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March 2025

Austin J. Tylec, Mayor
Members of the Common Council
216 Payne Ave.
North Tonawanda, NY 14120

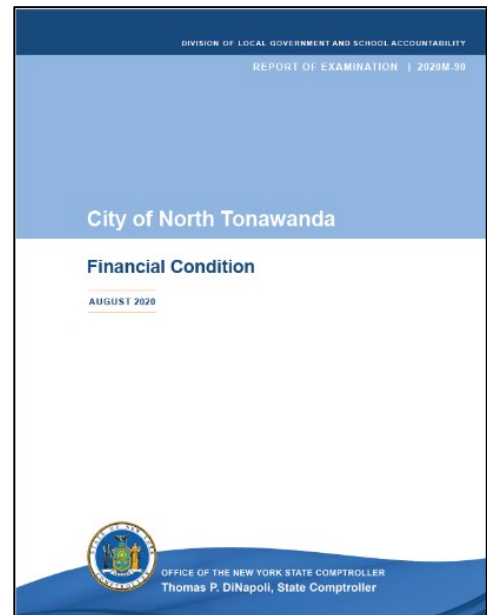
Report Number: 2020M-90-F

Dear Mayor Tylec and Members of the Common Council:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. The Office also works to develop and promote short-term and long-term strategies to enable and encourage city officials to reduce costs, improve service delivery and to account for and protect their city's assets. In accordance with these objectives, we conducted an audit of the City of North Tonawanda (City) to assess the City's financial condition. As a result of our audit, we issued a report, dated August 2020,¹ identifying certain conditions and opportunities for the Mayor and Common Council's (Council) review and consideration.

To further our policy of providing assistance to local governments, we revisited the City in August 2024, to review progress in implementing our recommendations. Our follow-up review was limited to interviews with City personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, the City has not implemented sufficient corrective action. Of the 10 audit recommendations, six were not implemented, three were partially implemented, and one was not applicable.

The current Mayor's term began on January 1, 2022.



¹ <https://www.osc.ny.gov/local-government/audits/city/2020/08/07/city-north-tonawanda-financial-condition-2020m-90>

Recommendation 1 – Adopt Structurally Balanced Budgets

The Mayor and Council should adopt structurally balanced budgets that include realistic estimates and fund recurring expenditures with recurring revenues.

Status of Corrective Action: Not Implemented

Observations/Findings: As of November 5, 2024, the City’s 2023 and 2024 financial data and accounting records were incomplete and, as a result, the City’s independent external auditors could not prepare the related audited financial statements. Due to the significant year-end adjustments recommended by the external auditor in 2021 and 2022 and large current unresolved bank reconciliation items stemming back as far, we did not attempt to determine 2023 or 2024 operating results. While we were unable to compare budgeted amounts to actual results of operations for 2023 or 2024, we reviewed the 2023 and 2024 budgets to determine whether budgeting issues identified in 2021 and 2022 continued, and determined they did continue.

While the City’s financial condition improved since our last audit (see Recommendation #4), we determined that City officials could have developed and adopted more realistic budgets, which is crucial for the City’s financial health.

General Fund

City officials adopted budgets that should have resulted in operating surpluses of \$119,000, \$104,000, \$323,000 and \$835,000 in 2021, 2022, 2023 and 2024, respectively. However, we reviewed the City’s budgets and results of operations for 2021 and 2022 and identified unrealistic revenue and expenditure estimates.

For 2021, officials budgeted for an operating surplus of \$119,000 but reported a \$1 million operating deficit. The operating deficit was the result of underestimated expenditures including nearly \$500,000 for police personnel expenditures and \$928,000 for unbudgeted transfers to the water and sewer funds. The City Accountant (Accountant) explained that the transfers were largely for 2020 unpaid water and sewer rents that were re-levied and collected with 2021 tax bills² and that this activity was accounted for similarly in 2022 through 2024. However, this type of activity between the general fund and the water and sewer funds should have been recorded as interfund liabilities and receivables, not as permanent funding transfers, because the subsequent collection of the unpaid water and sewer rents as part of the tax levy does not generate additional revenue and should not affect operating results. The Accountant agreed that this activity was not accounted for properly. He was not aware of the proper accounting treatment but told us that he would record this activity correctly going forward.

In 2022, while it appeared the general fund had an operating surplus of \$1,435,000, this was largely attributable to the City’s recognition of \$1,244,000 of American Rescue Plan Act (ARPA) funding for general government purposes, a one-time revenue that the City will not be able to rely on in the future. Excluding this one-time revenue, the resulting operating surplus would be \$191,000.

² The transfers included money collected for previously unpaid water rents (\$337,000) and sewer rents (\$470,000) and \$121,000 in ARPA funds to the sewer fund.

Although actual total revenues were more than budgeted amounts in 2021 and 2022, some revenue items were significantly overestimated. For example, officials budgeted fine and forfeiture revenue of \$870,000 in 2021 and 2022 even though the actual recorded revenues were \$475,000 and \$775,000, resulting in shortfalls of \$395,000 and \$115,000, respectively, in these two years. The actual recorded fine and forfeiture revenue averaged \$411,000 for 2018 and 2019 and was \$168,000 in 2020. According to the Accountant, although City officials planned to increase this revenue by enforcing traffic regulations more strictly, less tickets were issued during the COVID-19 pandemic, and for tickets issued, less fees were collected because court operations were limited due to the pandemic.

Similarly, officials budgeted revenues of \$1,181,000 and \$1,035,000 from “*Sales of Property and Compensation for Loss*”³ in 2021 and 2022, respectively. The actual recorded revenue was \$768,000 and \$373,000, resulting in shortfalls of \$413,000 and \$662,000 for these budget lines in these years. According to the Mayor and the Accountant, these shortfalls were due to delays with court foreclosure proceedings in 2021 and 2022. While this may have been an unexpected shortfall in 2021, officials should have adjusted the budgeted amount accordingly for 2022.

We compared the 2023 and 2024 adopted budgets to the 2021 and 2022 adopted budgets and actual results and determined that while officials continued to overestimate certain revenues and underestimate certain expenditures, they adjusted certain others to be more realistic. Specifically, officials increased budgeted expenditures for police personnel in 2023 and 2024 to better reflect actual historical trends. For revenue, officials reduced the budget for fines and forfeitures to more closely align with actual revenue from the previous year. However, they maintained the amount budgeted for “*Sales of Property and Compensation for Loss*” in 2023 and although they reduced the amount budgeted in 2024, both years’ budgeted amounts were high compared to actual revenue amounts in the previous two years. City officials’ practice of overestimating revenues and underestimating expenditures will exacerbate cash flow issues and erode the City’s overall financial condition.

Sewer Fund⁴

City officials adopted budgets that should have resulted in operating surpluses of \$362,000, \$152,000, \$171,000 and \$347,000 in 2021, 2022, 2023 and 2024, respectively. However, we compared the City’s budgets to results of operations for 2021 and 2022 and identified unrealistic revenue and expenditure estimates.

In 2021 and 2022, officials overestimated total revenues by approximately 4 percent and 6 percent, respectively. Specifically, officials budgeted total revenues of \$4,817,000 and \$4,822,000 and reported actual revenue⁵ of \$4,644,000 and \$4,528,000, respectively, resulting in revenue shortfalls of \$173,000 and \$294,000 for 2021 and 2022. However, without one-time ARPA funding of \$121,000 in 2021 and \$92,000 in 2022 that cannot be relied on in the future, revenue

3 Includes proceeds from the sales of real property, insurance recoveries and other miscellaneous sales

4 We did not comment on water fund operations in our previous audit report because there were no financial performance issues.

5 Actual revenue for the sewer fund includes transfers in from the general fund for previously unpaid sewer rents, which were not initially recorded as a revenue. We advised the Accountant that this is not the proper way to account for this activity.

shortfalls would have been \$294,000 and \$386,000 in 2021 and 2022, respectively. Despite these shortfalls, officials budgeted for total revenues of \$5.15 million and \$5.11 million for 2023 and 2024.

Officials also included unreasonable and unrealistic expenditure estimates in the budgets. For example, sewer treatment appropriations totaled \$450,000 for 2021 and 2022 while actual expenditures were \$521,000 and \$645,000, respectively, resulting in variances of \$71,000 and \$195,000 in those two years. Officials budgeted \$600,000 and \$575,000 for 2023 and 2024, respectively, which is less than actual expenditures of \$645,000 reported for 2022.

While officials reported an operating surplus of \$280,941 in the sewer fund for 2021, it was mainly due to one-time ARPA funding of \$121,000, higher sewer rent revenues and lower than estimated self-insurance expenditures. Sewer rent revenues were \$3.56 million in 2020 and \$3.88 million in 2021, due to an increase in sewer rates approved on December 22, 2020, and because there was higher than average water usage during the COVID-19 pandemic as people stayed home more. In addition, medical expenditures were \$193,000 lower than budgeted because most elective surgeries and procedures were postponed during this time due to COVID-19 restrictions, resulting in less medical claims.

For 2022, officials reported an operating deficit of \$182,000 and total fund balance of \$147,000 at the end of 2022, including one-time ARPA funding of \$92,000. The sewer fund had no available fund balance for cash flow and to balance the budget, because the City has legally restricted reserves for various purposes which had balances of \$636,000 and \$637,000 at the end of 2021 and 2022, resulting in negative unassigned fund balance of \$307,000 and \$490,000, respectively.

The City's 2023 Annual Financial Report (AFR), which was filed in November 2024, indicated that the sewer fund had an operating deficit of (\$260,422), a net liability to other funds of \$1.32 million and available cash of \$23,811, after excluding cash set aside for various reserves. The sewer fund did not have sufficient cash to pay off its interfund loans.

We encourage officials to strive for more realistic and reasonable budget estimates with an amount of planned operating surplus to build back reasonable positive fund balances in the general and sewer funds.

Recommendation 2 – Adopt a Fund Balance Policy

The Mayor and Council should adopt a written policy that addresses the reasonable amounts of fund balance that the City should maintain for unanticipated expenditures, revenue shortfalls and cash flow purposes.

Status of Corrective Action: Not applicable

Observations/Findings: The Mayor and Council did not have to adopt a written fund balance policy because the Council approved a fund balance policy in 2017. Officials did not provide the policy to us during our previous audit.

Although the policy specifies that 12 to 15 percent of the City's annual expenditures should be available as unassigned fund balance, Officials have projected that unassigned fund balance will

be over 6 percent of annual expenditures for 2024 through 2027, which is 6 to 9 percentage points lower than the policy requirements.

Recommendation 3 – Develop a Comprehensive Multiyear Financial and Capital Plan

The Mayor and Council should develop a comprehensive written multiyear financial and capital plan that includes realistic measures for rebuilding fund balance and restoring the City’s long-term fiscal health and provides sufficient resources for capital improvements.

Status of Corrective Action: Partially Implemented

Observations/Findings:

Multiyear Financial Plan

While officials developed a multiyear financial plan, the plan was not updated timely. In addition, while the plan indicates general fund operations are expected to result in positive and increasing fund balance, the plan does not include sufficient measures for rebuilding fund balance in the sewer fund.

The Accountant provided us with an undated multiyear plan and told us that he had not updated the plan recently. The plan listed the general, water and sewer funds’ actual revenue and expenditure data from 2019 through 2022, estimated data for 2023 and “projected” data for 2024 through 2027. The general fund data included in the plan for 2023 and 2024 reflected adopted budget amounts for these two years, rather than up-to-date results of operations, meaning that the plan had not been updated with actual results of operations for at least a year and a half. At the time of our review, the 2023 fiscal year was complete, and more than half of the 2024 fiscal year had passed.

In addition, despite intended water/sewer rent increases, the estimated revenues are still less than estimated expenditures. As a result, the plan included projected operating deficits ranging from \$370,000 to \$31,000 for the water fund and \$445,000 to \$166,000 for the sewer fund from 2024 through 2027.

For the multiyear financial plan to be useful, the Mayor and Council must ensure the plan is monitored and updated regularly throughout the year as part of their budget monitoring process. Maintaining an up-to-date financial plan increases transparency and helps officials to make informed financial and policy decisions.

Capital Plan

Officials provided us with a capital plan on August 1, 2024. The plan listed various existing and future proposed capital improvement projects, and included the department each project was associated with, the project name, grant sources and amounts, the City’s share of project costs, total project costs and project status.

The Accountant told us that he discussed the multiyear financial plan and the capital plan with department heads and Council members. He stated that he also presented these plans to the Council periodically in Council workshops, about three times a year, and most recently in April 2024. The Council President told us that the Council reviewed the plan, held question-and-answer sessions with stakeholders, and once the Council agreed on a plan for a specific project, it would approve funding accordingly.

Refer to Recommendation #9 that follows for more detailed capital plan information.

Recommendation 4 – Monitor the City’s Finances

The Mayor and Council should closely monitor the City’s finances, including available fund balance and cash balances, to prevent further decline in the City’s financial condition.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Accountant provided the Mayor and Council with monthly budget status reports and the Treasurer provided monthly reports detailing cash balances, cash collections and disbursements. The Mayor and Council relied on these reports to monitor the City’s finances but the reports were not always timely or accurate.

The Accountant generated and provided revenue and expenditure budget-to-actual reports to the Mayor and the Council. According to the Council President, the Accountant presents budget-to-actual revenue and expenditure reports to the Council for review, and the Council reviews and discusses plans to address any gaps or deviations.

The Accountant manually inputs cash receipts data received from the City Treasurer’s (Treasurer) office into the accounting system because the cash receipts system in the Treasurer’s office is not connected to the City’s general ledger accounting system. As of August 14, 2024, monthly reports for June and July 2024 had not been provided to the Council since cash receipts for these two months had not been entered into the system.

We reviewed the monthly reports the Accountant provided for March, April and May 2024. They were provided to the Council on April 18, May 16, and June 14, 2024, respectively. We determined that the reports included some inaccurate budget figures and did not clearly reflect monthly activity for the month being reported.

For example, although \$83,766 was budgeted for “*Garbage and Refuse – Rental Equipment*” in 2024, the monthly reports for the three months we reviewed indicated \$167,532 was budgeted. The Accountant told us that this was due to the 2023 amount inadvertently being entered in 2024 while they were learning how to use the new accounting system. In addition, for the same expenditure line in 2022, although \$80,000 was budgeted, the accounting system and the reports generated for 2022 reflected that zero was budgeted and \$80,000 was spent in the year. The Accountant stated that he needed to manually input the budgeted amounts into the accounting system and that the omission was an error.

In addition, the report included the same information in the current month column as it did in the year-to-date column, making it difficult to identify monthly activity unless the reviewer compared the current report to the previous period report and calculated the differences for each line.

The Treasurer also provided monthly reports to the Council in accordance with the City Charter. The reports listed the beginning cash balance, collections for the month, total amount of claims paid for each fund and ending cash balance. The reports for March through July 2024 were dated April 6, May 13, June 11, July 9, and August 7, 2024, respectively. We reviewed the data reported for March and April 2024 and verified that it agreed with the accounting records for those periods, but we could not verify the accuracy of the remaining reports because, as previously noted, the accounting records were not up to date.

The Council President also stated that the Council oversees the City’s finances by reviewing claims, asking questions and approving payments for those claims. We verified that the approval of claims was documented in the Council meeting minutes.

Despite the reporting deficiencies identified, we note that City officials did not issue a Tax Anticipation Note (TAN) for cash flow purposes in 2024 as they had in the previous three years (Figure 1). While this implies financial improvement in the general fund, officials still used reserve fund cash for operating purposes at the end of March and beginning of April 2024 due to cash flow shortages prior to real property tax collections.

Figure 1: Tax Anticipation Notes (TAN) Issued (In Millions)				
Year	2021	2022	2023	2024
Amount Issued	\$4.200	\$2.300	\$1.585	\$ 0

Please also see Recommendations #3 and #6 related to the City’s multiyear financial plan, capital plan, and cash flow projections shared with the Council.

Recommendation 5 – Monitor the Work of Employees Who Perform Financial Duties

The Mayor and Council should properly monitor the work of employees who perform financial duties and ensure that accounting records are maintained completely, accurately and in a timely manner.

Status of Corrective Action: Not Implemented

Observations/Findings:

The Mayor stated that he and the Council monitored the work of employees who perform financial duties by reviewing monthly financial reports. While the Council President also told us the Council reviews monthly budget-to-actual revenue and expenditure reports, we question the effectiveness of their monitoring since the monthly financial reports generated by the Accountant were not accurate and were not always provided in a timely manner. See Recommendations #1 and #4 previously addressed.

In addition, the external auditor's 2022 management letter stated that the City lacked formal policies and procedures for journal entries and bank reconciliations. This lack of standard policies and procedures could lead to an inappropriate treatment of accounting policies, poor execution of internal controls and does not support a succession plan for daily responsibilities of these critical accounting cycles.

While City officials responded to the external auditor's 2022 management letter that they would work to develop formalized policies and procedures during the 2023 fiscal year, no such policies and procedures have been developed and formalized. When we inquired about a policy and procedures, the Accountant told us that he had a rough draft but that it had not been reviewed or approved by the Council. We requested the draft to support the Accountant's statement but he did not provide a copy of the rough draft he said was developed. Establishing such policies and procedures to communicate expectations and guidance to individuals performing financial duties is an important step to help ensure accounting records are complete, accurate and timely.

Recommendation 6 – Prepare and Update Cash Flow Projections

The Treasurer and Accountant should prepare and update cash flow projections on a routine basis and present them to the Council for consideration.

Status of Corrective Action: Not Implemented

Observations/Findings:

The Treasurer and Accountant did not prepare and provide the Council with updated cash flow projections on a routine basis. In addition, the Accountant told us he was not sure the projections that were prepared were accurate. We could not determine the accuracy of these cash flow projections because there were significant outstanding unreconciled items in the 2023 monthly bank reconciliations and no bank reconciliations were performed for 2024. By not reconciling cash balances per the accounting records to the cash balance in the bank, officials cannot verify either record is accurate or how much cash is available to fund operations. We also noted the cash flow projection indicated a general fund cash balance of \$402,228 at the end of March 2024, while the general fund bank accounts showed a general fund cash balance of \$1,137,646. Inaccurate and unreliable cash flow projections do not help the Council effectively manage the Town's financial operations.

Recommendation 7 – Provide Financial Information

The Treasurer and Accountant should ensure the Mayor, Council and department heads receive the financial information needed to carry out their responsibilities.

Status of Corrective Action: Not Implemented

Observations/Findings:

The Treasurer and Accountant did not ensure the Mayor, Council and department heads received the financial information needed to carry out their responsibilities. The financial information

provided to the Mayor and the Council was not always timely, clear or accurate. This is addressed in more detail previously in Recommendation #4.

In addition, although the Accountant provided monthly budget-to-actual expenditure reports to department heads, the reports include the same information for current month and year-to-date, making it difficult to identify monthly activity unless the reviewer compared the current report to the previous period report and calculated the differences for each line.

Inaccurate, unclear and untimely financial information does not help officials carry out their responsibilities.

Recommendation 8 – Use Reserve Fund Balances and Bond Proceeds Properly

The Treasurer and Accountant should use reserve fund cash balances and bond proceeds only for their intended purposes and in accordance with applicable statutes.

Status of Corrective Action: Partially Implemented

Observations/Findings:

While the proceeds from a serial bond and Bond Anticipation Notes (BANs) we examined were used for their intended purposes, reserve funds were not used for their intended purposes or in accordance with statutes.

The Accountant's general fund projected cash balance of \$402,228 and the bank balance of \$1,137,646 as of March 31, 2024 were much less than the recorded general fund reserve balance of \$3.1 million as of March 31, 2024 because officials inappropriately used approximately \$2 million of general fund reserve cash to pay for operating expenditures. Similarly, the sewer fund bank balance of \$122,041 was less than the recorded sewer fund reserve balance of \$670,179 as of March 31, 2024, because officials also inappropriately used approximately \$548,000 of sewer fund reserve cash to pay for operating expenditures.

The Mayor and Accountant confirmed that they used reserve fund cash to pay for operations. They explained that they decided not to issue a TAN to save on the costs associated with issuing debt and instead relied on their reserve funds for cash flow purposes.

City officials issued BANs for capital projects, then issued serial bonds once the capital projects were finalized and the total cost and grant funding for the projects were known. The proceeds from the BANs and serial bonds were recorded in the capital projects fund and used for related capital projects.

Recommendation 9 – Maintain Adequate, Separate Accounting Records for Each Capital Project’s Financial Activity

The Treasurer and Accountant should determine the status of each capital project and maintain adequate, separate accounting records to account for each project’s financial activity.

Status of Corrective Action: Not Implemented

Observations/Findings:

While the Accountant worked with department heads to determine the status of each capital project and created separate accounting records for each capital project, the Accountant did not properly account for each project’s financial activity. For example, BAN and bond proceeds, and interest earned were recorded as lump sum amounts in the capital projects fund rather than allocating and recording the appropriate amounts to each capital project’s accounting records. The Treasurer told us they are not involved with capital projects record keeping because they do not have access to the accounting system.

By not accounting for each project’s funding sources in the appropriate accounts, officials cannot identify financial resources available for each project and how much of the project’s funding remains once the project is complete. When each capital project is completed, the Board should pass a resolution stating the amount of the unexpended balance in that capital project fund and the disposition of those funds. The disposition of the remaining funds is determined by the source of the project’s funding.

Recommendation 10 – Consider Implementing an Integrated Accounting System

The Treasurer and Accountant should consider implementing an integrated accounting system that automatically posts subsidiary financial activity to the general ledger.

Status of Corrective Action: Not Implemented

Observations/Findings:

Even though the City transitioned to a new accounting system in 2023, officials did not purchase the module that would automatically post subsidiary financial activity, such as cash receipts, to the general ledger.

Rather, the accounting office and Treasurer’s office continued to use different accounting systems. The current process for recording cash receipts includes the Deputy Treasurer manually entering cash receipts data into a spreadsheet and then submitting the spreadsheet to the accounting office monthly. The Accountant then manually inputs the cash receipts data from the spreadsheet into the accounting system. As we previously stated in Recommendation #4, the Accountant had not input cash receipts into the accounting system for June and July 2024 as of August 2024.

When we asked the Accountant and Treasurer if they considered implementing an integrated accounting system, they said the Clerk’s office has been using its cash receipts system for many years and implementing change takes time. The Accountant stated that he has been working on

streamlining the systems, but that the City will need to incur more expenditures to purchase additional accounting system modules for cash receipts.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage City officials to take these issues seriously and make efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Melissa A. Myers, Chief of Municipal Audits of our Buffalo Regional Office, at (716) 847-3647.

Sincerely,

Robin L. Lois, CPA
Deputy Comptroller