

City of Fulton

Capital Projects

FEBRUARY 2022



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

Contents

Report Highlights	1
Capital Projects	2
How Should City Officials Maintain, Monitor and Close Out Capital Projects?	2
The Chamberlain Did Not Maintain Adequate Capital Projects Records.	3
Capital Projects Budgets Were Not Always Approved, Monitored and Properly Recorded	4
\$872,534 Was Retained in the Capital Projects Fund After Projects Were Completed	6
What Do We Recommend?	8
Appendix A – Response From City Officials	10
Appendix B – Audit Methodology and Standards	11
Appendix C – Resources and Services	12

Report Highlights

City of Fulton

Audit Objective

Determine whether City of Fulton (City) officials appropriately maintained capital projects fund records, monitored project financial results against budgets and closed out records for completed projects.

Key Findings

Officials were unable to readily determine the complete financial history and position of individual projects or determine the correct capital project fund balance because:

- The Chamberlain did not maintain complete, up-to-date capital projects records for each project.
- The Council did not approve capital projects budgets, monitor their financial results, or approve the close-out of projects.
- City officials did not properly close out 279 of 308 capital projects. The records included completed projects that date back to 1987.
 - 218 of these projects had residual cash balances totaling \$967,711.
 - 21 projects ended with deficits totaling \$95,177 that require additional funding.

Key Recommendations

- Maintain accurate and up-to-date capital projects records for individual projects.
- Approve and monitor capital projects budgets.
- Correct the accounting errors and close completed projects in a timely manner.

City officials agreed with our findings and indicated they plan to initiate corrective action.

Background

The City is located in Oswego County. The City is governed by an elected seven-member Common Council (Council) comprising the Mayor and six Councilors. The Mayor is the City's chief executive officer. The Chamberlain is the City Clerk and the chief fiscal officer responsible for maintaining the City's financial records including capital projects.

In recent years, the City has undertaken a variety of capital projects such as road, bridge, trail and sewer system improvements; building demolitions; and machinery and equipment acquisitions. City officials financed capital projects primarily through the issuance of indebtedness, State and Federal aid and grants.

Quick Facts

Population	11,896
2020 Operating Budget	\$21.6 million
2020 Recorded Capital Projects	
Individual Projects	308
Year-End Cash	\$2.3 million
Expenditures	\$2.4 million
Revenues	\$1.4 million

Audit Period

January 1, 2020 – March 31, 2021

Capital Projects

Capital projects funds are used to account for the financial resources used for the acquisition, construction or improvement of major capital assets. The governing board is responsible for the oversight and management of capital projects, including ensuring project budgets are developed, approved and monitored; individual accounting records are maintained; and completed projects are closed out timely.

The City Chamberlain is appointed by the Mayor. In addition to keeping the Common Council minutes as part of his duties as City Clerk, the Chamberlain is the City's chief fiscal officer who performs such duties incidental to his office as the Council may require. Some duties include keeping separate accounts for City funds, receiving taxes and assessments and paying money properly chargeable.

How Should City Officials Maintain, Monitor and Close Out Capital Projects?

A separate capital projects fund should be established for each project. Individual accounting records should contain sufficient information to track and report a project's complete financial history, which often span more than one fiscal year. General ledger accounts should document the assets, liabilities, fund balance and results of operations (total revenues and expenditures) for each capital project and subsidiary ledger accounts should be used to record each revenue and expenditure along with the budgeted revenues and appropriations for each project.

Once a budget has been established and the project has begun, officials should record the budget in the accounting records and monitor it on a regular basis. Producing project status reports, which compare actual results to the project budget, will assist officials in tracking project results and making informed decisions, such as meeting cash flow demands and making budget modifications when needed.

Upon the project's completion, the governing board should approve the project's closure and officials should make sure the records are closed out appropriately within the accounting system used to manage the project. Residual project money should be transferred to the operating fund responsible for the project (e.g., general fund), or restricted for related debt service. Unexpended funds originating from bonds associated with a project must be restricted (transferred to the debt service fund or reserve for debt) to be used for debt service payments for the related debt.

The Chamberlain Did Not Maintain Adequate Capital Projects Records

The Chamberlain recorded capital projects activity in the City's accounting system and in a separate spreadsheet. The spreadsheet contains 308 open projects that date as far back as 1987. No one record contained a complete financial history of the capital projects. We identified the following recordkeeping deficiencies:

- The accounting system subsidiary revenue ledger and general ledger balance sheet accounts (e.g., cash, receivables and payables, fund balance) were not broken out by individual project. Only the subsidiary expenditures accounts were separated by project in the accounting system.
- At the beginning of our fieldwork, the spreadsheet had not been updated for about two years (since May 2019). And, although the spreadsheet shows balance sheet and revenue and expenditure control accounts by individual project, it does not contain the detailed revenue and expenditure transactions.
- Budgeted revenues were not included in either the accounting system or the spreadsheet. Therefore, officials did not have information readily available to monitor the availability and timeliness of estimated revenues (e.g., grants, State aid, serial bonds) expected to finance each project.
- The spreadsheet has 143 projects with start dates that ranged from 1987 through 2003 that are combined and have a total fund balance of \$155,731. However, the spreadsheet does not show individual project's results or the ending fund balance for these projects.

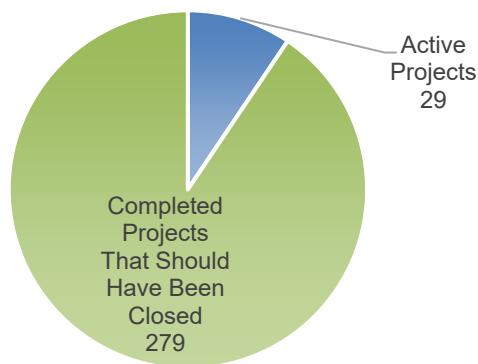
The Chamberlain updated the spreadsheet during our audit. The spreadsheet was necessary to track balance sheet and control accounts because separate self-balancing funds for each capital project were not maintained within the accounting system. However, the spreadsheet contains over 200 tabs (i.e., worksheets) making it potentially time-consuming to maintain and difficult for those unfamiliar with it to follow.

The spreadsheet includes 308 open projects because City officials did not have procedures to routinely close out capital projects

No one record contained a complete financial history of the capital projects.

...City officials did not have procedures to routinely close out capital projects when they were completed.

FIGURE 1
Status of Capital Projects



when they were completed. Based on our review of the records and discussions with the Chamberlain, we determined that as of fiscal year ending (FYE) 2020, 279 of the 308 projects (91 percent) were no longer active and should have been closed out in the records (see Figure 1). Any surplus funds or deficits (cash and fund balance) that remained at the end of the projects continue to be reflected in the spreadsheet and accounting system.¹ The Chamberlain indicated that he inherited this capital projects recordkeeping method from his predecessor more than five years ago. However, he did not provide reasons for why he did not implement a system to properly account for each capital project and close out projects when they were completed.

Additionally, the total capital projects fund balance at FYE 2020 in the accounting system and the spreadsheet did not agree due to incomplete records and errors. While State and Federal aid receivables and accounts payables were reflected in the accounting system, they were not tracked in the spreadsheet. In addition, we determined accounts receivables and fund balance were overstated in the accounting system by \$657,000 due to an old receivable that was still recorded but had already been collected. Also, about \$5,000 of cash and fund balance was included in the accounting system, but not recorded on the spreadsheet. Consequently, neither record showed the true financial position for every individual project or the capital projects fund as a whole.

Because the Chamberlain did not maintain accurate, complete, and up-to-date individual accounting records for each capital project, officials were unable to readily determine the complete financial history and position of individual projects during our audit period.

...[A]ccounts receivables and fund balance were overstated in the accounting system by \$657,000. ...

Capital Projects Budgets Were Not Always Approved, Monitored and Properly Recorded

The Chamberlain recorded total budget appropriations in one line item for each project in the accounting system based on department head input, grant documents, budgets (when they were available) or the amount borrowed for the project (bond amount). While this may be adequate for certain types of capital projects such as an equipment purchase, more detailed budgets should be recorded for complex projects that involve multiple expenditure categories (e.g., engineering, legal, general construction, electrical) to provide additional budgetary control.

¹ See the report section on *\$872,534 Was Retained in the Capital Projects Fund After Projects Were Completed* for additional information.

Also, budgeted revenues were not tracked and actual revenues were not recorded by individual project in the accounting system. As a result, officials could not easily monitor whether appropriate resources were received in a timely manner to fund related costs. The Chamberlain told us that he and the respective department heads monitored individual capital projects by running expenditure budget status reports from the system as needed. While the Department of Public Works commissioner made verbal reports on capital projects activity to the Mayor and Council, routine budget status reports were not provided.

We selected a sample of 10 capital projects that were active during 2020 and reviewed available budget documentation. Examples of projects reviewed include sewer and road work projects, and grant-related projects such as demolition work and a multi-use trail. Five of the projects had budgets available, but only one of the project budgets was approved by the Council. The other five projects did not have a documented budget, but we found the accounting system budget appropriations agreed with the bond amounts issued for four of these five projects.

In addition, we found discrepancies between the budget documentation or bond amounts and the accounting system budget appropriations for three projects.

- One project (a bridge) had a \$650,000 budget, but the appropriations were not entered in the accounting system.
- A sewer upgrade was bonded for \$3.5 million but the accounting system budget appropriations showed \$1.2 million. This difference occurred because the budget was entered into the accounting system well after the project had started and only the amount remaining to be spent was recorded for the budget.
- One grant project had budget documents totaling \$150,000, but the accounting system showed budget appropriations of \$284,500 – \$134,500 more than the budget. The Chamberlain provided documentation showing additional grant revenues were received for the project to fund the \$284,500 appropriation, but he was unable to provide documentation showing the full budget for the project.

When authorized budget information is not recorded in the accounting system accurately and timely, it inhibits officials' ability to effectively monitor projects by comparing project expenditures with the budgets.

Also, when reviewing the project files and records for these 10 projects, we found that the surplus from one project was used to pay expenditures for a separate project with an expected shortfall. Specifically, a sewer digester project (a 2019 project) is expected to be over the bonded amount and officials used remaining funds from a separate sewer upgrade project (a 2012 project) to cover some of the costs. Two expenditures totaling \$189,846 for the 2019 project were charged

...[B]udgeted revenues were not tracked and actual revenues were not recorded by individual project in the accounting system.

...[S]urplus from one project was used to pay expenditures for a separate project with an expected shortfall.

to the 2012 project. Consequently, both projects' costs were misstated in the records. Additionally, the 2012 project was financed by serial bonds, which were required to be used for the purpose for which the bonds were issued or to pay debt service on the bonds. We question whether there was authority for officials to use the funds for this separate project.

When projects are not closed out timely and there is little oversight by the Council to authorize budgets and monitor project financial results, the Council may not be aware of the final cost of completed projects or of cost overruns that require budgetary amendments or other actions. In addition, when residual funds are allowed to remain in the capital projects fund after projects are complete, there is a greater risk that those funds could be used for other purposes.

\$872,534 Was Retained in the Capital Projects Fund After Projects Were Completed

City officials did not have procedures to routinely close out capital projects in the accounting records when they were completed, and the Council did not approve the close out of projects. As a result, no actions were taken to transfer residual project money to the debt service fund or applicable operating fund at the conclusion of each project and officials did not appropriately address projects that had deficits.

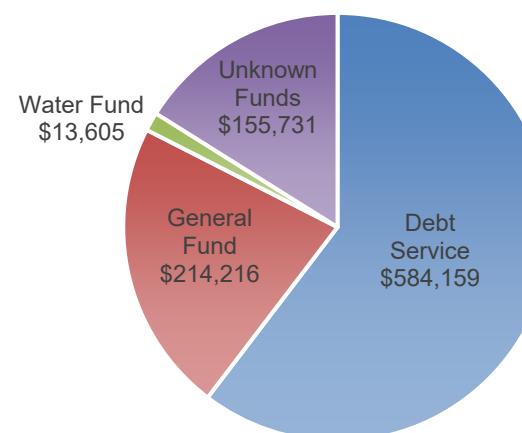
Based on our review of the records and discussions with the Chamberlain, the City has 279 completed projects that should have been closed out. We reviewed debt schedules to determine which projects had debt associated with them and discussed certain projects with the Chamberlain to determine which operating funds they related to (general, water, sewer, or refuse and garbage fund).

Based on the FYE 2020 fund balances recorded in the Chamberlain's spreadsheet, the 279 completed projects had ending fund balances (and cash balances) totaling \$872,534. This included 218 projects that had residual cash balances totaling \$967,711 and 21 projects

...[N]o actions were taken to transfer residual project money to the debt service fund or applicable operating fund at the conclusion of each project. ...

FIGURE 2

Operating Funds Related to Completed Projects With Residual Cash

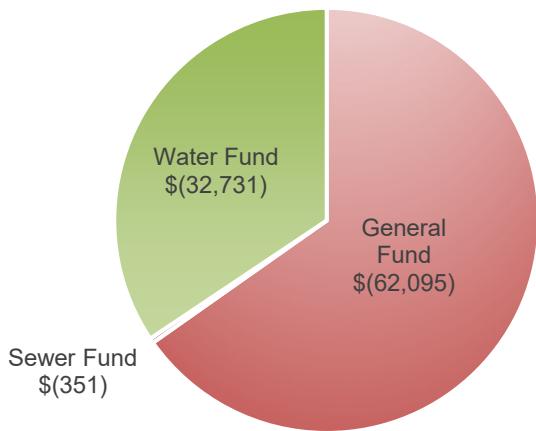


that ended with deficits totaling \$95,177 (see Figure 2 and 3). According to City records, the remaining 40 completed projects broke even and have zero residual fund balance. We found:

- The City has outstanding debt related to 53 of the projects, therefore, \$584,159 should have been transferred to the debt service fund to pay the related debt.
- 22 projects had \$227,821 remaining, but no outstanding debt. If there were no other restrictions on those projects' funding sources, the excess should have been transferred to the related operating fund (general and water funds).
- 143 projects from 2003 and prior years had a combined surplus totaling \$155,731. Debt schedules indicate 12 of these projects still have outstanding debt, but the spreadsheet does not show the respective fund balances that should have been restricted for the payment of the debt because the projects were combined in the spreadsheet.
- 21 projects had deficit fund balances totaling \$95,177 (see Figure 3) due to project expenditures exceeding revenues. The projects were able to operate with deficits because cash was available from other completed projects to cover the project expenditures. Because of these project shortfalls, officials will need to provide additional funding from the related operating funds (general, water and sewer funds) to eliminate the deficits so the projects can be closed out.

FIGURE 3

Operating Funds Related to Completed Projects with Deficits



When the completed projects with surpluses and deficits are combined, there is \$872,534 available in the capital projects fund for debt service payments or other operating fund costs. By not closing out completed projects and distributing the residual balances in a timely manner, officials allowed these funds to remain

idle in the capital projects fund when they could have been used to help fund the City's budgets and possibly reduce the tax levy.

Also, the City's financial position is less transparent given the significant amount of funds maintained in the capital projects fund that were not associated with ongoing projects. Had the Mayor and Council received periodic financial reports for the individual capital projects and been more active in monitoring and closing out projects, they may have identified and addressed these issues.

What Do We Recommend?

The Council should:

1. Approve capital projects budgets that include both revenues and appropriations.
2. Monitor each project by requiring the Chamberlain to submit periodic reports that show actual revenues and expenditures over the life of the project compared to the approved budget.
3. Approve the closure of completed projects.

The Chamberlain should:

4. Maintain separate accounting records for each individual capital project, including general ledger accounts and subsidiary revenue and expenditure accounts. Subsidiary ledgers for each individual project should include budgeted revenues and appropriations and actual revenues and expenditures.
5. If using multiple systems to maintain capital projects records, ensure they agree, are accurate and up to date.
6. The Chamberlain should investigate the differences between the accounting system and the capital projects spreadsheet and ensure all capital projects activity and balances in the system are attributed to a specific capital project in the spreadsheet.
7. Ensure detail project budgets are recorded in the accounting system accurately and timely.
8. Ensure all project expenditures are recorded in the appropriate capital project.

City officials should:

9. Discontinue the practice of using surplus funds from one capital project to cover shortfalls in another.

-
10. Ensure bond proceeds are only used for the purpose for which the bonds were issued or to pay the related debt service and consult with the City attorney and/or bond counsel as it relates to addressing the use of bond proceeds for two different sewer capital projects.
 11. Close out completed projects and develop procedures to ensure future completed projects are closed in a timely manner and any cash or deficit remaining is accounted for properly.
 - The related operating fund should provide funds to close out projects with deficits.
 - Unexpended funds originating from bonds associated with a completed project should be transferred to the debt service fund and used for related debt service payments.
 - Other surplus funds from completed projects should be transferred to the related operating funds if there were no other restrictions on the financing sources.
 12. Research the projects with combined fund balances to determine the amounts that must be restricted for debt service or consider transferring the full \$155,731 to the debt service fund to pay debt.

Appendix A: Response From City Officials



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Mayor Deana M. Michaels | 315-592-7330

January 31, 2022

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

Re: City of Fulton Audit on Capital Projects Report 2021M-184

Dear OSC:

This letter is in reference to the City of Fulton's final audit. The City has reviewed in detail and agrees to the findings and recommendations from the Office of the New York State Comptroller following the Audit of the City of Fulton's capital project fund records conducted January 1, 2020 through March 31, 2021.

We are currently in the process of reviewing a Corrective Action Plan and will provide details within the allotted time frame. Thank you to OSC for the opportunity to work together to improve Fulton's management of capital projects.

Respectfully submitted,

Mayor Deana M Michaels

Appendix B: 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 objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed City officials and reviewed capital projects records to determine whether officials maintained individual capital project records and monitored the projects' financial results.
- We analyzed available capital projects records to determine what projects comprise the total capital projects fund balance.
- We interviewed City officials to determine which projects are active and to which operating funds they relate.
- We reviewed capital projects records and source documents, such as bank statements, invoices, and revenue documentation, to determine whether individual capital project records were complete.

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

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.

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 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 C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

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

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

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/files/local-government/publications/pdf/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

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