



City of Rye

Boat Basin Fund

Report of Examination

Period Covered:

January 1, 2012 — June 30, 2013

2013M-289



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	3
BOAT BASIN FUND	5
Recommendation	6
APPENDIX A Response From Local Officials	7
APPENDIX B Audit Methodology and Standards	9
APPENDIX C How to Obtain Additional Copies of the Report	10
APPENDIX D Local Regional Office Listing	11

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 City 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 Rye, entitled Boat Basin Fund. 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 Rye (City) is located in Westchester County, covers 20 square miles and has a population of approximately 15,000. The City is governed by an elected Mayor and a six-member City Council (Council). The City Manager is the City's chief administrative officer and reports directly to the Council. The Council created the Boat Basin and the Golf Course enterprise funds to provide services to the general public, financed primarily through user charges.

The Boat Basin Department has a supervisor who is appointed by the City Manager as well as one full-time, one part-time and two seasonal employees. The Boat Basin provides 450 numbered summer boat slips for power and sail boats. It also provides dry winter storage for approximately 170 boats. For the 2012 fiscal year, the Boat Basin had revenue of approximately \$670,000.

Objective

The objective of our audit was to examine the City's Boat Basin fund financial operations. Our audit addressed the following related question:

- Are financial operations over the Boat Basin fund properly designed and operating effectively to safeguard City assets?

Scope and Methodology

We examined financial operations over the Boat Basin fund for the period of January 1, 2012 through June 30, 2013. We expanded our scope period back to 2009 to evaluate the effect of administrative services cost allocation on the fund. In addition, we tested internal controls over the City's information technology (IT) system during our audit period. Our audit identified areas in need of improvement concerning IT controls. Because of the sensitivity of this information, the vulnerabilities we found are not discussed in this report but have been communicated confidentially to City officials so they could take 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 are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendation 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 findings and indicated they plan to initiate corrective action.

The City 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 City Council to make this plan available for public review in the City Clerk's office.

Boat Basin Fund

Enterprise fund operating revenues and expenses generally result from providing services, and producing and delivering goods, in connection with ongoing operations. If an enterprise fund is not self-sustaining, it must rely on the general fund to maintain financial stability. The City accounts for Boat Basin operations in an enterprise fund. This fund is charged for a portion of the City's administrative costs, through a cost allocation that assigns a portion of administrative expenditures to departments with which they are associated. Such allocations, when consistently applied from year-to-year, provide a useful tool to efficiently track the true costs of City operations. Accurate cost allocations can provide a better way to manage City resources, help in preparing annual budgets and provide the Council with an accurate picture of operating costs.

The City's Boat Basin operations are generally operating efficiently. However, the cost allocation of administrative services could be improved. In 2000 and 2001, the City contracted with an outside vendor to analyze and calculate cost allocations¹ for its enterprise funds including the Boat Basin fund. Although the cost allocation was updated in 2001, it has not been updated since that time. The City increased the administrative services costs charged to the Boat Basin each subsequent year until 2009, but City officials could not provide documentation showing their methodology for calculating these annual increases. From 2009 through 2013, the City has charged an annual flat fee of \$88,367 for administrative services provided to the Boat Basin.

We estimated the amounts the City undercharged the Boat Basin fund during fiscal years 2009 through 2013, using the last cost allocation methodology from 2001 and the City's actual costs for each of the five years. Based on the 2001 methodology, the Boat Basin has been undercharged approximately \$50,000 since 2009, as Table 1 illustrates.

¹ The vendor's 2001 analysis based allocations on costs from the following City Departments: City Council, City Manager, Finance, Records Management, City Clerk, Law, Personnel, MIS, Special Facilities, Solid Waste, Building Maintenance and Vehicle Maintenance.

Table 1: Five Year Cost Allocation Analysis			
Year	Amount Charged	Estimate based on 2001 Calculation	Estimated Undercharge / (Overcharge)
2009	\$88,367	\$90,374	\$2,007
2010	\$88,367	\$82,725	(\$5,642)
2011	\$88,367	\$121,349	\$32,982
2012	\$88,367	\$96,965	\$8,598
2013^a	\$88,367	\$100,518	\$12,151
Total	\$441,835	\$491,931	\$50,096

^a 2013 figures are based on budgeted amounts

Because the City charged the Boat Basin fund \$88,367 per year for administrative services without increasing the amount based on changing needs, the City has undercharged the operation about \$50,000 for the five-year period. The City has contracted with an outside vendor, subsequent to the start of the audit, to analyze the administrative costs for the enterprise funds so that costs could be more accurately charged to each fund.

Recommendation

1. The City Council should update and annually monitor the cost allocation for the Boat Basin fund.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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December 18, 2013

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and School Accountability
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To Whom It May Concern:

This letter shall serve as the official response from the City of Rye regarding the City of Rye ("the City") Boat Basin Fund Report of Examination for the period covering January 1, 2012 – June 30, 2013.

Your report recommends that the City Council should update and annually monitor the cost allocation for the Boat Basin Fund.

Subsequent to the start of your examination, the City had engaged an accounting firm to analyze the cost allocation methodology for its enterprise funds, including the Boat Basin Fund. The firm has provided the City with a draft of an updated cost allocation methodology. Please consider this our corrective action plan for your recommendation above.

Respectfully Submitted,

Douglas H. French
Mayor, City of Rye

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine whether the Boat Basin fund's financial operations were appropriately designed and operating effectively to safeguard City assets for the period January 1, 2012 through June 30, 2013. To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Boat Basin personnel to gain an understanding of Boat Basin operations.
- We performed a cost allocation analysis to determine if the allocation for the interfund services for the general fund was correct.
- We performed a budget status analysis to determine the surplus.
- We reviewed payments to determine if the payments were made according to the boats' size.
- We compared recorded cash receipts and disbursements with supporting documentation for randomly selected purchases.
- We compared amounts recorded in the accounting records to amounts deposited.

We conducted this performance audit in accordance with 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 C

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