



City of Amsterdam

Records and Reports

Report of Examination

Period Covered:

June 1, 2011 — March 31, 2013

2013M-266



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	6
Scope and Methodology	6
Comments of Local Officials and Corrective Action	6
RECORDS AND REPORTS	7
Balance Sheet	8
Results of Operations	14
Short-Term Debt	16
Long-Term Financial Plan	19
Recommendations	19
APPENDIX A Response From Local Officials	21
APPENDIX B OSC Comments on the City’s Response	25
APPENDIX C Audit Methodology and Standards	26
APPENDIX D How to Obtain Additional Copies of the Report	28
APPENDIX E Local Regional Office Listing	29

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

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 Common 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 Amsterdam, entitled Records and Reports. 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 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*

Introduction

Background

The City of Amsterdam (City) is located in Montgomery County (County) and has approximately 18,000 residents. The City provides various services that include law enforcement, fire protection, water and sewer, street maintenance, sanitation, transportation and recreation facilities that include a swimming pool and a golf course. These services are financed mainly by real property taxes, sales tax and State aid.

The City is governed by a Mayor and Common Council (Council), which includes five Alderpersons. The Mayor serves as chief executive officer. The Council is responsible for overall financial management of the City and has the authority to levy taxes, establish service charges and fees and authorize the issuance of debt.

The Controller is an elected official who serves as the City's chief fiscal officer. The Controller is responsible for performing basic accounting functions including maintaining detailed accounting records, providing monthly financial reports to the Council and filing the annual update document (AUD) with the Office of the State Comptroller (OSC). During our audit scope, the City had two Controllers; one Controller served from November 2006 to December 2011 and the second served from January 2012 to December 2012. The Controller position is currently vacant; however, the Council appointed a Deputy Controller in February 2013. In the absence of a Controller, the Deputy Controller is responsible for performing the duties of the Controller.

The City's ability to raise revenues through property taxes is constrained by local limits to the total tax levy and its rate, as well as the State's property tax cap. Like all cities in the State, Amsterdam is subject to a constitutional tax limit. However, the City has imposed on itself a more stringent threshold of 1 percent of full value. The City also has adopted a local law whereby it cannot raise the property tax rate or any user fees by more than 3 percent per year.¹ These restrictions are in addition to the State's own law requiring local governments to limit total property tax levy growth to 2 percent per year with certain limited exclusions. These restrictions limit the City's ability to generate revenue from property taxes and/or fees.

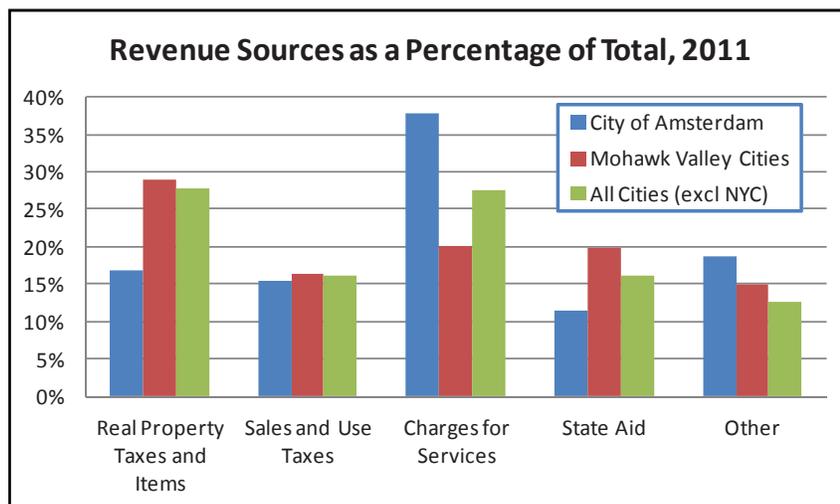
¹ Both limitations exclude taxes (and in the second case, also fees) to pay for debt service. In 2012, the City Charter was modified to allow the City to levy taxes in excess of its self-imposed tax limits by a four-fifths majority vote of the Council.

Standard and Poor’s Rating Services (S&P) revised the outlook on its “A” underlying rating on the City’s general obligation debt to negative from stable in April 2012. According to S&P, the City’s finances have significantly deteriorated over the past four years due to softening revenues and continued expenditure growth.

The City’s total revenues grew at an average annual rate of 4.1 percent between 2001 and 2011, compared to an average annual growth rate of 3.4 percent for all cities in the State. Over 80 percent of revenues were generated from local sources, primarily charges for services, property taxes and other local revenues. However, charges for services – which accounted for nearly 38 percent of the City’s total revenues – include water and sewer service sales to the surrounding towns, and therefore do not represent particularly high service charges to residents of the City.

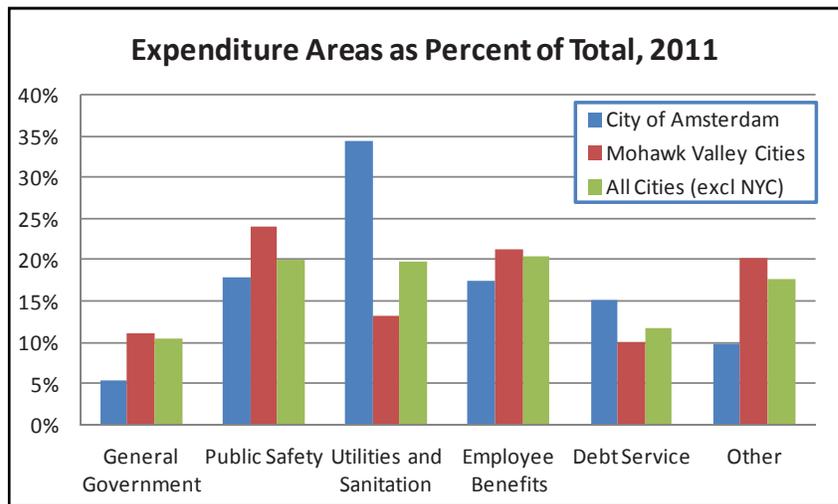
Property tax revenues, responsible for 16.7 percent of the City’s total revenues in 2011, made up a smaller portion of the revenue mix than in other cities, both regionally and statewide. Property tax revenues grew an average of 2.5 percent per year from 2001 to 2011. This is not surprising, given the City’s multiple tax limitations.

The City also relies less on State aid, comprised mostly of Aid and Incentives to Municipalities (AIM), than other cities, both as a percentage of total revenues (11 percent) and per capita (\$176). In the Mohawk Valley region, only Gloversville had a similarly low level of per capita State aid (\$175), compared to \$288 for Mohawk Valley cities overall, and \$371 for all New York cities.

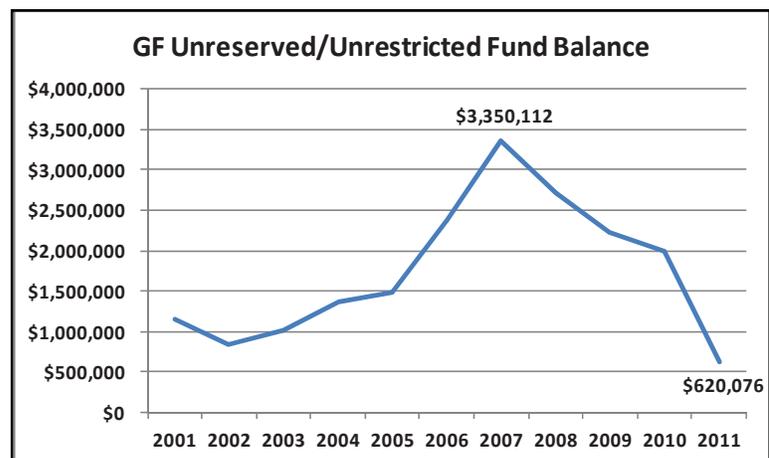


The City’s expenditures grew 5 percent per year on average between 2001 and 2011. The City has much higher sanitation and utility costs as a percentage of total expenditures than the average for other cities, regionally and statewide, because it provides water and sewer services to surrounding towns. The two segments totaled 34.5 percent of the City’s budget in 2011, compared with 10.4 percent statewide, due in part to major capital expenditures in that year. Employee benefit

costs were responsible for 17.4 percent of total expenditures, which were lower than both the average of Mohawk Valley cities (21.6 percent) and other cities across the State (22.4 percent), and grew at an average rate of 7.5 percent annually.



The City’s general fund had an unrestricted fund balance of \$620,076 in the fiscal year ending in 2011, or about 4.6 percent of total revenues.² This represents a decrease of 81 percent from the \$3.4 million it had in unreserved fund balance in 2007, as the City has been depleting that balance steadily for several years. In June 2009, OSC warned City officials that the 2008-09 budget deficit would likely be much higher than they had projected and that the 2009-10 budget should be framed with this in mind.



² In 2011, local governments started reporting fund balance differently than in prior years. Prior to that year, they reported reserved and unreserved fund balance in each fund. As of 2011, local governments must now report nonspendable, restricted, committed, assigned and unassigned fund balances. The latter three fund balances, grouped together, are substantially similar to the concept of unreserved fund balance in prior years. For the purpose of this report, this grouping is described as “unrestricted fund balance” in the chart and discussion.

According to the City's 2010-11 budget and the AUD filed with OSC, the City initially appropriated \$608,000 of general fund balance in that year's budget but appeared to use closer to \$1.3 million. City officials have not yet filed the 2011-12 or 2012-13 AUDs with OSC.

While this information is based on unaudited financial data that has been filed by the City from its own accounting records, it provides insight into the negative financial trends that have been impacting the City over the past several years.

Objective

The objective of our audit was to review the City's accounting records and financial condition. Our audit addressed the following related question:

- Does the City maintain adequate accounting records and effectively monitor the City's financial condition?

Scope and Methodology

We examined the City's accounting records and banking activities for the period June 1, 2011, to March 31, 2013. We extended our scope to July 1, 2010, to review short-term bond activity note (BAN) activity.

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 C of this report.

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. Except as specified in Appendix A, City officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the City's response letter.

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 the 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.

Records and Reports

The Council is responsible for the City's overall financial management, including assessing and monitoring financial condition. To adequately evaluate financial condition, it is essential that complete, accurate and timely accounting records are maintained to properly account for and report the City's activities. The Controller, as chief fiscal officer, is responsible for performing basic accounting functions including maintaining detailed accounting records, providing monthly financial reports to the Board and filing the AUD with OSC. In addition, the Controller must perform monthly bank-to-book reconciliations to ensure the timely identification and correction of differences between the City's recorded cash balances and its bank cash balances.

To properly assess the City's financial condition, the Council must have access to accurate balance sheet account (asset, liability and fund balance) balances and revenue and expenditure balances. Balance sheet accounts help substantiate the City's financial condition at any given time. Additionally, these accounts allow the Council to assess cash flow and the City's ability to pay liabilities. Results of operations³ are another important component of assessing financial condition and provide insight into the City's ability to generate sufficient revenues to meet expenditures. Results of operations can also assist the Council in identifying budgeting problems. Additionally, outstanding debt balances over a period of time must be considered when evaluating financial condition. Increases in debt levels, particularly in short-term debt, may indicate declining financial condition or cash solvency.

City officials failed to maintain accurate and complete accounting records. We identified significant inaccuracies in balance sheet account balances as well as in revenues and expenditures. The lack of adequate and timely accounting records precluded the Mayor and Council from evaluating the City's financial activities and limited their ability to accurately assess the true financial position of the City.

The City's fiscal year runs from July 1 through June 30, and the City generally prepares and files its AUD in conjunction with the annual independent audit of the City's financial statements. As of September 17, 2013, the City had not yet closed its accounting records, initiated the independent audit or filed the AUD for the 2011-12 and 2012-13 fiscal years. We reviewed the annual financial reports and audited financial statements prepared by the City's independent auditor for the 2009-10 and 2010-11 fiscal years and found in both years the

³ The difference between revenues and expenditures

independent auditor issued qualified opinions on the City's financial statements.⁴

Balance Sheet

The dollar amounts of balance sheet account (assets, liabilities and fund balance) balances are carried from one year to the next and help substantiate the City's financial condition at a given point in time. The sum of the City's general ledger accounts should balance at all times; that is, the total of assets, expenditures and estimated revenues should equal the total of liabilities, fund balance, revenues and appropriations.

Accounts should always balance at the balance sheet level; that is, total assets should always equal liabilities plus fund balance. At June 30, 2012, and March 31, 2013, the City's combined balance sheets⁵ did not balance as follows:

	June 30, 2012	March 31, 2013
Total Assets	\$4,131,502	\$24,436,459
Total Liabilities	\$13,309,558	\$31,880,506
Fund Balance^a	(\$5,946,815)	(\$4,212,807)
Total Liabilities And Fund Balance	\$7,362,743	\$27,667,699
Difference^b	(\$3,231,241)	(\$3,231,240)

^a The City did not close all revenues and expenditures to fund balance as of June 30, 2012. As a result, we recalculated fund balance by adding revenues and subtracting expenditures from the City's reported fund balance.

^b Assets should equal liabilities and fund balance and there should be no difference.

To determine why the City's balance sheet did not balance, we reviewed transactions recorded in the City's general ledger in the 2011-12 fiscal year and from July 1, 2012, to March 31, 2013. We found the balance sheet does not balance because, in prior years, the City recorded entries using a balancing account. This is an account the City debited or credited to ensure accounting entries balanced. The use of such an account is inappropriate. Although the City did not use this account to record entries in the 2011-12 or 2012-13 fiscal years, the account had a credit balance of \$438,759 at July 1, 2011; this balance has

⁴ These qualified opinions were related to discrepancies in billed receivable balances and the City's failure to maintain appropriate and current fixed asset records.

⁵ Table 1 includes information for balance sheets for all funds in the City's accounting records. Because of the poor accounting records, the City's use of commingled accounts and significant interfund loan activity, it was necessary to review all 12 funds as a whole.

been carried forward, and is one of the causes of the City's balance sheets being out of balance. Additionally, the City made an incorrect entry in 2011-12 to record the receipt of \$3.7 million of proceeds of a BAN; this entry simultaneously impacted a budget account and actual expenditures. Because revenue and expenditure balances are closed to fund balance at year end, the incorrect recording for the BAN proceeds also contributed to the City's balance sheet being out of balance.

To gain a better understanding of the City's accounting practices and attempt to verify the accuracy of the City's balance sheet, we also identified and reviewed the City's primary assets and liabilities. The City's assets are comprised primarily of cash and billed receivables. The City's principal liabilities are amounts payable to the County and the Greater Amsterdam School District (District) for real property taxes collected by the City on their behalves and outstanding BAN balances.

Cash Transactions – The City uses several bank accounts which contain comingled moneys from the City's various operating funds.⁶ The City uses one bank account for the depositing of collections (deposit account) and a second account for disbursements (disbursement account). The disbursement account maintains a \$0 balance and transfers from the deposit account are used to cash the checks issued.⁷ To account for transactions from these bank accounts, the City created funds within their accounting records for these bank accounts.⁸ When cash was received or disbursed, rather than recording cash transactions in the appropriate funds, the City recorded the transactions as interfund loans between the operating fund and one of the bank account funds.⁹ The City began to discontinue this practice in the 2011-12 fiscal year and recorded most cash transactions by debiting or crediting cash. However, in 2011-12 and in 2012-13, interfund loans were still recorded for some cash transactions.

Bank Reconciliations – Monthly reconciliations between the bank statements and City accounting records should be performed to

⁶ These funds include the general fund, water fund, sewer fund, refuse fund, special recreation fund (used for golf course operations), transportation fund, miscellaneous revenue fund (used for public safety related revenues) and capital projects fund.

⁷ The City provides the bank with a list of approved checks and the bank only cashes checks on the City's approved list by transferring the exact amount of those checks to the disbursement account.

⁸ The fund created for the deposit account is called the suspense fund and the fund created for the disbursement account is called the disbursement fund.

⁹ For example, rather than recording the receipt of general fund revenues by debiting cash in the general fund, the City would debit the interfund receivable account.

ensure that the City's cash balances in the accounting records agree with corresponding bank balances. This helps to ensure that all cash is properly accounted for. According to the City's principal account clerk, bank reconciliations were the responsibility of the prior principal account clerk who left employment with the City in August 2011. Although the current principal account clerk attempted to perform the reconciliations by completing the templates used by her predecessor, she was unable to successfully perform these reconciliations because of the poor accounting records. As a result, these reconciliations have not been performed since the prior principal account clerk left employment with the City.

We reviewed the June 2011 bank reconciliation performed by the prior principal account clerk to gain an understanding of the City's reconciliation process at that time. We found the reconciliation was not accurate or complete because the reconciled bank balance was not compared with the cash balances as recorded in the City's accounting records. Instead, the reconciled bank balance was compared with a spreadsheet maintained outside of the City's accounting system. Furthermore, in calculating the reconciled bank balance, the City did not account for outstanding checks. As a result, this monthly process was deficient and did not serve as a true bank-to-book reconciliation of the City's cash balances.

We attempted to perform bank reconciliations for the months ending June 2012 and March 2013. We calculated the reconciled bank balance by adjusting the bank balances¹⁰ for outstanding checks¹¹ and deposits in transit.¹² We then calculated the combined book balance by adjusting the cash balance for all funds by the amount of interfund receivables and interfund payables for all funds. We made this adjustment because the City reported deficit cash at June 30, 2012, and March 31, 2013,¹³ and because of the City's practice of using interfund loan accounts to record cash transactions. At June 30, 2012,

¹⁰ In addition to the deposit bank account and disbursement bank account, the City used four additional bank accounts containing balances from various operating funds within the City. Because we were unable to distinguish the balances in each bank account that were associated with each specific fund, we used the cumulative cash balances from all bank accounts in this analysis.

¹¹ The City does not prepare outstanding check lists. However, the City sends the bank a list of approved checks every time they are disbursed. The bank uses this list to ensure only approved checks are cashed and also to transfer moneys from the deposit account to the disbursement account to cover the checks. As a result, the bank also prepares outstanding check lists for the City. We used the bank's outstanding check list in our test.

¹² The report prepared by the City which details deposits in transit had not yet been prepared for the month of March 2013. As a result, we did not include deposits in transit in our March 2013 reconciliation.

¹³ Which we knew to be inaccurate because we knew the City did not have a deficit reconciled bank balance

and March 31, 2013, the reconciled bank balance exceeded the City's book balance as follows.

Table 2: Bank Reconciliations		
	June 30, 2012	March 31, 2013
Account 1	\$7,324,480	\$5,708,534
Account 2	\$486,507	\$1,163,158
Account 3	\$61,136	\$217,068
Account 4	\$154,452	\$153,698
Account 5	\$312,796	\$312,840
Total Reconciled Bank Balance	\$8,339,371	\$7,555,298
Book Balance	\$1,295,374	\$2,488,331
Difference	\$7,043,997	\$5,066,967

The City's incorrect practice of using the interfund loan accounts to record cash transactions contributed to the variance between the City's book balance and cash balance. Interfund loans should only be recorded when moneys are actually loaned from one fund to another. Furthermore, the total due from other funds (interfund loans receivable) should always reconcile with the total due to other funds (interfund loans payable). We reviewed interfund loan balances at June 30, 2011, June 30, 2012, and March 31, 2013, and found they did not reconcile. In addition, the amounts reported by the City for combined interfund receivables and payables were deficit amounts.

Table 3: Interfund Loans			
	June 30, 2011	June 30, 2012	March 31, 2013
Total Due From Other Funds	(\$18,797,999)	(\$8,220,916)	(\$1,001,766)
Total Due To Other Funds	(\$22,115,797)	(\$11,539,214)	(\$4,320,065)
Variance	\$3,317,798	\$3,318,298	\$3,318,298

Billed Receivables – The City bills residents for real property taxes as well as user fees such as water and sewer charges. As a result, the City must report receivables for amounts billed and not yet collected. Additionally, the City collects taxes on behalf of the County¹⁴ and the District¹⁵ and reports receivables for these amounts as well. Billed receivables comprise a significant portion of the assets reported by

¹⁴ The City collects County taxes from City residents on behalf of the County and remits collections to the County.

¹⁵ The District collects taxes from September 1 to April 30 and all taxes unpaid at April 30 are turned over to the City for collection on behalf of the District. Collections are periodically remitted to the District.

the City; at March 31, 2013, the City reported a billed receivables balance of \$25.6 million.¹⁶ As a result, we reviewed the City’s records to determine whether these receivables were accurately reported by comparing the amount of billed receivables balances to the supporting report of unpaid bills. The balance of billed receivables and supporting list of unpaid bills should agree; however, we found they were not in agreement.

Table 4: Billed Receivables		
	June 30, 2012	March 31, 2013
Billed Receivables	\$13,397,491	\$25,635,087
Amounts Unpaid	\$8,961,228	\$14,493,722
Variance	\$4,436,263	\$11,141,365

The City reported \$13.4 million of billed receivables on its balance sheet as of June 30, 2012. However, according to a report of unpaid bills, the total of unpaid accounts was only \$9.0 million. Similarly, as of March 31, 2013, the City reported receivables totaled more than \$25.6 million but amounts of unpaid accounts only totaled \$14.5 million. As a result, it appears the balances for billed receivables were overstated by \$4.4 million as of June 30, 2012, and \$11.1 million as of March 31, 2013.

Payables to the County and District – To determine whether liabilities were accurately reported, we identified and reviewed the City’s major liabilities. The City’s primary liabilities are amounts payable to the County and District for taxes collected by the City on their behalves and the amount for outstanding BANs. As a result, we reviewed the City’s records to determine whether these liabilities were accurately reported and found they were not.

The City collects County and District taxes which it must periodically remit to the appropriate entity. To determine if the City reported the liabilities associated with the collection of County and District taxes accurately, we reviewed the entries made to record these liabilities in 2011-12 and 2012-13 and found they were not made accurately. To record County and District taxes to be collected by the City, the City must increase the associated receivables and payables. The City increased the receivables; however, instead of recording the payables, the City incorrectly recorded these amounts as City real property tax revenues. This caused the payables to the County and District to be understated. City officials attempted to correct this error during our fieldwork; however, we found these liability accounts are likely still

¹⁶ \$19.2 million of this balance is for the general fund, \$1.3 million is for the refuse fund, \$3.0 million is for the water fund and \$2.1 million is for the sewer fund.

inaccurate due to adjustments to tax bills which were not reflected in the liability accounts and were instead recorded as adjustments to the City's real property tax revenue.

BANs Payable – When debt is issued or renewed, the City must record the associated liability in the appropriate fund. We found the City did not properly record a liability for BANs issued or renewed in the 2011-12 or 2012-13 fiscal years. As a result, BANs payable were understated.

In 2011-12, the City renewed \$11,355,000 of the \$12,033,200 BANs from 2010-11 and issued two new BANs which totaled \$4,170,000. None of these three transactions was properly recorded, as follows:

- The City did not properly increase BANs payable by the amount of the outstanding BAN that was renewed (\$11,355,000).
- The City properly increased BANs payable for the \$3,670,000 newly issued BAN; however, the City improperly made a second entry to use the BAN proceeds to offset expenditures.
- For the second newly issued BAN, which totaled \$500,000, the City did not increase BANs payable and instead recorded the BAN as a decrease to expenditures.

In 2012-13, the City issued BANs to renew \$14,132,500 of the \$15,525,000 outstanding BANs from 2011-12 and issued one new BAN for \$3,138,975. The City did not record either of these transactions appropriately as follows:

- The City did not make any entries to record the \$14,132,500 of BANs renewed.¹⁷
- The City did not increase BANs payable for the \$3,138,975 newly issued BAN and instead recorded the receipt of these proceeds as a decrease to expenditures.

As a result of the inadequate, inaccurate and incomplete accounting records maintained by the City, the City's balance sheets for each fund are inaccurate and unreliable. These inaccuracies precluded the Council from properly assessing and monitoring the City's financial condition. Furthermore, without accurate depictions of cash, receivables and liabilities, the Council cannot be certain that it has

¹⁷ The City did not record payment of the \$15,520,000 in outstanding BANs and also did not record the subsequent renewal of \$14,132,500 of those BANs.

and will continue to have sufficient cash on hand to meet operating obligations.

Without knowing how much cash or other assets the City has, how much the City owes for outstanding payables, how much the City owes for debt issuances or what amount of the fund balance or deficit there is, the Mayor and City Council are preparing budgets and making financial decisions without basic information about the City's finances. We met with City officials numerous times during our fieldwork to impress upon them the severity of the problems with the financial records that have been ongoing for a period of several years and still City officials have not taken action to effectively address this situation.

Results of Operations

To adequately measure and monitor their financial position, the City must evaluate annual results of operations – the excess or deficiency of revenues over expenditures. Analyzing results of operations provides insight into the City's ability to generate sufficient revenues to pay for expenditures. For 2011-12 and for the period July 1, 2012, to March 31, 2013, the City can not accurately identify results of operations due to inaccuracies in the accounting records.

Revenues – We attempted to assess the accuracy of the City's revenues by reconciling bank deposits with receipts posted to the records. The Controller's Office makes deposits that combine collections for multiple operating funds. As a result, we used a report generated by the City outside of their centralized accounting system which summarizes daily deposits by fund to perform our testing. We traced total deposits according to the bank statements to this report and then traced the receipts from this report to the City's centralized accounting records. In general, we found when bank deposits agreed with the receipts report, the receipts report did not agree with the centralized accounting records. Similarly, we found when the receipts report agreed with the centralized accounting records, the receipts report generally did not agree with the bank deposits. As a result, we were unable to verify the accuracy of the City's reported revenues. Also, due to poor accounting records, we could not verify that all reported revenues were deposited. If money is missing from City receipts, it would be difficult or impossible to identify the shortage because the records are so unreliable.

Furthermore, in our review of balance sheet accounts, we identified other inaccuracies in the City's revenues as follows:

- In 2011-12 and 2012-13, the City recorded the County and District taxes to be collected by the City as the City's real

property tax revenues.¹⁸ Although the Deputy Controller attempted to correct this error during our fieldwork, the real property tax revenue account is still inaccurate because the City also recorded any adjustments made to the County or District tax bills as adjustments to the City's real property tax revenues.

- In 2011-12 and 2012-13, the City also incorrectly recorded relieved user charges¹⁹ as real property tax revenues. Furthermore, the City did not properly record the real property tax overlay and instead recorded the entire amount levied as real property tax revenues.

Expenditures – To assess the accuracy of the City's expenditures, we selected random samples of 2.5 percent of disbursements from the City's check registers for the 2011-12 fiscal year and from the period July 1, 2012, to March 31, 2013. We traced these expenditures to the general ledger and did not identify material weaknesses. However, in our review of balance sheet accounts, we identified other inaccuracies in the City's expenditures as follows:

- In the 2011-12 and 2012-13 fiscal years, the City renewed portions of all outstanding BANs from the prior fiscal year. As a part of this renewal process, the City made principal and interest payments on the BANs. The City recorded the \$810,186 of principal and interest payments made during the 2011-12 renewal. However the City did not record the 2012-13 renewal amount of the BANs and, as a result, did not record the nearly \$1.4 million of principal and interest paid by the City in 2012-13.
- In 2011-12 and 2012-13, the City also issued new BANs for newly approved capital projects. The City used the newly issued 2011-12 BANs which totaled \$4.2 million to incorrectly offset or decrease expenditures in the capital projects fund, rather than recording the BANs as a liability on the balance sheet. The City also used the 2012-13 BAN for \$3.1 million to incorrectly decrease expenditures in the capital projects fund.

These entries caused total expenditures to be understated by \$4.2 million in fiscal year 2011-12 and by \$4.5 million in 2012-13.

¹⁸ These should not be recorded as revenues because, although they are collected by the City, they are the property of the County and District. Instead of a City revenue, the taxes should be reflected as a City liability to the County and District.

¹⁹ Unpaid City user charges for water and sewer services, refuse and various City fees

Deposits and Disbursements – Due to the extremely poor state of the accounting records, we were unable to accurately measure the City’s results of operations. As a result, to further evaluate the City’s operations, we analyzed cash transactions by reviewing bank activity. We reviewed all deposits and disbursements from the City’s bank accounts and in fiscal year 2011-12 and from July 1, 2012, to March 31, 2013, disbursements exceeded deposits. However, this analysis included BAN proceeds which are not a recurring source of moneys, and as a result, we deducted BAN proceeds²⁰ from total deposits in our analysis. After removing BAN proceeds, we found disbursements exceeded deposits in 2011-12 by \$7.6 million and from July 1, 2012, to March 31, 2013, by \$4.2 million.²¹

Due to the City’s extremely poor accounting records, neither we nor the City can quantify actual results of operations. However, our analysis of deposits and disbursements indicates negative fiscal trends. Furthermore, if these trends continue, the City will experience cash flow problems and may deplete cash entirely in the future, putting the City into fiscal stress.

Short-Term Debt

A bond anticipation note (BAN) is a short-term debt instrument issued by a municipality in anticipation of later bond proceeds.²² The note must be redeemed (principal and interest repaid to the financing institution) within one year and generally may be renewed for up to five years, per Local Finance Law. Furthermore, Local Finance Law provides that proceeds of bonds or bond anticipation notes may not be commingled with operating fund moneys and only can be expended for the purpose for which the obligations were issued or, if there are excess proceeds, to pay the debt service on those obligations. Significant increases in short-term debt issuance, particularly when debt is issued to pay for costs that traditionally would have been paid from budget appropriations, may indicate cash flow problems and/or fiscal stress. Furthermore, increases in fixed costs, such as principal and interest on debt, limit a municipality’s flexibility to respond to economic changes.

²⁰ We only deducted proceeds from newly issued BANs and did not deduct BAN renewal deposits or disbursements because the net of these deposits and disbursements equals the principal and interest payments made by the City, which are recurring expenditures.

²¹ We removed \$4.2 million of BAN proceeds from total deposits in 2011-12 and \$3.1 million of BAN proceeds from July 1, 2012, to March 31, 2013, because they were not a recurring revenue source. We did not deduct expenditures of BAN moneys from this analysis because, due to the poor state of the accounting records, we could not identify all expenditures related to BANs. Had we not removed BAN proceeds from total deposits, the City’s total disbursements still exceeded total deposits by \$3.4 million in 2011-12 and \$1.1 million from July 1, 2012, to March 31, 2013.

²² A BAN is typically retired from the proceeds of the bond to which it is related.

From the beginning of the 2010-11 fiscal year to March 31, 2013, the City's outstanding BANs have increased by more than 250 percent, from \$4.7 million at the beginning of the 2010-11 fiscal year to \$16.6 million as of March 31, 2013.

Fiscal Year	2010-11	2011-12	2012-13
Outstanding BANs at Fiscal Year Beginning	\$4,733,198	\$12,033,200	\$15,525,000
Outstanding BANs Paid	\$278,198	\$678,200	\$1,392,500
Outstanding BANs Renewed	\$4,455,000	\$11,355,000	\$13,428,802
Outstanding BANs Converted to Long-Term Debt	\$0	\$0	\$703,698
Percent of Outstanding BANs Renewed or Converted to Long-Term Debt	94%	94%	91%
New BANs Issued	\$7,578,200	\$4,170,000	\$3,898,975
Outstanding BANs at Fiscal Year End	\$12,033,200	\$15,525,000	\$16,567,777

^a This analysis does not include \$3.5 million of long-term BANs that were financed by the New York State Environmental Facilities Corporation for water system improvements.

In each of the last three fiscal years, the City renewed²³ between 91 and 94 percent of outstanding BANs from the prior year. In addition, the City issued new BANs for additional projects in fiscal years 2010-11, 2011-12 and 2012-13. This practice caused the City's outstanding BANs to increase by nearly \$12 million in less than three years.

Due to the poor state of the City's accounting records, we reviewed BAN activity in the City's bank accounts. We found that the City comingled BAN proceeds in its primary bank account (the deposit account) that contains cash balances for all of the City's operating funds. We also found that when the City renewed BANs in 2012-13, the renewal, which required the City to pay nearly \$1.4 million in principal and interest, caused the City's deposit bank account to have a deficit balance of more than \$500,000. Although the City did have moneys on deposit in other bank accounts at the time, a deficit bank balance in the City's primary bank account indicates significant cash flow problems and severe deficiencies in cash management procedures. Furthermore, because the BAN proceeds reside in the City's comingled bank account, the City lacks assurance that BAN proceeds were used solely for their authorized purposes and were not used for operations.

We attempted to verify that the City's BAN proceeds were expended for the purposes for which they were issued. However, we found the City did not establish and maintain separate capital projects funds for each approved project for which a BAN was issued. Because all BAN

²³ Or converted to long-term debt

proceeds and related expenditures were also comingled in the City's accounting records, we were unable to verify that all BAN proceeds were expended for only their authorized purposes.

According to City officials, because the City only had one capital projects fund, it established specific appropriation codes for each individual project. City officials stated this is also why the City recorded the 2011-12 and 2012-13 newly issued BANs by decreasing expenditures. This allowed the City to associate BAN proceeds with specific appropriations and, therefore, specific projects. Although this manner of recording the BANs was inappropriate and incorrect,²⁴ it allowed us to review the use of the proceeds of the 2011-12 and 2012-13 newly issued BANs, which totaled \$7.3 million. Of the \$7.3 million, we found that \$5.3 million was not expended as of March 31, 2013, and therefore must remain intact in the City's bank account. As noted above, the City's reconciled bank balance at March 31, 2013, was \$7.5 million, making more than 70 percent of the City's cash balance restricted moneys. Furthermore, because we could not verify the use of the remaining \$9.3 million of outstanding BANs,²⁵ it is possible that the amount of unused BAN proceeds exceeds the amount we were able to quantify, which would further deplete the City's available cash.

Due to the extremely poor condition of the City's financial records and reports, City officials were unable to determine the City's true financial condition. However, the results of our analysis of the City's deposits and disbursements indicate negative cash flow. Furthermore, the City's significant increase in BAN issuance and the City's cash balance being comprised primarily of BAN proceeds also indicate a declining financial condition.

We provide an *Accounting and Reporting Manual* that provides sample entries for recording tax levies and issuances of BANs that the City could have used as a model to correctly record these transactions. We also provide routine technical assistance in recording transactions through our regional office in Glens Falls. The City did not take advantage of these resources to properly record these transactions. We also provide several *Local Government Management Guides*, which are guides to help establish appropriate internal controls and manage other financial activities. Furthermore, we conduct accounting schools to help local government finance staff learn the proper accounting and reporting procedures.

²⁴ As previously noted

²⁵ The City had \$16.6 million of outstanding BANs at March 31, 2013. Due to the state of the City's accounting records, we were only able to verify the use of \$7.3 million of these BANs and were unable to verify the use of the remaining \$9.3 million.

Long-Term Financial Plan

City officials are responsible for developing comprehensive, long-term financial and capital plans to estimate the future costs of ongoing services and future capital needs. Effective plans project operating and capital needs and financing sources over a three- to five-year period. Any long-term financial plans should be monitored and updated on an ongoing basis to ensure decisions are guided by the most accurate information available. To compare projections to actual activities and make needed adjustments, relevant, timely and accurate financial data must be available. Planning on a long-term basis allows City officials to identify revenue and expenditure trends, set long-term priorities and assess the impact and merits of alternative approaches to financial issues.

Budgets are meant to balance revenues and expenditures so that local governments can provide needed services with the resources that are available. The Council is responsible for adopting a policy to determine the appropriate amounts of fund balance to retain as a financial safeguard so that the Town has adequate unexpended surplus funds for the current year's operations. The Board should also develop a reasonable estimate of the fund balance that will be available at the end of the current fiscal year and the proper amount of fund balance to be appropriated as revenue to offset the ensuing year's tax levy.

We found that the City did not develop a comprehensive, long-term financial plan or adopt realistic budgets and did not have any other mechanism to address the City's long-term operational needs. Had such a plan been place, it would have been a useful tool to address the financial deficiencies noted in this report.

Given the extremely poor condition of the records, it is unlikely the City can develop a long-term financial plan at this time. However, the Mayor and City Council should start development of a long-term plan as they work to get the financial records into a useable condition and continue to refine the plan as a guide toward improved financial condition as the records are improved.

Recommendations

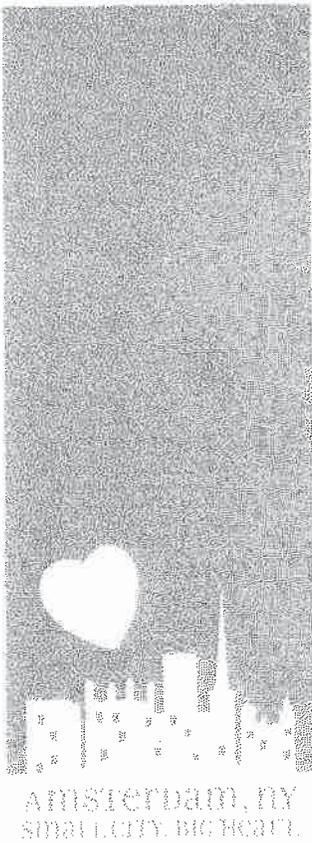
1. The Controller should ensure that the City's accounting records for the operating funds and capital projects funds are complete, accurate and maintained in a timely manner.
2. The Mayor and Council should ensure that the Controller performs complete and accurate monthly bank reconciliations and ensure that any differences disclosed by the reconciliation process are promptly identified and resolved.

3. The Controller should prepare and provide adequate monthly financial reports to the Council. The Council should use these monthly reports as a means to monitor the City's financial operations and to ensure that funds are available and expenditures are kept within the limits of budgetary and project authorizations.
4. The Council should take appropriate action to ensure that debt proceeds are deposited and expended in accordance with the requirements of Local Finance Law.
5. The Controller and Controller's office staff should attend training.
6. The Mayor and Council should refer to the Local Government Management Guide for assistance in developing future budgets.
7. The Mayor and Council should develop a long-term financial plan.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



October 24, 2013

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236

To Whom It May Concern:

Upon review of the draft records and reports examination for the period from June 1, 2011 through March 31, 2013 the following responses are provided:

1. At the time of this audit the City of Amsterdam was in the process of transitioning its accounting system from the [REDACTED] system to a new system provided by [REDACTED]

This transition was made by the City of Amsterdam to address numerous deficiencies in the [REDACTED] accounting system; the transition occurred on July 1, 2011. The implementation of this transition was problematic, the elected controller who had argued for this transition was not re-elected, leaving office on December 31, 2011 and the incoming controller was not familiar with computerized accounting systems. As a further complication the principal account clerk who had 24 years of institutional memory left for other employment on September 9, 2011. This left the Finance Department in a difficult situation and as a result the [REDACTED] System was not properly configured. The deficiencies of the current configuration are noted in your report. Some of the deficiencies noted in this report existed prior to the implementation of the [REDACTED] System; however they were masked by the manual actions of prior staff in support of the previous system.

2. To address the deficiencies in the Finance Department the City created the position of Deputy Controller in December of 2012, requiring a degree in accounting. This position was created to improve the general knowledge of accounting in the Finance Department and to provide stability to the department during transitions caused by the election process. This position was staffed on March 1, 2013.

3. The City passed a local law attempting to amend the city charter, subject to voter approval, to eliminate the elected controller as an additional step to increase stability in the Finance Department. This law was defeated at a special election in June 2013.

101 South Street
Amsterdam, NY 12010
www.amsterdamny.gov
914.346.3111 • 518.437.3100



4. As an attempt for corrective actions to these deficiencies, prior to this audit, in October of 2012 the City retained an accountant to assist the Finance Department with corrections to the accounting system and staff training. Due to various factors this was not successful.

5. Also, in the fall of 2012, the City had [REDACTED] perform an implementation review of the accounting system. A report was produced and provided to the City Controller for action.

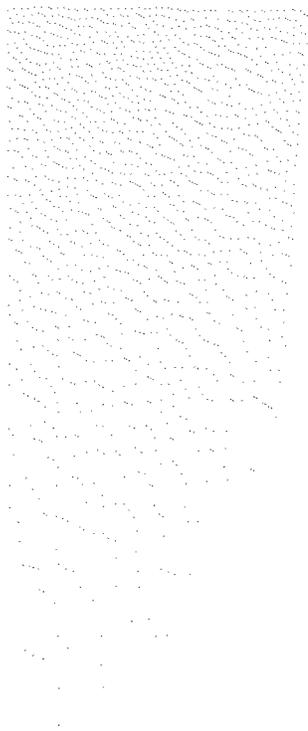
6. In December 2012 the newly elected Controller died and the office of Controller has remained vacant pending the November 2013 general election.

7. As corrective actions subsequent to the investigative phase of this audit the following have occurred, or are in progress:

- a. Bank reconciliations of 10 out of 17 accounts are current through March of 2013.
- b. Numerous corrective entries have been made by the Deputy Controller to the [REDACTED] System.
- c. The City has hired an accountant to reconcile the capital project accounts in cooperation with Finance Department staff.
- d. The City has hired an accounting firm to reconcile and correct all other aspects of the accounting system in cooperation with Finance Department staff.

8. In general the City concurs with the findings contained this examination. One notable exception is the examiner's attempt to evaluate city operations by analyzing bank deposits and withdrawals while subtracting BAN proceeds to reach an estimate of current operations. We believe that this method is substantially inaccurate because it does not also account for BAN related expenditures that may have been deferred from prior period BANS. The [REDACTED] System appears to be accurately tracking current revenues and expenditures and the net result for the period in question does not show a significant deviation from budgeted amounts. The City recognizes that it is necessary to reconcile the accounting system to bank transactions to be certain that the revenue and expense information in the [REDACTED] System is correct. Given the errors in the configuration of the accounting system we believe it is imperative to correct the accounting system as rapidly as possible so that verifiably accurate information is available.

See
Note 1
Page 25



9. The examination report appears to be critical of the increase in BAN funding. This criticism is unfair in that all of the objects of expense of these borrowings are critical to the operation of the City and its long term stability of operations. Clearly, the improper accounting of the BANS and associated capital projects are a major component of the accounting errors in the records. However, despite these inaccuracies City operations must continue and the City must comply with its regulatory requirements.

See
Note 2
Page 25

10. City officials have for some time recognized that deficiencies in the accounting records and in the operation of the Finance Department existed, although the severity of the deficiencies were not known until this examination. As a step toward corrective action this examination was requested by the former Controller. It appears that necessary actions to correct these deficiencies involve more than the correction of the accounting records. The City must establish a Finance Department that has sufficiently skilled and trained staff to follow standard accounting practices and comply with all regulatory requirements. By retaining accounting firms to assist in the correction of the City's accounts the City will simultaneously seek recommendations to reorganize the Finance Department.

Sincerely,

Ann M. Thane
Mayor City of Amsterdam

APPENDIX B

OSC COMMENTS ON THE CITY'S RESPONSE

Note 1

Subsequent to the exit discussion, we modified the draft audit report to provide perspective on the methodology we used to perform this analysis and provided the modified version to City officials. As outlined in the audit report, due to the poor state of the City's accounting records, we could not identify all expenditures made with BAN proceeds. As a result, this was the only reasonable methodology available to us to evaluate City operations. Additionally, as noted in footnote 21 of the audit report, the City's total deposits, including deposits of BAN proceeds, were \$3.4 million less than total disbursements in 2011-12 and \$1.1 million less than total disbursements during the period July 1, 2012, to March 31, 2013.

Note 2

As indicated in the audit report, increases in fixed costs, including principal and interest on debt, limit a municipality's flexibility to respond to economic changes. Increasing short-term debt should be considered only after officials are able to determine whether an increase in fixed costs is affordable given the municipality's financial plans.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the City's financial condition and review internal controls put in place by officials to monitor financial activities. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed City officials responsible for financial oversight and maintaining accounting records and reviewed Council minutes and the City Charter to obtain an understanding of the City's policies and procedures.
- We obtained and reviewed the two most recently completed independent audits of the City's financial statements.
- We reviewed the City's financial information and, on a test basis, reviewed the available accounting records including the general ledger, journal entries, bank reconciliations and budget reports.
- We reviewed balance sheet accounts to determine if they balanced at June 30, 2012, and March 31, 2013. If they did not balance, we then reviewed accounting records to determine why.
- We reviewed the accounting records for major balance sheet accounts, interviewed officials and reviewed supporting documentation to determine if the amounts reported were accurate and supported.
- We reviewed bank reconciliation documents to determine whether the City's recorded cash balances agreed with reconciled bank balances.
- We performed bank reconciliations for the months of June 2012 and March 2013 using the City's lists of deposits in transit and outstanding checks. We compared reconciled bank balances to cash balances and interfund loan balances.
- We compared revenues reported in the City's accounting records to bank deposits (for both revenues collected by the City and revenues collected by the City's bank on behalf of the City).
- We selected a random sample of 2.5 percent of disbursements in the 2011-12 fiscal year and from July 1, 2012, to March 31, 2013, and traced those disbursements from the accounting records to canceled check images to verify the accuracy of disbursements recorded in the accounting records.
- We reviewed bank statements and calculated total deposits and total disbursements from the City's bank accounts during our scope to determine whether the City deposited more than they disbursed in 2011-12 or from July 1, 2012, to March 31, 2013. We removed deposits for BAN proceeds from this analysis because the proceeds of BANs do not represent recurring revenues.

- We reviewed BAN activity from the beginning of the 2010-11 fiscal year to March 31, 2013, to identify short-term debt issuance trends.
- We compared the amount of BAN proceeds used to reduce specific expenditures with the amount actually expended from those expenditure codes to determine how much of BAN proceeds was expended.

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.

APPENDIX D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313