



# City of Fulton

## Fiscal Stress

### Report of Examination

Period Covered:

January 1, 2012 — May 31, 2013

2013M-310



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

November 2013

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 Fulton, entitled Fiscal Stress. 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 Fulton (City) is located in Oswego County, is approximately four square miles, and serves almost 12,000 residents. The Common Council (Council) is the legislative body responsible for managing City operations, including establishing internal controls over financial operations, and for maintaining sound financial condition. The Mayor is a member of the Council and serves as the chief executive officer. The City's Chamberlain is the chief fiscal officer and is responsible for receiving, disbursing, and maintaining the custody of City moneys, maintaining accounting records, and providing financial reports to the Council.

The City's budgeted appropriations for the 2013 fiscal year were approximately \$15.5 million, which were funded primarily with real property taxes, sales tax, and State aid. The City provides services for its residents including street maintenance and improvements, snow removal, public improvements, recreation and cultural activities, public safety through paid fire and police departments, water, sewer, and general government support. Expenditures are accounted for in the general, water, sewer, refuse, library, and recreation funds.

Fiscal stress is a judgment about the financial condition of an individual entity that must take into consideration the entity's unique circumstances, but can be generally defined as a local government's or school district's inability to generate enough revenues within its current fiscal period to meet its expenditures (budget solvency). The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments (counties, cities, towns, and villages) and school districts based on financial and environmental indicators to determine if these entities are in or nearing fiscal stress. The City has been classified as being in moderate fiscal stress.

## Objective

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

- Are City Council members and officials effectively managing the City's financial condition to maintain a reasonable level of fund balance in the general fund?

## Scope and Methodology

We examined the City's financial condition for the period January 1, 2012, to May 31, 2013. We extended our scope back to 2010 to perform a comparative analysis of fund balance and review budgets versus actual results.

**Comments of  
Local Officials and  
Corrective Action**

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 is included in Appendix B of this report.

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. City officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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.

## Fiscal Stress

Financial condition may be defined as a city's ability to balance recurring expenditure needs with recurring revenue sources, while providing desired services on a continuing basis. A city in good financial condition generally maintains adequate service levels during fiscal downturns and develops resources to meet future needs. Conversely, a city in fiscal stress usually struggles to balance its budget, suffers through disruptive service level declines, has limited resources to finance future needs, and has minimal cash available to pay current liabilities as they become due. City officials have a responsibility to taxpayers to ensure that their tax burden is not greater than necessary. To fulfill this responsibility, it is essential that City officials develop reasonable budgets and manage fund balance responsibly.

A key measure of the City's financial condition is its level of fund balance, which is the difference between revenues and expenditures accumulated over time. City officials can legally set aside, or reserve, portions of fund balance to finance future costs for a specified purpose, designate a portion of fund balance to help finance the next year's budget, and/or retain unexpended surplus funds<sup>1</sup> for future use. Maintaining a reasonable level of unexpended surplus funds is a key element of effective financial management. It is important for the Council to adopt a policy that addresses the level of unexpended surplus funds to be maintained and to use the policy in the annual budgeting process to ensure that unexpended surplus funds are adequate.<sup>2</sup>

We reviewed budget-to-actual results for the fiscal years 2010 through 2012 and found that the Council adopted realistic budgets. The Chamberlain monitored the budget with actual results, and City officials made budget transfers as needed throughout the year.

<sup>1</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

<sup>2</sup> When determining the level of unexpended surplus funds to maintain, the Board should consider factors such as timing of receipts and disbursements, volatility of revenues and expenditures, contingency appropriations, and reserves established for various purposes.

In addition, City officials have prepared multiyear financial plans. However, the Council has adopted budgets that have routinely relied on the appropriation of fund balance as a financing source, causing the City to incur planned operating deficits<sup>3</sup> in the general fund. This has led to a significant reduction in the City’s unexpended surplus funds from 2010 to 2012. During that period, the unexpended surplus funds remaining at year end declined 84 percent – from \$841,747 in 2010 to \$136,068 at the end of 2012 – leaving the City with little cushion for managing unforeseen events.

<b>Fiscal Year End</b>	<b>Appropriated Fund Balance</b>	<b>Unexpended Surplus Funds</b>	<b>Following Year's Budgeted Appropriations</b>	<b>Unexpended Surplus as a % of Following Year's Appropriations</b>
2010	\$390,000	\$841,747	\$15,313,268	5.50%
2011	\$290,000	\$534,418	\$15,159,448	3.53%
2012	\$300,000	\$136,068	\$15,452,097	0.88%

<sup>a</sup> Excludes the reserved/restricted funds and nonspendable portions of fund balance (such as property acquired for taxes and pre-paid expenses).

The City does not have a method or policy to determine the amount of unexpended surplus to maintain. The Council has relied on the use of fund balance to offset the amount to be raised by taxes and has based its budget decisions on the desire to maintain a level tax rate from year to year. While a reduced tax levy benefits taxpayers in the short term, fund balance should not be depleted to the point that there is insufficient cash available for paying bills or managing unforeseen events. Because the City has drawn down its unexpended surplus funds to a dangerously low level, it no longer has fund balance available as a financing source in its 2014 budget.<sup>4</sup> As a result, City officials must replace these funds with other recurring revenues and/or cut costs to balance the budget.

The Council has implemented cost savings measures in an effort to relieve the City’s fiscal stress. For example, the City has reduced the number of its employees over the years by not refilling the positions of employees who have retired or separated from the City. Specifically, from March<sup>5</sup> 2010 to March 2013, the City’s number of employees decreased from 159 to 143, or 10 percent. We also found that the City, from fiscal years 2010 to 2012, has reduced costs in areas such

<sup>3</sup> A planned operating deficit occurs when a municipality purposely adopts a budget in which anticipated expenditures are greater than anticipated revenues, with the difference to be funded with appropriations from fund balance.

<sup>4</sup> City officials told us they do not plan to appropriate any fund balance in the 2014 budget.

<sup>5</sup> We judgmentally selected the month of March because we did not want to distort the total number of employees due to the seasonal employees in the spring and summer months.

as ambulance services, landscaping, rehabilitation, and support to the local library,<sup>6</sup> resulting in total savings of over \$800,000 during this period.

## **Recommendations**

1. The Council should adopt a policy setting forth the reasonable amounts of unexpended surplus funds that the City should maintain.
2. City officials should reduce reliance on fund balance as a financing source and continue to evaluate and explore ways to cut costs and/or increase revenues.

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<sup>6</sup> Budget-to-actual reports show that these cost savings will likely continue for fiscal year 2013.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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



Ronald L. Woodward, Sr.  
Mayor

## City of Fulton

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October 21, 2013

State of New York  
Office of the State Comptroller

**Re: Written Audit Report Response to Draft  
City of Fulton  
Fiscal Stress  
2013M-310**

Dear Sirs:

Please accept this letter as our written audit response to the draft audit report presented to the Mayor and e-mailed to all members of the Common Council the week of October 18, 2013.

This administration accepts the draft report without any exception and we believe it to be correct without any inaccuracies. We are presently in the process of developing a corrective action plan based on the recommendations presented in the draft report. This formalized CAP will be presented in detail by the board no later than ninety (90) days after the final report is released.

I would like to take this opportunity to thank the examiners that were on site for their professionalism and the help that they offered in the examination process. They were courteous and tried at all times to not disrupt the daily responsibilities of our office staff.

Please feel free to contact my office if I can be of any further assistance to you in this matter.

Sincerely,

Ronald L. Woodward, Sr.  
Mayor, City of Fulton

Cc: James Laboda, City Clerk/Chamberlain

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

The Office of the State Comptroller's Fiscal Stress Monitoring System evaluates local governments based on financial and environmental indicators. These indicators are calculated using the local government's annual update document<sup>7</sup> and information from the United States Census Bureau, New York State Department of Labor, and the New York State Education Department, among other sources. The City has demonstrated signs of fiscal stress in several areas. Due, in part, to these fiscal stress indicators, we selected the City for audit.

Our overall goal was to assess the City's financial condition. Our procedures included the following:

- We reviewed the City's policies and procedures for developing and reporting information relevant to financial and budgeting activities. This included gaining information on the fiscal responsibilities of City officials.
- We interviewed City officials to determine what processes were in place and gain an understanding of the City's financial situation and budget.
- We reviewed and analyzed the City's financial records and reports for all funds, including balance sheets, budget reports, and statements of revenues and expenditures.
- We analyzed the City's overall fiscal health by reviewing fund balance trends and results of operations from 2010 to 2012. We also reviewed budget to actual comparisons for this period.
- We reviewed the 2013 budget to determine whether it appeared to be reasonable based on previous years' actual results.
- We reviewed the City's multiyear financial plan to determine if it was up-to-date.

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.

<sup>7</sup> Required to be submitted annually by the City to the Office of the State Comptroller

## APPENDIX C

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**AND SCHOOL ACCOUNTABILITY**

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

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