

City of Johnstown

Financial Management

MARCH 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Financial Management. 2**
 - What Is Effective Financial Management?. 2
 - The Treasurer Did Not Maintain Adequate Financial Records and Reports. 2
 - Bank Reconciliations Were Not Prepared in a Timely Manner or Reviewed 4
 - The Treasurer Did Not File Required Reports in a Timely Manner . . . 5
 - How Should Financial Operations for Emergency Medical Services Be Managed? 6
 - City Officials Improperly Managed the City’s EMS Financial Operations 6
 - What Do We Recommend? 8

- Appendix A – Audit Methodology and Standards 9**

- Appendix B – Resources and Services 11**

Report Highlights

City of Johnstown

Audit Objective

Determine whether the City of Johnstown (City) officials maintained accurate and complete financial information to adequately manage operations.

Key Findings

City officials did not maintain accurate and complete financial information to adequately manage operations.

- The City Treasurer (Treasurer) did not maintain accurate accounting records. The Treasurer filed the required annual financial reports late for fiscal years 2016 and 2017 and had not filed the reports for 2018 or 2019 as of December 2, 2020.
- Without accurate financial records, the Common Council (Council) did not have accurate financial information to monitor the City's financial condition, and does not know the City's current financial condition.
- The Council did not adequately plan and monitor Emergency Medical Services (EMS) financial operations. As a result, the City could lose out on significant revenue.

Key Recommendations

- Maintain adequate and timely accounting records and perform monthly bank reconciliations.
- Monitor the City's financial condition and ensure the Treasurer files timely financial reports.
- Develop and adopt policies and procedures over the EMS function.

City officials were given an opportunity to respond to our findings and recommendations within 30 days of the exit conference, but they did not respond.

Subsequent Event

Our audit fieldwork was completed prior to the COVID-19 pandemic (pandemic). The City's 2020 adopted budget and our projections and audit work do not factor in the pandemic's financial effects.

Background

The City, located in Fulton County, is governed by the Council comprising an elected Mayor, an elected Council member-at-large and four elected Council members representing each of the City's wards. The Council is responsible for the general management and control of City operations.

The Mayor is the chief executive officer and is responsible, along with other administrative staff, for the City's day-to-day administration.

The elected Treasurer is the chief fiscal officer and is responsible for maintaining accounting records and submitting required reports.

Quick Facts

2020 Appropriations	
General Fund	\$15.9 million
Sewer Fund	\$3.1 million
Annual Update Document Filings	
2016	82 days late
2017	61 days late
2018	Not filed
2019	Not filed
Population	8,300
Employees	111

Audit Period

January 1, 2017 – December 31, 2019

Financial Management

The City's Charter (Charter) outlines the duties and responsibilities of the Treasurer, as CFO, as well as the duties of the Water Board and Clerk of the Water Board (Clerk). The Water Board is responsible for preparing the departmental budget. The Clerk is responsible for collecting all water rents and charges, collecting sewer rents assessed by the City and maintaining records of those accounts. The Clerk transmits all money collected for sewer rents to the City Treasurer monthly and deposits water rents and charges in a separate bank account.

What Is Effective Financial Management?

The Treasurer is responsible for maintaining the City's financial records. Specifically, the Treasurer should maintain a general ledger, cash receipt and disbursement journals, and subsidiary revenue and appropriation ledgers in a complete, accurate and timely manner.

The Charter requires the Treasurer to provide monthly reports to the Council summarizing financial activities. These monthly reports should include a detailed accounting of all money received and disbursed, detailed year-to-date budget-to-actual comparisons of revenues and expenditures and balance sheet account balances (asset, liability and fund balance), for each fund. The Council's ability to make sound financial decisions is limited when it does not receive complete, accurate and timely financial information.

It also is important that the Treasurer perform monthly reconciliations of the City's bank statement balances to the cash balances recorded in the City's records. Any differences must be promptly resolved to ensure that financial activities are accounted for in a proper and timely manner. The Charter indicates the Council should annually audit, or obtain an audit of, the Treasurer's books, records and documents.

Further, cities must file an annual financial report, known as the annual update document (AUD), with the New York State Office of the State Comptroller (OSC) no later than 120 days after the close of their fiscal year. The AUD is an important fiscal tool that provides the Council with the financial information necessary to monitor the City's operations and other interested parties with a complete summary of the City's financial activities.

The Treasurer Did Not Maintain Adequate Financial Records and Reports

The Treasurer did not maintain complete, accurate and up-to-date accounting records and reports. The City's operations are broken down into two distinct funds (general and sewer), and it uses a third-party vendor to process payroll.

The Charter requires the Treasurer to provide monthly reports to the Council summarizing financial activities.

Therefore, it should require only a basic accounting system to record general¹ and sewer fund transactions accurately and in a timely manner. While the Treasurer's office has an accounting software system with modules for paying vendors and entering journal entries, the Treasurer does not ensure all transactions are entered accurately and in a timely manner. Rather, the deputy treasurer (deputy) enters vendor payments² and revenues (e.g., school taxes, City taxes, City Clerk fees and parking/traffic tickets) collected by the Treasurer's office into the accounting system throughout the fiscal year. Other financial information, such as water rent collections, non-vendor cash disbursements (i.e., wire and bank transfers) and payroll expenditures, is not entered into the accounting system until the end of the year, as journal entries. Additionally, the Treasurer does not verify the entries for accuracy. As a result, the Treasurer's general ledger does not reflect accurate cash, payable and receivable balances during the year.

We reviewed the December 31, 2017 and 2018 accounting records to determine whether they were accurate and supported. Except for minor discrepancies we discussed with the Treasurer, we determined these accounting records agreed to the supporting documentation. Based on our review of results of operations for fiscal years 2017 and 2018, the City did not appear to be in fiscal stress. Because the accounting records were not up-to-date for fiscal year 2019, we could not determine the City's actual financial condition at the end of the year. However, we determined the City had sufficient cash balances at the end of 2019. We reviewed the December 2019 and January 2020 bank statements, the manual cash receipts ledger maintained by the deputy and other records provided to the Treasurer by the Clerk to project the general and sewer funds' cash balances at the end of the 2019 fiscal year. We projected the general fund to have cash of approximately \$3.4 million and the sewer fund to have approximately \$3.5 million³ available for operations at the end of the 2019 fiscal year. As of December 2, 2020, the Treasurer had not filed the 2018 and 2019 AUDs.⁴

We also determined whether the general and sewer funds' 2020 adopted budget estimates were reasonable by comparing them to the 2017 and 2018 results of operations and the amount of projected cash available for operations at the end of fiscal year 2019. The general fund's 2020 adopted budget included appropriations of approximately \$15.9 million to be funded with other revenues of approximately

1 The City's transactions related to water operations are accounted for within the general fund. Prior to fiscal year 2014, the City maintained a separate water fund.

2 Starting October 1, 2019, the Water Department processed its own vendor payments. As a result, this information was no longer being input into the accounting system by the Treasurer's office.

3 This includes the \$695,409 in checks written by the Clerk from the water department bank account that were not deposited into the sewer fund bank accounts or recorded by the Treasurer. These funds were available to the sewer fund if they had been properly deposited.

4 As discussed in greater detail in the section titled *The Treasurer Did Not File Required Reports in a Timely Manner*

\$9.5 million, a tax levy of \$5.7 million and surplus fund balance of \$745,600. The sewer fund's 2020 adopted budget included appropriations of approximately \$3.1 million to be funded entirely with user fees. Based on our analysis, the 2020 adopted budget appears reasonable. The Treasurer told us he used the 2017 and 2018 accounting records and input from the department heads to develop the 2020 budget. Also, he told us his office regularly reviewed bank account balances to determine the City's cash flow.

Because the Treasurer did not maintain up-to-date accounting records, he did not provide the Council with timely financial information. Specifically, during our audit period, the Treasurer had not provided financial reports to the Council since February 2019, and the reports were dated June 2018. In addition, the last audits completed by a certified public accountant (CPA) of the City's accounting records were for fiscal years 2016 and 2017. The 2016 audit report was dated December 11, 2017. The CPA issued a comment in its management letter to City officials noting that the City's books and records were not complete at the time of the audit, the CPA received revised trial balances after fieldwork was started, and the same comment was also in the prior year's letter. The CPA issued the 2017 audit report on November 16, 2018.⁵ As of April 2020, the Treasurer had not submitted the City's financial records to the CPA to audit.

Without reliable financial records and reports, the Council's ability to manage the City's financial condition and make sound financial decisions is limited. As a result, the transparency of the City's financial operations is compromised, and City taxpayers lack assurance that the Council is effectively monitoring City operations and financial condition.

Bank Reconciliations Were Not Prepared in a Timely Manner or Reviewed

The Treasurer did not consistently prepare bank reconciliations for all accounts, and those he did prepare were not prepared in a timely manner. We reviewed the December 2017 and 2018 bank statements and reconciliations for the City's five operating fund bank accounts to determine whether they were prepared accurately and in a timely manner. While the Treasurer prepared the bank reconciliations accurately for the three bank accounts his office maintains, he did not prepare them in a timely manner. The December 2017 bank reconciliation was prepared on May 11, 2018 and the December 2018 bank reconciliation was prepared on June 20, 2019. Further, another City official did not review the bank reconciliations the Treasurer prepared for accuracy.

The Treasurer did not consistently prepare bank reconciliations for all accounts...

⁵ There was no management letter issued with this report.

The Clerk maintains the two other operating fund bank accounts, related to water operations, and also maintains separate accounting records to track activity. The Clerk accurately prepared the December 2017 and 2018 bank reconciliations for these bank accounts on January 10, 2018 and January 3, 2019, respectively. The Treasurer did not review these bank reconciliations in a timely manner. Because the Clerk prepared timely bank reconciliations and maintained other records for water operations, we also reviewed the December 2019 bank reconciliations she prepared for the two water department bank accounts. While these bank reconciliations were supported by the Clerk's records, we could not trace them to the Treasurer's accounting records because the Treasurer's accounting records were not up-to-date.

During fiscal year 2019, the Treasurer did not prepare any bank reconciliations for the accounts maintained by his office.⁶ Because of this, we prepared bank reconciliations for these accounts as of December 31, 2019. We found the Treasurer did not deposit three checks issued from the water department bank account for sewer collections totaling \$695,409.⁷ These checks were listed on the water department's bank reconciliation as outstanding checks. However, they were not deposited into the sewer fund bank accounts by the Treasurer's office as of December 31, 2019 and did not clear the sewer fund's bank accounts in January 2020. When we brought this to the Treasurer's attention, he still did not correct it.

Without up-to-date accounting records, reconciliations cannot serve the intended purpose and limit the Treasurer's ability to provide accurate and up-to-date financial information to the Council. Without appropriate interim financial reporting, the Council cannot effectively monitor the City's financial operations.

The Treasurer Did Not File Required Reports in a Timely Manner

The Treasurer's failure to maintain complete, accurate and up-to-date accounting records and reports resulted in AUDs being filed late, or not at all, with OSC. Specifically, the Treasurer filed the 2016 AUD on July 21, 2017⁸ (82 days late) and the 2017 AUD on June 30, 2018 (61 days late). As of December 31, 2019, the Treasurer had not filed the 2018 AUD. However, the Treasurer did complete a draft copy of the 2018 AUD during our fieldwork. Because the 2018 AUD has not been filed and the accounting records for fiscal year 2019 were not up-to-date at the end of fieldwork, we anticipate the 2019 AUD will also not be filed in a timely manner.

6 There were three additional bank accounts opened during 2019.

7 Three checks were issued between October and December 2019, for September, October and November sewer collections.

8 The 2016 AUD was resubmitted to OSC on December 11, 2017 because of changes to the financial records resulting from the CPA audit.

The AUD is an annual report that should be easily prepared from current and accurate accounting records. However, because accounting records were not up-to-date, the resulting untimely AUDs and other financial information compromised the transparency of City operations. This also limited the access the Council, residents and other interested parties had to reliable financial information that can be used to measure the effectiveness of operations and the City's overall fiscal health. Without current financial information, the Council could not monitor financial operations, the Treasurer was unable to prepare the AUD and the CPA firm was not able to provide a timely financial audit to the Council.

How Should Financial Operations for Emergency Medical Services Be Managed?

The council should implement policies and procedures to ensure that all emergency medical services (EMS) are billed appropriately and collected in a timely and effective manner. This includes adopting a comprehensive rate schedule that clearly identifies the types of services (ambulance transports and on-site medical assistance) that should be billed and the applicable rates. In addition, these policies and procedures should address the enforcement process for EMS fees that remain unpaid after a period of time and the department that is responsible for overseeing the billing and collection of these fees. When EMS billing is performed by a third-party, a written agreement should define the relationship and responsibilities, and identify what services are specifically included, when and how they will be provided and at what cost. City officials should ensure services are performed according to the agreement. The fire chief should ensure that all incidents are properly recorded and reported to the vendor for billing in accordance with the council's adopted rate schedule.

City Officials Improperly Managed the City's EMS Financial Operations

The City started providing EMS to its residents in January 2019. City officials and the Fire Chief did not properly manage the billing and collection of the EMS function and lacked complete records to support the related receivable. Specifically, City officials did not implement policies and procedures over the EMS function. The Council did not establish a billing rate schedule that stipulates the amounts patients should be charged for medical assistance and whether it includes ambulance transportation. The Council also did not address how the City was going to enforce the collection of unpaid EMS fees.

Additionally, City officials did not provide for a transparent and adequate plan to take over the EMS function. Specifically, on June 18, 2018, the Council approved the Mayor to apply for the certificate to allow the City to provide EMS. At this meeting, there was discussion that the City would be billing insurance carriers

...City officials did not implement policies and procedures over the EMS function.

for its services. On September 17, 2018, the Council approved the purchase of a used ambulance for \$20,000. It is apparent that the Council planned on establishing and providing EMS to City residents and was aware that the City would be billing the recipients for these services. However, there was no evidence or documentation showing that a cost-benefit analysis was performed to determine the cost of providing EMS and an appropriate billing rate schedule.

The City contracted with a third-party vendor for the billing and collection of these services on April 1, 2019, with an effective date of January 1, 2019. Prior to April 1, 2019, the City did not perform its own billing and collection for services provided. Rather, it provided information to the vendor for services provided between January and April for billing. Officials told us they contracted with the vendor after operations started because the City needed to provide EMS services prior to April 1, 2019. Because the other ambulance services providing coverage in the City were going out of business, they wanted to make sure City residents were protected.⁹

City officials and employees did not verify that the vendor billed for all services provided by the EMS. While the vendor provides aging reports that detail amounts billed and outstanding, as well as monthly and weekly credit reports that detail the health insurance and Medicare credits applied to patient accounts, City officials did not review reports for billing accuracy or to monitor receivable amounts. They also did not verify that the vendor remitted all money collected to the City as owed per the contract. Consequently, the City had an outstanding receivable of \$336,582¹⁰ at the end of fiscal year 2019. However, City officials did not know how much was actually collectible. Further, the Treasurer had not entered EMS amounts collected or the outstanding receivable in the accounting records. Based on our review of the bank statements, \$228,134 was deposited for EMS collections as of December 31, 2019. Additionally, City officials were unaware of when many of the related services were provided and whether they were ever billed.

The Council's lack of planning and oversight of the EMS function resulted in the failure to collect unpaid EMS fees and an unknown anticipated collection rate. In addition, the inadequate oversight of billing, collection and remitting of EMS fees increases the risk that errors or irregularities could occur and remain undetected, and the City could lose out on significant revenue. Furthermore, the Treasurer's failure to record the EMS receivables or collections leaves the City without financial information to plan or budget for this new activity.

⁹ The two other ambulance service providers shut down on February 8, 2019 and March 16, 2019. The City's ambulance services started in January 2019.

¹⁰ These outstanding amounts were broken down as follows from the City's aged receivable report: \$55,303 (30 days); \$41,627 (60 days); \$47,524 (90 days); \$49,123 (120 days); \$34,650 (150 days); \$27,748 (180 days) and \$80,607 (over 180 days).

What Do We Recommend?

The Treasurer should:

1. Maintain complete, accurate and up-to-date accounting records, with all activity posted up to date, and prepare monthly bank reconciliations.
2. Provide accurate and timely monthly financial reports to the Council that include detailed year-to-date budget-to-actual comparisons of revenue and expenditures for each fund, as well as monthly bank statements and reconciliations.
3. File accurate and timely financial reports with OSC.

The Council should:

4. Ensure that the Treasurer's records are complete, accurate and up-to-date and that they enable him to file required financial reports in a timely manner.
5. Monitor the City's financial condition using monthly budget-to-actual comparisons and general ledger accounts.
6. Develop and adopt policies and procedures for the EMS function addressing an established rate schedule, collection of unpaid fees and the department that is responsible for overseeing the billing and collection of these fees.

City officials should:

7. Review vendor reports to verify billing accuracy and monitor the EMS function's financial operations.

Appendix A: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective¹¹ and obtain valid audit evidence, our audit procedures included the following:

- We interviewed City officials and employees and reviewed Council minutes, the City's Charter and financial records to obtain an understanding of the City's accounting practices, the accounting records maintained, and EMS operations and billings.
- We compared all balance sheet accounts, total revenues and expenditures from the City's accounting records to the balances reported on AUDs to determine whether the amounts agreed for fiscal years ended December 31, 2017 and 2018. We also reviewed AUD filing dates to determine whether they were filed in a timely manner.
- We reviewed the supporting documentation for 12 balance sheet accounts to determine whether the supporting documentation agreed to balances reported in the accounting records and balances were accurate. We selected accounts based on dollar amounts and changes in balances over the last three years.
- We obtained and reviewed all operating fund bank statements and reconciliations for December 2017 and 2018 to determine whether bank reconciliations were prepared accurately and cash balances reported in the accounting records agreed. We also obtained all the bank statements for the operating funds on December 2019 and performed bank reconciliations to estimate the amount of cash available for these funds.
- We reviewed financial reports and accounting records to evaluate the City's financial condition and compared estimated revenues and appropriations to actual results to determine whether the Council adopted a realistic budget for fiscal year 2020.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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

¹¹ We also issued a separate audit report, *City of Johnstown – Information Technology (2020M-127)*.

the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 the CAP available for public review in the City Clerk's office.

Appendix B: Resources and Services

Regional Office Directory

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2018-12/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263196&issued=All

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263206&issued=All

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/sites/default/files/local-government/documents/pdf/2020-05/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/local-government/publications?title=&body_value=&field_topics_target_id=263211&issued=All

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

GLENS FALLS REGIONAL OFFICE – Gary G. Gifford, Chief Examiner

One Broad Street Plaza • Glens Falls, New York 12801-4396

Tel (518) 793-0057 • Fax (518) 793-5797 • Email: Muni-GlensFalls@osc.ny.gov

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