation 5 – Multiyear Financial Plan

City officials should develop a comprehensive written multiyear financial plan that includes realistic measures for rebuilding fund balance levels, limiting or eliminating the reliance on RANs² and restoring the City’s long-term fiscal health.

Status of Corrective Action: Partially Implemented

Observations/Findings: We reviewed the five-year financial plan (2020-2024) that includes a modest \$250,000 annual decrease in the City’s reliance on TANs to provide cash flow for operations. At this rate, it would take the City 20 years to eliminate the \$5 million TAN due at December 31, 2019. In addition, the plan includes an unrealistic \$1 million (17 percent) increase in sales tax revenues starting with the 2021 budget, which could result in a \$4 million deficit in the last four years of the plan. Further, the effects on sales tax revenues from the pandemic are yet to be determined. Although the City experienced operating surpluses of \$2.2 million in 2018 and \$2.5 million in 2019, which eliminated the fund balance deficit, the need to strengthen the City’s fiscal health and eliminate short-term debt remains crucial.

City officials need to update the multiyear plan to reflect reasonable estimates of sales tax revenues and the adopted fund balance policy in order to strengthen the City’s fiscal health and eliminate short-term debt.

¹ TANs use tax revenue as a source of repayment and RANs use revenue as a source of repayment. Both are short-term debt instruments that provide cash flow for operations.

² The RAN discussed in the prior audit was replaced with a TAN in 2018.

Recommendation 6 – Accounting Records

The Chamberlain should correct the accounting record inaccuracies identified in this report to ensure general fund assets and liabilities are recorded, supported and currently collectable.

Status of Corrective Action: Fully Implemented

Observations/Findings: We reviewed the accounting records and found not all inaccuracies were corrected as identified in our previous audit. For example, uncollectable account receivables totaling \$29,682 and two paid liabilities totaling \$21,375 were not corrected as of December 31, 2019. In addition, we found total assets were overstated by \$35,125 and liabilities were understated by \$11,773 as of December 31, 2019.

As a result of these inaccuracies, there was a negative effect on fund balance totaling \$55,205. When discussed with the Chamberlain during our review, correcting entries were then made.

Recommendation 7 – Short-Term Financing Repayment

The Chamberlain should use a separate bank account for revenues collected to secure short-term financing, as statutory required, to repay the related debt unless repayments are included in the budget.

Status of Corrective Action: Fully Implemented

Observations/Findings: Rather than establishing a separate bank account for the revenues collected, the City is budgeting for the repayment of the debt.

Recommendation 8 – Dissemination of Financial Information

The Chamberlain should ensure the Manager, Council and department heads receive the financial information needed to carry out their responsibilities.

Status of Corrective Action: Partially Implemented

Observations/Findings: See recommendation 2 above.

Recommendation 9 – AUD Filing

The Chamberlain should file the required AUDs in a timely manner.

Status of Corrective Action: Not Implemented

Observations/Findings: The current Chamberlain waits to file the AUD after the independent audit is completed, which was delayed each year because of a staffing shortage in the Chamberlain's office to perform the necessary year-end closings and reconciliations. In addition, the Chamberlain

stated that if the AUD is filed prior to the completion of the independent audit, it is difficult to make the necessary changes to the filed AUD. However, the Chamberlain currently has adequate staffing and plans to timely file the AUD.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage City officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Edward V. Grant Jr., Chief Examiner of our Rochester Regional Office at 585-454-2460.

Sincerely,

Elliott Auerbach

Deputy Comptroller