



Concord Industrial Development Agency Agency Management

Report of Examination

Period Covered:

January 1, 2012 — March 4, 2015

2015M-61



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2015

Dear Agency Officials:

A top priority of the Office of the State Comptroller is to help local officials manage government resources efficiently and effectively and, by so doing, provide accountability for public dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments and certain other public entities 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 Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard governmental assets.

Following is a report of our audit of the Concord Industrial Development Agency, entitled Agency Management. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Article 3 of the New York State General Municipal Law.

This audit's results and recommendation are resources for agency 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

An industrial development agency (IDA) is an independent public benefit corporation whose purpose is to promote, develop, encourage and assist in acquiring, constructing, improving, maintaining, equipping and furnishing industrial, manufacturing, warehousing, commercial, research and recreation facilities. The overall goal of an IDA is to advance the job opportunities, health, general prosperity and economic welfare of the people of the State. The powers and duties of IDAs are set forth primarily in Article 18-A of the New York State General Municipal Law. Typically, projects that receive IDA benefits involve the acquisition, construction or major renovation of buildings or other structures and generate short- and long-term employment in construction and operations-related jobs.

The Concord Industrial Development Agency (CIDA) was created in 1980 to further the economic development of the Town of Concord (Town). CIDA is governed by the Board of Directors (Board) which is composed of five members who are appointed by the Town Board. The Board is responsible for the general management and control of CIDA's financial and operational affairs. The Chairman of the Board (Chairman), along with a clerk, manages CIDA's day-to-day affairs.

CIDA's budgeted expenditures for 2015 are \$9,700, and its primary source of revenue is from administrative fees on approved projects based on 1 percent of the total project costs as stated in each project's application for assistance, estimated at \$7,200 for 2015. Other estimated revenues include interest income totaling \$1,500 and application fees paid by projects that submit applications to CIDA totaling \$1,000. CIDA had eight active projects during our audit period, with no new projects initiated since 2012.

Objective

The objective of our audit was to review CIDA's operations. Our audit addressed the following related question:

- Did the Board properly manage CIDA's operations?

Scope and Methodology

We examined the CIDA Board's management of operations for the period January 1, 2012 through March 4, 2015.

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. 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.

**Comments of
Agency Officials and
Corrective Action**

The results of our audit and recommendation have been discussed with Agency officials and their comments, which appear in Appendix A, have been considered in preparing this report. Agency officials generally agreed with our recommendation and indicated they planned to take corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the 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 Board to make this plan available for public review.

Agency Management

The purpose of an IDA is to promote, develop, encourage and assist in acquiring, constructing, improving, maintaining, equipping and furnishing certain types of businesses. The overall goal of an IDA is to advance job opportunities, health, general prosperity and economic welfare of the people of the State. To fulfill its purpose, an IDA incurs necessary expenditures and must generate sufficient revenues. An IDA typically generates revenues by imposing administrative and other fees on the projects which it assists. The board is responsible for managing both the project and financial operations of an IDA and for evaluating its continued viability and achievement of its goals.

The Board has not taken sufficient action to initiate new projects and encourage the creation or expansion of new business, significantly affecting CIDA's viability. CIDA has undertaken no new projects since 2012. The Board has contracted with a consultant to, among other things, "create and maintain an outreach program whereby the Consultant can regularly solicit new, existing and potential businesses/companies to apply for the Agency's programs." This Consultant was paid \$1,800 each year for his services, for a total of \$5,400 during our audit period. However, the Consultant does not provide any regular written documentation or reports to support any work he performs, and we could not find any indication that CIDA or the Consultant were working to bring in new projects.

The lack of new projects has led to a significant decrease in revenues.¹ However, the Board has not actively pursued new sources of revenue or taken sufficient action to reduce expenditures. The Board continues to budget for application and administrative fee revenues of \$8,900, while interest revenue has been budgeted at \$1,500, when actual revenue has not exceeded \$85.² In addition, CIDA's expenditures, mainly for consulting services, continue to increase. These practices have led to operating deficits in 2013 and 2014, totaling \$10,097 and \$10,583, respectively, and a decrease in fund balance from \$50,476 as of December 31, 2012 to \$29,796 as of December 31, 2014. We anticipate a 2015 operating deficit of \$10,083, which would reduce fund balance to \$19,713. Should these operating deficits continue, CIDA will deplete its fund balance by December 31, 2017, which would threaten its ability to continue operations.

Because CIDA has been more or less dormant since 2012, it has not had a positive impact on the local economy and has continued to

¹ Project revenues totaling \$18,551 were received in 2012.

² Interest revenue was earned as follows: in 2012, \$53; in 2013, \$85; in 2014, \$78.

incur costs. If it is not the intent of the Board to initiate new projects, the Board should consider a cooperative agreement with another IDA that could monitor and report on existing projects and prevent the CIDA from incurring unnecessary costs. If the Board does intend to initiate additional projects, action must be taken to identify appropriate projects before CIDA runs out of money.

CIDA may also be able to obtain new revenue sources through grants provided to IDAs by both New York State and the federal government, as well as through contributions or subsidies provided by the Town and/or the Village of Springville. CIDA may also be able to better manage its finances. Consulting fees of \$4,800 for services relating to projects and lobbying have not been effective in bringing in new businesses. In addition, Board members receive stipends that total approximately \$540 each year for home Internet service which may not be necessary given the lack of activity. Lastly, an accounting firm is paid \$4,000 to complete the required annual report and the annual audit. However, the Board has not requested proposals for this professional service in eight years. If the Board sought competition, it may be able to reduce this cost.

The Chairman stated that the Board will begin looking into ways to reduce expenditures. He stated project revenue is budgeted for each year with the expectation that projects will be initiated and that the Board needs to take more action to advertise for new projects. We agree with this conclusion; the Board should take steps to bring in new business to the community. In addition, the budget line item for interest income has been overlooked in the past and, therefore, has not been updated.

CIDA's revenues have significantly decreased while expenditures continue to increase. Unless new projects are undertaken, CIDA will continue to incur expenditures while providing no additional benefit to the community. Because Erie County, where CIDA is located, has several IDAs, the Board has options to consider including dissolving and merging into Erie County IDA or partnering with a local IDA. Such actions would likely require special State legislation.

Recommendation

1. The Board should reevaluate CIDA's overall goals and operations and consider dissolving and merging into Erie County IDA or partnering with a local IDA. If the Board determines that CIDA operations should continue the Board will need to:
 - Actively pursue new projects and encourage the creation or expansion of new businesses.

- Identify new sources of revenue and reduce unnecessary expenditures.
- Closely review its annual budget.

APPENDIX A

RESPONSE FROM AGENCY OFFICIALS

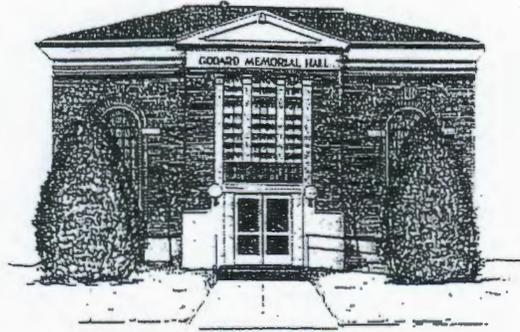
The Agency officials' response to this audit can be found on the following pages.

Gary A. Eppolito
Chairman

Deborah A. King
Vice – Chairman

Timothy Horner
Treasurer

Raymond R. Hubert
Secretary



Nathan Neill, Esq.
CIDA Attorney

Kiril Popovski
Board Member

Paul R. Leone
CIDA Consultant

Concord Industrial Development Agency

July 22, 2015

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th floor
Albany, New York 12236

Dear Sir:

In response to the recent audit by your office, the Concord Industrial Development Agency agrees with the majority of the findings.

The Concord IDA is a small agency with no full time employees with only a part time secretary, a consultant, and an attorney receiving any remuneration. Despite minimal expenses, the fact that no projects have been undertaken in the past year or two means we are facing some financial challenges. The auditor has made several valid suggestions.

It should be pointed out the Concord IDA does receive several inquiries each year. The IDA Board has been selective in choosing whom to incentivize. However, approximately a dozen businesses in the Town of Concord have benefitted from IDA incentives over the past decade and are thriving today.

It should also be pointed out that there has been a dearth of construction activity, both commercial and industrial, throughout the township the past eighteen months at least partially due to indecision by Erie and Cattaraugus Counties and the New York State Department of Transportation over an integral bridge. The three governments as of June 2015 have arrived at a compromise which will lead to a new structure in 2017. The construction of this once threatened transportation link will undoubtedly allay the fears of the area's business community and will invariably result in more investment in the Town of Concord.

Town Hall * 86 Franklin Street * P.O. Box 368* Springville, New York 14141* (716) 592-3321

The Concord IDA intends to implement the suggestions made in the audit as soon as possible. It is the position of our agency that with these changes and an improved business climate, we will continue to be a viable organization and an extremely important asset.

Sincerely,

Gary A. Eppolito
Concord IDA Chairman

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review the CIDA Board's procedures for management of operations. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed CIDA officials and reviewed policies to gain an understanding of the procedures to manage operations.
- We reviewed Board minutes to determine that budgets were properly adopted.
- We compared budgeted revenues and expenditures to the actual results of operations, analyzed expenditure activity and projected fund balance in future years.

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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