

City of Salamanca

City Comptroller's Financial Reports

2023M-97 | November 2023

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Report Highlights

City of Salamanca

Audit Objective

Determine whether the City of Salamanca (City) Comptroller (Comptroller) completed timely and accurate annual and monthly financial reports.

Key Findings

The former Comptroller used improper accounting practices and did not complete timely and accurate annual and monthly financial reports. As a result, the City Common Council (Council) did not have accurate and up-to-date financial information when making significant financial decisions. We noted:

- Fiscal year-ending 2021 general fund cash was overstated by approximately \$330,000.
- Annual financial reports for 2018 through 2021 were not filed until after the resignation of the former Comptroller. The longest overdue report was more than four years past its due date.
- Monthly financial reports included erroneous reporting of revenue and expenditures.

The Mayor and Council did not ensure annual reports were accurate and submitted timely. Monthly financial reports were inaccurate because the former Comptroller was using improper accounting practices that the Council did not detect.

Key Recommendations

- File the delinquent 2022 annual financial report and review the filed 2018 through 2021 reports for accuracy.
- Discontinue the improper accounting practices put in place by the former Comptroller and accurately record revenues and expenditures.

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

Background

The City, located in Cattaraugus County, is governed by its Charter, State statutes and local laws and ordinances. The five-member elected Council is the City's legislative branch and is responsible for the general oversight of City operations and finances.

The Mayor is the City's chief executive officer and is responsible, along with other officials and staff, for managing day-to-day operations.

The Comptroller is the City's chief financial officer (CFO) and is responsible for supervising fiscal affairs as well as the custody, recording, reporting and disbursement of City funds. The former Comptroller resigned from City service on August 12, 2022.

Quick Facts

2023-24 General Fund Appropriations \$12.3 million

Required Annual Financial Reports Filed

Year	Days Late
2017	747
2018	1,536
2019	1,206
2020	861
2021	517

Audit Period

April 1, 2022 – June 16, 2023.

We extended our audit period back to April 1, 2017, to analyze annual financial report submission dates.

City Comptroller's Financial Reports

Why Are Timely and Accurate Annual and Monthly Financial Reports Needed?

It is essential that the Council receives timely and accurate financial reports from the City's CFO to fulfill its responsibility of monitoring and managing financial operations. According to New York State General Municipal Law (GML) Article 3 Section 30, all cities must file an annual financial report with the New York State Office of the State Comptroller (OSC) no later than 120 days after the close of their fiscal year. GML Article 3 Section 30 also states that it is the responsibility of the municipal corporation's chief fiscal officer to file these reports. In addition, the City's Charter requires the Comptroller, prior to the first regularly scheduled Council meeting each month, to file for the Council's use, a financial report with the City Clerk (Clerk) that details year-to-date expenditures and receipts.

Annual financial reports and monthly financial reports are important fiscal tools that provide elected officials with the financial information necessary to monitor and govern operations. In addition, other users, such as OSC, use annually reported financial data to publish financial monitoring reports that the public relies on to determine the fiscal health of their local government. Therefore, it is critical that annual and monthly reports are accurate and completed when required.

Financial Reports Were Not Filed Timely and Were Not Accurate

We reviewed the filing status for the six required annual financial reports within our audit period and determined that the former Comptroller did not file the reports from 2017 through 2022 when required. Furthermore, only one of the six reports, 2017, had been filed by the former Comptroller prior to the start of our audit. In addition, the former Comptroller filed inaccurate and unreliable financial reports with the Clerk's office. The reports were also not presented in a useful format. As a result, the Council did not have accurate and up-to-date financial information when making significant financial decisions.

Annual Reports – The City's fiscal year begins on April 1st and ends on March 31st each year. July 29th is 120 days after the close of the fiscal year and is the filing deadline for the City's annual financial report. As detailed in Figure 1, the City's annual financial reports were filed late for fiscal years 2017 through 2021. This included one report (2018) that was over four years past due. As of June 16, 2023, the report for fiscal year ending 2022 had not been filed and was already 322 days past due.

Figure 1: Annual Financial Report Filings

Fiscal Year	Due Date	Date Filed	Days Late
2017	7/29/2017	8/15/2019	747
2018	7/29/2018	10/12/2022	1,536
2019	7/29/2019	11/16/2022	1,206
2020	7/29/2020	12/7/2022	861
2021	7/29/2021	12/28/2022	517

According to the former Comptroller, she was unable to complete and file the annual financial reports because she did not have time to do them and was overwhelmed with her other fiscal responsibilities. We question this explanation because according to the current Mayor, who was a Council member at the time, the Council approved additional staff in the Comptroller's office to relieve workload concerns. The Comptroller's office increased the number of full-time employees in 2017 from two to three. In addition, the City annually contracted with a financial consultant to assist the former Comptroller with completing her year-end fiscal responsibilities at an annual cost of approximately \$3,000. Despite assistance from the financial consultant, the City's financial records contained numerous errors and remained out of date. As such, the former Comptroller would not have been able to provide accurate financial reports to the Council or file accurate reports with OSC as required.

Neither the Mayor nor other Council members we spoke with knew, until our audit, what the filing deadlines for the City's annual financial reports were, or that the former Comptroller had not filed these reports in several years. After being informed of the City's delinquent status and receiving the resignation of the former Comptroller, City officials engaged the services of a different consultant to complete and file the delinquent reports at a total cost of \$3,600. Although this consultant was able to file the 2018 through 2021 reports with OSC, because City officials did not review these reports for accuracy or approve them prior to the consultant submitting them, we question the accuracy of these reports. For example, we reviewed general fund cash reported for fiscal year ending 2021 and determined it to be overstated by approximately \$330,000, making the report inaccurate and unreliable. Cash was overstated because the former Comptroller did not complete fiscal year-end adjusting entries given to her by the City's external auditors, and the consultant hired to file the delinquent reports did not properly account for outstanding checks. These errors may have been detected and corrected had these reports been reviewed by the current Comptroller prior to them being filed with OSC.

Monthly Reports – We reviewed the former Comptroller's monthly financial reports¹ to determine whether they were accurate and submitted to the Clerk prior to the first monthly meeting of the Council as required. We determined that although monthly reports were submitted as required, all the reports reviewed were submitted the same day as the scheduled meetings (some printed less than two hours before the start of the meeting), giving little time for Council members to review. Reports also included erroneous recordings for revenues and expenditures. For example, the former Comptroller did not properly record and report employee health benefits which resulted in underreporting these expenditures by approximately \$11,000 each month. Similarly, the February 2022 report did not correctly report the purchase of an ambulance. The former

Despite assistance from the financial consultant, the City's financial records contained numerous errors and remained out of date.

¹ See Appendix B for sampling methodology.

Comptroller's report included the purchase of an ambulance at an approximate cost of \$31,000. The actual cost of the ambulance was approximately \$173,000. She incorrectly charged the remaining \$142,000 directly to a reserve fund account rather than appropriating reserve funds and increasing the budgeted expense line-item for the equipment purchase. This improper accounting treatment resulted in equipment expenditures being even further underreported, which did not give the Council an accurate representation of the City's expenditures.

Neither the Mayor nor other Council members we spoke with knew that the monthly reports were inaccurate. They told us that receiving the reports just prior to Council meetings did not give them adequate time to review the reports, which were difficult to understand due to their format and content. The Council is in the process of reviewing and updating the City's Charter, including report submission deadlines to the Council.

Unfiled reports went undetected because the Mayor and Council did not familiarize themselves with required reporting deadlines, nor did they have a process in place to verify that the former Comptroller met filing deadlines. In addition, because they only read certain sections of the City Charter when needed, and had not read and were not familiar with all of the Charter's provisions, the Mayor and Council were unaware that they could prescribe the format and content of the Comptroller's monthly financial reports, which may have made it easier for them to detect errors.

Improper accounting practices resulted in revenues and expenditures being underreported and cash being overreported making it difficult for Council members to have a clear understanding of the City's finances when making significant financial decisions such as adopting the City's annual budget. Additionally, because the City was so delinquent in its required annual report filings, City residents and taxpayers for several years were not afforded the opportunity of their City being included in OSC's annual Fiscal Stress Monitoring System which was designed to allow residents and taxpayers to be more proactive in the management of their City and to be aware of potential fiscal problems as they arise.

What Do We Recommend?

The Comptroller should:

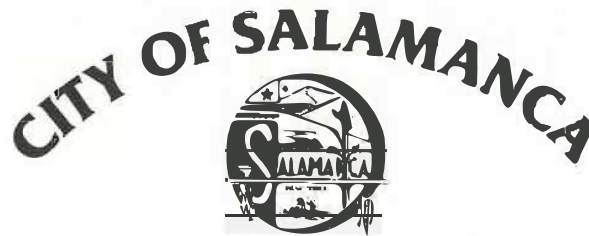
1. File the delinquent 2022 annual financial report and ensure all future reports are filed by the filing deadline.
2. Work with the Mayor and Council and review the contents of the 2018 through 2021 annual financial reports to determine their accuracy and refile any reports found to be inaccurate.

-
3. Discontinue the improper accounting practices put in place by the former Comptroller and accurately record revenues and expenditures.

The Mayor and Council should:

4. Familiarize themselves with required annual financial report filing deadlines and adopt a procedure to ensure reports are filed timely.
5. Prescribe the format and the content of the monthly reports to be completed by the Comptroller and submitted to the Council for its review.

Appendix A: Response From City Officials



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October 10, 2023

Melissa A. Myers
Chief of Municipal Audits
295 Main Street
Suite 1032
Buffaio, NY 14203-2510

RE: Examination 2023M-97

To: Melissa A. Myers

The City of Salamanca respectfully submits its response to the performance audit conducted by the state auditor's office for the audit period of April 1, 2022 – June 16, 2023. We are in agreement with the findings of examination report 2023M-97 (City Comptroller's Financial Reports) and will provide a response to how the City of Salamanca plans to correct these findings in our corrective action plan, which will follow after the final report is issued.

The City Mayor and City Comptroller would like to thank the team(staff) from the New York State Comptroller's office that was assigned to our city with regard to their courtesy and professionalism exhibited during our audit.

Sincerely,

Sandra Magiera

City Mayor

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed City officials and employees and reviewed Council meeting minutes and the City Charter to gain an understanding of the City's annual and monthly financial report completion and submission process. We also interviewed City officials to determine who was involved with the process for completing and filing these reports.
- We reviewed the City's annual financial report submission dates for fiscal years ending 2017 through 2021. Using these dates, we calculated the number of days between the statutory due date for the reports and the date they were when submitted. We also calculated the number of days that the report for fiscal year ending 2022 was past due as of June 16, 2023.
- We interviewed City officials and reviewed payroll records associated with the Comptroller's office from 2013 through 2022 to determine the number of employees in the Comptroller's office.
- We reviewed claim packets and canceled check images from July 2018 through September 2021 to determine the average yearly costs associated with the financial consultant who assisted the former Comptroller with completing her year-end fiscal responsibilities.
- We reviewed claim packets and canceled check images from November 2022 through March 2023 to determine the total cost the City paid for a consultant to file the delinquent 2018 through 2021 annual financial reports.
- We performed bank reconciliations on all City bank accounts as of March 31, 2021 to determine the total reconciled cash balance held by the City. We compared this reconciled cash balance to the cash reported by the consultant on the 2021 annual financial report.
- Using our professional judgment based on the risk of fraud, we reviewed the former Comptroller's monthly financial reports from January 2022 through July 2022 to determine that dates they were submitted to the Clerk. We reviewed the January 2022 through March 2022 monthly financial reports for accuracy by reviewing all general fund reported expenditures against canceled check images and bank statement transfer activity.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Council has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Council to make the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

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

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

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

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

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

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

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

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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

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