



City of Glen Cove

Financial Condition, Claims Processing and Payroll

Report of Examination

Period Covered:

January 1, 2013 – December 31, 2016

2017M-210



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2018

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 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 Glen Cove, entitled Financial Condition, Claims Processing and Payroll. 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 New York State 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The City of Glen Cove (City) is located in Nassau County and has a population of approximately 27,200. The City is governed by the City Charter (Charter), State statutes, and local laws and ordinances. The seven-member City Council (Council) is the City's legislative branch, which is composed of the Mayor and six other elected members. The City's general fund budgeted appropriations for the 2017 fiscal year are approximately \$46.7 million, funded primarily with revenues from real property taxes and State aid.

Scope and Objectives

The objectives of our audit were to review the City's financial condition for the period January 1, 2013 through December 31, 2016 and to review the City's claims processing and payroll for the period January 1, 2015 through December 31, 2016. Our audit addressed the following related questions:

- Did the Council adopt budgets that were structurally balanced and did it take appropriate action to address recurring deficits in the general, water and recreation funds?
- Did City officials ensure that claims were for valid City purposes, adequately documented, properly audited and approved prior to payment?
- Did City officials ensure that salaries and wages were paid accurately to bona-fide employees?

Audit Results

The Council has not adopted structurally balanced budgets. The Council relied on non-recurring revenues, debt and interfund transfers to balance budgets and meet normal operating expenditures. In total, City officials included \$6.2 million in non-recurring revenues in the City's budget from 2013 through 2016. The budgeted non-recurring revenues as a percentage of the total budgeted revenues increased from 0.02 percent in 2013 to almost 10 percent in 2016. The City also issued debt totaling \$4.9 million in fiscal years 2013, 2014 and 2015 to meet recurring operating expenditures such as tax certiorari refunds and separation payments. Such practices are imprudent and can negatively affect the City's financial condition.

The general fund ended the 2016 fiscal year with a positive fund balance of \$995,299. This was largely because it received \$3.5 million in non-recurring revenues from the sale of a waterfront property. At the end of the 2016 fiscal year, the water and recreation funds had total cumulative deficits of \$586,656.

The City's interfund transfers did not comply with its Charter, which only authorizes transfers from surplus funds to other funds. Specifically, the general fund transferred \$6.8 million to the recreation fund, and the water fund transferred \$1.2 million to the general fund although both the general and water funds had deficit fund balances at the time of transfer. If City officials had not made the 2016 transfers, the general fund would have had a positive fund balance of \$2.3 million and the water fund would have had a positive fund balance of \$407,507. Conversely, the recreation fund's deficit fund balance would have been much larger, \$2.3 million, which is almost six times larger than the reported deficit in 2016.

Further, interfund loans have not been authorized or paid back by the end of the fiscal year as required by General Municipal Law (GML). The general fund had a net interfund balance due from both the water and recreation funds throughout the audit period. These balances were not fully repaid at the completion of any fiscal year and were \$1.1 million (water fund) and \$181,474 (recreation fund) at the end of 2016. The failure to reimburse another fund for advances by the end of the fiscal year is not in compliance with GML.

The Council has not adopted a written multiyear financial plan and a fiscal improvement plan that outlines its fiscal performance goals, establishes specific actions with quantifiable benefits, and sets benchmarks to assess progress of the actions taken. As a result, there is no assurance that the City's financial condition will improve.

The Council also has not established a claims auditing policy or designated an individual who is not involved in the City's purchasing or check signing process to audit all claims against the City prior to payment. We tested 20 claims totaling \$1.3 million and found that 15 claims totaling \$223,015 were not always adequately supported and did not adhere to GML bidding or the City's procurement policy quotation requirements. Had a thorough audit of claims been performed, the Council and City officials could have detected these deficiencies.

Finally, the City's payroll clerk performed incompatible payroll duties without any oversight. In addition, the Council has not designated an individual to certify payroll. We reviewed payments to 20 employees paid \$1.1 million during the audit period to determine whether they were accurate. Additionally, we reviewed Council resolutions for 20 employees paid \$433,258 during the audit period to determine whether they were bona-fide employees hired by the Council. Although we found no exceptions, there is an increased risk that errors and unauthorized payments with the processing of payroll could occur and remain undetected because payroll duties are not properly segregated.

Comments of City Officials

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. Except as indicated in Appendix A, City officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comment on an issue City officials raised in their response.

Introduction

Background

The City of Glen Cove (City) is located in Nassau County and has a population of approximately 27,200. The City is governed by the City Charter (Charter), State statutes, and local laws and ordinances. The seven-member City Council (Council) is the City's legislative branch, which is composed of the Mayor and six other elected members. The Mayor is the City's chief executive officer and administrative officer, and is generally responsible for the administration and supervision of City affairs. The City Controller (Controller) is responsible for supervising the City's fiscal affairs. The Charter outlines the powers and duties of the Council, Mayor and Controller.

The City employs 372 full and part-time employees who are assigned to various departments that provide services including general government support, street maintenance, parks and recreation programs, and police and fire protection. The City's general fund budgeted appropriations for the 2017 fiscal year are approximately \$46.7 million, funded primarily with revenues from real property taxes and State aid.

Objectives

The objectives of our audit were to review the City's financial condition, claims processing and payroll. Our audit addressed the following related questions:

- Did the Council adopt budgets that were structurally balanced, and did it take appropriate action to address recurring deficits in the general, water and recreation funds?
- Did City officials ensure that claims were for valid City purposes, adequately documented, properly audited and approved prior to payment?
- Did City officials ensure that salaries and wages were paid accurately to bona-fide employees?

Scope and Methodology

We examined the City's financial condition for the period January 1, 2013 through December 31, 2016 and the City's claims processing and payroll for the period January 1, 2015 through December 31, 2016.

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 C 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 City Officials and Corrective Action

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. Except as indicated in Appendix A, City officials generally agreed with our findings and indicated they plan to initiate corrective action. Appendix B includes our comment on an issue City officials raised in their response.

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 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.

Financial Condition

Financial condition may be defined as the 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 without a sound financial condition may struggle to balance its budget, may rely on short-term financing and non-recurring revenues, has limited resources to finance future needs, and often has minimal cash available to pay current liabilities as they become due, requiring transfers or loans from other funds. Positive results from operations increase fund balance and foster growth, while operational deficits deplete fund balance. To maintain good fiscal health, it is imperative that the Council and City officials develop structurally balanced budgets and establish and adopt a multiyear financial plan to either maintain a healthy level of fund balance or establish goals to improve financial condition.

The Council has not adopted structurally balanced budgets. Instead, it has relied on debt to meet recurring operating expenditures. Although fund balance has improved during the audit period for the general, recreation and water funds, these funds still need to improve their financial condition. At the end of the 2016 fiscal year, the general fund had a positive fund balance of \$995,299. This was largely because the general fund received \$3.5 million from a one-time sale of a waterfront property. The water and recreation funds had cumulative deficits totaling \$586,656 at the end of the 2016 fiscal year. Additionally, City officials use interfund transfers to meet normal operating expenditures. Further, interfund loans have not been authorized or paid back by the end of the fiscal year as required by General Municipal Law (GML). Finally, the City has not adopted a multiyear financial plan to address its deficits and improve its financial condition.

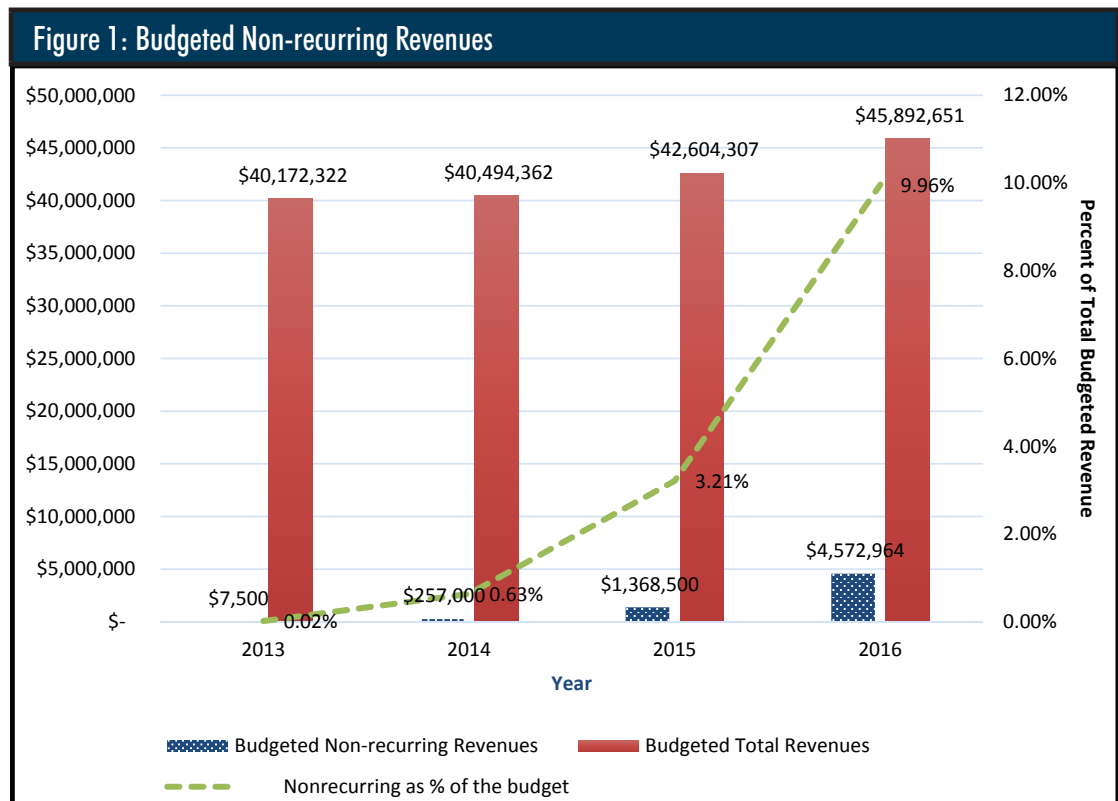
Budgeting Practices

The Council is responsible for preparing and adopting reasonable budgets based on historical or known trends for revenues and appropriations. It is essential that the Council adopt budgets that are structurally balanced with recurring expenditures financed by recurring revenues and that reasonable levels of fund balance are maintained. Borrowing to balance an operating budget with no realistic plan to replace the debt or other temporary resources in subsequent years can lead to deteriorating financial condition.

Structurally Balanced Budgets – One-shot revenues are not revenues derived from the normal operating cycle and, therefore, may not be

available from year to year. Using non-recurring or one-shot revenues to support recurring expenditures may appear to offer a solution to establish a balanced budget. However, the strategy is a short-term solution and only temporarily defers the need to address structural budget imbalances. Therefore, it is important not to rely on one-shot revenues to support recurring expenditures.

The City's reliance on non-recurring revenues has increased throughout the audit period. The budgeted non-recurring revenues as a percentage of the total budgeted revenues increased from 0.02 percent in 2013 to almost 10 percent in 2016 (Figure 1).



In total, City officials included \$6.2 million in non-recurring revenues in the City's budget from 2013 through 2016 (Figure 2).

Figure 2: Budgeted Non-recurring Revenues

Sale of Waterfront Property	\$3,500,000
Building Permits to Develop Waterfront Property	\$1,100,000
Settlement of Legal Proceedings	\$950,000
Sale of Property	\$660,000
Loan Repayment from City's Industrial Development Agency	\$31,500
Total	\$6,241,500

While the City's nonrecurring budgeted revenues were \$6.2 million, the actual nonrecurring revenues realized were \$11.7 million (7 percent of the total actual revenues of \$178.1 million). This difference of \$5.5 million is primarily because the City issued bond anticipation notes (BANs) in 2013, 2014 and 2015 for \$1.1 million, \$2.1 million and \$1.7 million, respectively, which were not included in the original budget.¹ The City also collected a cumulative \$1.3 million more in loan repayments from its industrial development agency (IDA) than budgeted.

City officials budgeted \$5.5 million for non-recurring revenues in the 2017 budget, which are 12 percent of the City's \$47.2 million² total revenue budget. The 2017 budgeted non-recurring revenues are 21 percent more than the prior year.

Reliance on Debt – City officials should not rely on debt to finance recurring operating expenditures. The practice of issuing debt to fund recurring operating expenditures could diminish the City's ability to finance needed services in future budgets because the City will have to devote more of its limited resources to repay the principal and interest on the debt. In addition, this practice will saddle future residents with repayment of past service costs with interest, for which they receive little or no benefit.

City officials issued BANs in 2013, 2014 and 2015 totaling \$4.9 million, which were not included as revenues in the City's adopted budgets. The purpose of the BANs was predominately to pay for \$2.2 million in tax certiorari, \$2.2 million in separation payments³ and \$435,000 for legal judgments. The City issued this debt because it has not had sufficient appropriations in the budget to cover these routine operating expenditures. The City did not issue short-term debt in 2016. For the 2017 fiscal year, City officials budgeted \$607,992 for separation payments and did not budget anything for tax certiorari.

From 2013-2016, tax certiorari refunds totaled \$3,576,270, which are approximately \$2.7 million more than the budgeted amount of \$830,300 (Figure 3). The City budgeted \$36,500 for separation payments from 2013-2016 although it had expenditures amounting to more than \$1 million.

¹ Conversely, the City over-budgeted for the sale of property. It collected \$655,000 less than budgeted.

² City officials do not expect non-recurring expenditures in 2017.

³ A portion of the BAN was issued to refinance or payoff previously issued debt for separation payments. Municipalities often provide separation payments to employees for all or a portion of their earned but unused leave time when employees retire or otherwise separate from service. The separation payments are generally granted in the negotiated collective bargaining agreements or individual employment contracts, which can be significant expenditures for the City.

Figure 3: Budget vs. Actual			
	Original Budget	Actual	Variance
Tax Certiorari			
2013	\$415,300	\$814,899	\$399,599
2014	\$0	\$949,468	\$949,468
2015	\$100,000	\$979,969	\$879,969
2016	\$315,000	\$831,934	\$516,934
Sub-Total	\$830,300	\$3,576,270	\$2,745,970
Separation Payments			
2013	\$0	\$0	\$0
2014	\$0	\$707,645	\$707,645
2015	\$0	\$7,721	\$7,721
2016	\$36,500	\$323,780	\$287,280
Sub-Total	\$36,500	\$1,039,146	\$1,002,646
Total	\$866,800	\$4,615,416	\$3,748,616

The practice of using debt to pay for operating costs is imprudent. Tax certiorari and separation payments are routine costs of doing business and these expenditures should be paid from annual appropriations. We addressed the City's insufficient budgeting for tax certiorari payments in our budget reviews for the 2013-2017 fiscal years. We also addressed the City's insufficient budgeting for separation payments in our budget reviews for 2013, 2015 and 2017.

Deficit Fund Balance

A key measure of a local government's financial condition is the level of fund balance, which is the difference between revenues and expenditures accumulated over time. If revenues have exceeded expenditures, the municipality will have a positive fund balance. Conversely, if expenditures have exceeded revenues, the municipality will have a negative or deficit fund balance. Unassigned fund balance is the unrestricted portion of fund balance. A key element of effective long-term financial planning is for local governments to ensure that the level of fund balance maintained is reasonable and sufficient to provide adequate cash flow.

Throughout the audit period, the City's general, water and recreation⁴ funds had deficit fund balances at the end of each fiscal year, except for the general fund in 2016. Fund balance has improved during the audit period for all three funds. At the end of the 2016 fiscal year, the total fund balance for all three funds was \$408,643 (Figure 4) because the general fund ended the year with a positive fund balance. This

⁴ Recreation fund includes golf course operations.

was largely because the general fund received \$3.5 million from the sale of a waterfront property.

Figure 4: Total Fund Balance				
	2013	2014	2015	2016
General	(\$1,580,803)	(\$1,931,317)	(\$937,214)	\$995,299
Water	(\$518,097)	(\$666,925)	(\$337,644)	(\$180,256)
Recreation	(\$537,365)	(\$567,563)	(\$439,296)	(\$406,400)
Total Deficit	(\$2,636,265)	(\$3,165,805)	(\$1,714,154)	\$408,643

The City's financial position is impacted by subsidies to other funds. City officials use interfund transfers to meet normal operating expenditures. The City's charter authorizes interfund transfers from surplus funds. Both the water and general funds transferred funds to the general fund and recreation fund, respectively. We reviewed the annual results of operations and calculated the results of operations without the interfund transfers.

General Fund – From fiscal years 2013 through 2016, the City's unassigned general fund deficits ranged between \$2.3 million and \$4.5 million. The general fund's unassigned fund balance improved by \$1.3 million during the audit period and the City ended the 2016 fiscal year with a \$2.3 million deficit (Figure 5). The unassigned fund balance remained at a deficit because of the large amounts of nonspendable fund balance,⁵ ranging from \$2 million to \$3.3 million. City officials told us that the nonspendable fund balance is a receivable from taxes on land which will be settled soon. However, they did not have documentation to substantiate this potential settlement. If the City does settle, total unassigned fund balance at the end of that fiscal year would increase and total fund balance would decrease by any amount written-off. However, there was no financial plan to eliminate or reduce the unassigned fund balance deficit in the 2017 budget.

⁵ Nonspendable consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale and principal of endowments.

Figure 5: General Fund Balance

	2013	2014	2015	2016
Beginning Fund Balance	(\$1,681,483)	(\$1,580,803)	(\$1,931,317)	(\$937,214)
Operating Surplus/(Deficit)	\$1,651,847	\$1,298,058	\$2,094,450	\$3,255,437
Subtotal	(\$29,636)	(\$282,745)	\$163,133	\$2,318,223
Less: Subsidy to Recreation Fund	(\$1,551,167)	(\$1,648,572)	(\$1,708,902)	(\$1,910,687)
Plus: Subsidy from Water Fund	\$0	\$0	\$608,555	\$587,763
Total Fund Balance (Deficiency)	(\$1,580,803)	(\$1,931,317)	(\$937,214)	\$995,299
Less: Nonspendable Fund Balance	\$2,015,282	\$2,549,581	\$3,252,231	\$3,298,229
Unassigned Fund Balance (Deficit)	(\$3,596,085)	(\$4,480,898)	(\$4,189,445)	(\$2,302,930)

Each year during the audit period, the general fund transferred funds to the recreation fund. Although the City charter authorizes transfers to other funds from surplus funds, these transfers were inappropriate because they were made while the general fund had deficit fund balance. The general fund also received transfers from the water fund in 2015 and 2016, while the water fund had deficits. These transfers had a significant impact on fund balance during the audit period. If these transfers were not made, the general fund balance would have ranged from a deficit of \$29,636 in 2013 to positive \$2.3 million in 2016. We reviewed the general fund's 2017 budget and found that City officials budgeted to transfer \$2 million to the recreation fund and to receive a transfer of \$587,763 from the water fund.

Water Fund – The water fund had a deficit each year during the audit period which ranged from \$180,256 to \$666,925 (Figure 6). The water fund transferred funds to the general fund in 2015 and 2016 although it had a deficit fund balance and, therefore, was not authorized by the City Charter.

Figure 6: Water Fund Balance

	2013	2014	2015	2016
Beginning Fund Balance	(\$550,317)	(\$518,097)	(\$666,925)	(\$337,644)
Operating Surplus/(Deficit) Without Transfers	\$32,220	(\$148,828)	\$937,836	\$745,151
Subtotal	(\$518,097)	(\$666,925)	\$270,911	\$407,507
Transfer to General Fund	\$0	\$0	(\$608,555)	(\$587,763)
Ending Fund Balance	(\$518,097)	(\$666,925)	(\$337,644)	(\$180,256)

If the funds had not been transferred in 2015 and 2016, the fund deficit would have been eliminated and fund balance would have been \$270,911 in 2015 and \$407,907 in 2016. The water fund budgeted to

transfer \$587,763 to the general fund in 2017 although it had a deficit fund balance at the end of 2016. The 2017 budget does not address any plan for the water fund to end with sufficient operating surplus to make this transfer without ending the fiscal year in a deficit. Although the water fund honored this type of subsidy in the past, despite a history of fund deficits, the subsidy may be at risk if the water fund does not maintain its profitability.

Recreation Fund – The recreation fund had a deficit throughout the audit period which ranged from \$406,400 to \$567,563 (Figure 7). The general fund transferred funds to the recreation fund each year although the general fund had a deficit fund balance and, therefore, was not authorized to do so by the City Charter. The transfers from the general fund increased every year during the audit period from \$1.6 million to almost \$2 million and cumulatively totaled \$6.8 million. The general fund budgeted to transfer \$2 million to the recreation fund in 2017 although it had a deficit unassigned fund balance.

Figure 7: Recreation Fund Balance				
	2013	2014	2015	2016
Beginning Fund Balance	(\$575,559)	(\$537,365)	(\$567,563)	(\$439,296)
Operating Surplus/(Deficit) Without Transfers	(\$1,512,973)	(\$1,678,770)	(\$1,580,635)	(\$1,877,791)
Subtotal	(\$2,088,532)	(\$2,216,135)	(\$2,148,198)	(\$2,317,087)
Transfer From General Fund	\$1,551,167	\$1,648,572	\$1,708,902	\$1,910,687
Ending Fund Balance	(\$537,365)	(\$567,563)	(\$439,296)	(\$406,400)

These transfers are made because the recreation fund is not generating sufficient revenue to meet its operating expenditures. Without the budgeted transfers, the budgets would not be balanced. If the transfers from the general fund were not made in any particular year during our audit period, the recreation fund deficit would have been much larger, ranging from almost four times larger in 2013 (\$2.1 million), to almost six times larger in 2016 (\$2.3 million).

City officials explained that the transfers are made so the general fund can help the recreation fund provide subsidies to low income families with reduced fees for camp, daycare and after school care. The 2017 budget does not address the recreation fund's deficit.

The Council has not maintained adequate levels of fund balance. As a result, there is risk that the City may experience inadequate cash flow. Further, the City does not have funds to manage unexpected occurrences such as shortfalls in revenues or unanticipated emergencies. The City's reliance on interfund transfers to subsidize

other funds despite a history of fund deficits may be at risk if the funds do not maintain their respective profitability.

Interfund Loans

GML⁶ allows municipalities to temporarily loan moneys from one fund to another with certain restrictions. When City officials loan money between funds, the loans must be authorized by the Council and must be repaid to the fund from which they were advanced by the end of the fiscal year in which the loans are made. It is important to keep accurate and up-to-date records of interfund loans. When interfund loan balances remain outstanding for greater than one year, this may imply a permanent transfer to the receiving fund and, if that is the case, should be recognized as such. If the debtor fund does not have enough cash to repay the loan, the financial condition of the fund that loaned the cash could be adversely affected.

The three major funds we reviewed had interfund loan balances during the audit period.⁷ The City reported interfund loan balance owed from the water fund to the general fund from year end 2013 through year end 2016 totaling almost \$5 million (Figure 8).⁸ The loans were not paid back by the end of each fiscal year as required by GML. There was no indication of a loan repayment in the City's general ledger.

Figure 8: Water Fund		
	Net Interfund Loan Due to General Fund	Cash Balance
2013	\$1,479,615	\$231,327
2014	\$1,307,110	\$120,528
2015	\$1,151,750	\$115,365
2016	\$961,282	\$112,607
Total	\$4,899,757	\$579,827

⁶ Section 9-a of GML

⁷ The debt service, capital projects and internal service funds also had interfund loan balances in the audit period. The focus of our review was on the general, recreation and water funds.

⁸ There was an interfund loan owed from the water fund to the general fund of \$172,505 at the end of 2014 and \$327,865 at the end of 2015.

The City reported interfund loan balances owed by the recreation fund to the general fund during the audit period (Figure 9).

Figure 9: Recreation Fund		
	Net Interfund Loan Due to General Fund	Cash Balance
2013	\$1,134,223	\$673,365
2014	\$322,266	\$31,493
2015	\$222,954	\$18,108
2016	\$181,474	\$255
Total	\$1,860,917	\$723,221

There was no evidence that these loans have been repaid, and the recreation fund did not have sufficient cash available to repay the general fund. These loans may become uncollectible. If the general fund had not made interfund loans to the recreation fund in those years, the recreation fund would not have had sufficient cash to pay its obligations and would have been forced to seek alternate short-term financing sources.

The City's audited financial statements indicated that the outstanding year-end balances are mainly because of the time lag between when interfund goods or services are provided or reimbursable expenditures occur, transactions are recorded and payments between funds are made. However, timing differences should have been resolved because the audited financial statements for 2013, 2014 and 2015 were issued in June, September and August, respectively, of the following year. The 2016 audited financial statements were not issued as of the end of August 2017; a draft version was available at that time.

City officials were not able to explain, and the City's accounting records did not provide detail of, the loans' purpose. Furthermore, there was no Council resolution authorizing these interfund loans. Without detailed accounting records explaining the purpose of the interfund loans and the required Council approval, there is no assurance the Council is aware of the funds' true financial position. Also, the failure to reimburse another fund for advances by the end of the fiscal year is not in compliance with GML.

Multiyear Financial Plan

A multiyear financial plan projects revenues, expenditures and operating surpluses or deficits for several years⁹ into the future. Unlike a multiyear budget, it does not authorize expenditures (although it

⁹ Multiyear plans usually cover a three- to five-year period.

should be linked to the current budget). Instead, it illustrates what will happen to the City's ability to pay for and provide services, given a set of policy and economic assumptions. These projections help policy makers assess expenditure commitments, revenue trends, financial risks and the affordability of new services and capital investments. It helps City officials see the impact of their fiscal decisions over time and helps them decide what program funding choices to make in advance, avoiding sudden tax increases or dramatic budget cuts. If the multiyear financial plan reveals a projected budget imbalance between revenues and expenditures, the Council should establish a written fiscal improvement plan which identifies goals and actions to improve long-term fiscal stability. A multiyear financial plan should be in writing, reviewed and adopted by the Council, and communicated to management and residents.

The Council has not adopted a written multiyear financial plan or a fiscal improvement plan. During fieldwork, City officials provided us with a multiyear financial projection¹⁰ that was prepared by the Mayor and Controller as of April 2017. This projection shows actual revenues, expenditures and operating surpluses or deficits from fiscal years 2012 through 2015, and estimated projections for fiscal years 2016 through 2022. City officials did not have a fiscal improvement plan that communicates the City's fiscal performance goals, establishes specific actions with quantifiable benefits, and sets benchmarks to assess progress of the actions taken.

City officials told us that this projection is fluid and constantly updated as new information becomes available. Based upon the expenditure and revenue projections, the general fund would no longer have a deficit unassigned fund balance and the water fund would no longer have a deficit fund balance in 2018 and 2019, respectively. The recreation fund is projected to have a deficit fund balance from the present through 2022. However, City officials could not provide us with the basis for these projections. Because the Council did not establish a multiyear financial plan, including a written fiscal improvement plan, there is no assurance that the City's financial condition will improve.

Recommendations

The Council and City officials should:

1. Adopt structurally balanced budgets which finance recurring operating expenditures with recurring operating revenues.
2. Ensure that routine operating expenditures are paid by annual appropriations contained in the City's budget.

¹⁰ The projection is for the general, water, recreation and debt service funds.

3. Determine ways to increase revenues in the recreation fund so it can be self-sufficient, including developing and implementing a financial plan and the gradual elimination of the fund deficit.
4. Ensure interfund transfers are in compliance with the City's charter and do not exceed fund surplus amounts.
5. Maintain detailed interfund loan records, including itemized records to support composition, dates and repayment of loans.
6. Ensure that all interfund loans are authorized and paid back by the end of the fiscal year as required by GML.
7. Review the interfund loan balances to determine the funds' ability to repay. If officials determine the loans cannot be repaid, they should be written off.
8. Formally adopt the multiyear financial plan and review the plan each time it is updated.
9. Adopt a written fiscal improvement plan that identifies the City's fiscal performance goals, establishes specific actions with quantifiable benefits, and sets benchmarks to assess the progress of those specific actions taken.

Claims Processing

The Council is responsible for establishing an adequate claims processing system, including detailed policies and procedures, to ensure that each claim¹¹ is a legitimate charge against the City, adequately supported, mathematically correct and in compliance with GML. Claim documentation should include a purchase order that authorized the claim, an itemized invoice detailing the charges, and bid and quote records as evidence that the claim is in compliance with GML and the City's purchasing requirements. The Council should designate an individual independent of the City's purchasing or check signing process to audit all claims against the City prior to payment. Conducting a proper audit of claims before payment is an integral part of internal controls over the City's payment of claims.

City officials did not ensure that claims were adequately processed and audited. The Council has not established a claims processing or a claims auditing policy. The Council has not designated an individual that is independent of the City's purchasing or check signing process to audit all claims prior to payment. The Charter requires the Controller to audit all claims prior to payment and the Controller is also responsible for signing all City checks. This is a significant internal control weakness and increases the risk that inappropriate payments could be made and not be detected. Further, the City's former Controller told us that, while he spot checked claims from time to time, he did not document his review to indicate which claims he audited.

The purchasing agent also performs incompatible duties of approving purchase orders and approving claims for payment. Allowing the purchasing agent to perform these incompatible duties increases the risk that payment of unauthorized or improper claims may not be detected and prevented. City officials also told us that a clerk in the business office often assists the purchasing agent. The clerk reviews claims only to make sure that funds are available for payment and stamps claims that she reviews as ready to pay using the purchasing agent's stamp. No thorough audit of claims is performed.

The accounts payable clerk generates a claims warrant and forwards it to the Mayor, Council and Controller for their review ahead of the Council meeting. While the Council reviews and approves the warrants, the Council does not review the actual claims packet, which

¹¹ A claim is a bill or invoice submitted by a vendor requesting payment for goods or services.

includes invoices, certification that the good or service was received, bid or quote documentation.

We tested 20 claims totaling \$1,259,909 and found exceptions with 15 claims totaling \$223,015. Our findings are summarized below (some claims had multiple exceptions):

- Fourteen claims totaling \$168,265 did not have a purchase requisition as required by the City's procurement policy, including one claim for \$19,289 for computer services.
- One claim for \$54,750 for rehabilitating tennis courts was not supported by a competitive bid as required by GML.
- Six claims totaling \$19,001 did not contain documented verbal quotes as required by the City's procurement policy, including one claim for \$4,162 for golf supplies.
- One claim for \$5,600 for installation of gear racks did not have a purchase order and was not supported by three written quotes as required by the City's procurement policy.
- City officials could not explain selecting a vendor to install rubber flooring when another vendor provided a quote that was \$866 lower. In addition, City officials could not explain selecting a vendor to install lighting sensors and panels when there was a quote from another vendor for \$129 lower.

If claims were adequately processed and thoroughly audited, City officials could have detected the claims that were not adequately supported and that did not adhere to GML and the City's procurement policy. Furthermore, because the claims review process is not adequately segregated, there is increased risk that payment of unauthorized or improper claims may not be detected and prevented.

Recommendations

The Council should:

10. Consider amending the Charter to designate an official, independent of the purchasing or check signing process, to audit claims.
11. Ensure a deliberate and thorough audit of all claims prior to payment by establishing a claims auditing policy.
12. Establish a claims processing policy that provides guidelines to ensure claims contain appropriate documentation and are valid City expenditures prior to forwarding them for audit.

City officials should:

13. Ensure that employees involved in the purchasing process follow GML and the City's purchasing policy when procuring goods and services, and document their decision for not selecting the vendor with the lowest price.

Payroll

An effective system of internal controls over payroll processing should provide assurance that employees are paid in accordance with contract provisions authorized by the Council. The Council and City officials should establish policies and procedures that provide guidance and oversight for employees who process and disburse payroll. It is important that one individual is not responsible for the entire payroll processing function. If segregating payroll duties is not feasible, City officials must implement compensating controls, such as supervisory oversight, to reduce the associated risk. In addition, the Council should designate a City official to certify each payroll before checks are distributed. To certify payroll, someone independent of the payroll preparation process should compare payroll source documents to payroll registers to ensure they are based on actual hours or days worked and at the authorized hourly or annual rates.

The payroll clerk's duties were not adequately segregated because he was responsible for creating new employee profiles in the City's financial system, making changes to employees' pay rates, collecting employees' time records, recording the hours worked or salaries to be paid, and maintaining custody of paychecks until checks were picked up by department heads. The payroll clerk performed all of these duties without any oversight. In addition, the Council has not designated an individual to certify payroll. Furthermore, the Council has not adopted a payroll policy and City officials have not developed written procedures that adequately segregate the payroll clerk's duties or require oversight over the payroll process. The absence of adequate controls over processing payroll may leave the payroll system susceptible to errors or irregularities.

During the audit period, the City paid 692 employees \$38,099,266. We reviewed payroll payments to 20 employees paid \$1,117,764 to determine whether they were accurate. Additionally, we reviewed Council resolutions for 20 employees paid \$433,258 to determine whether they were bona-fide employees hired by the Council. Although we found no exceptions, there is an increased risk that errors and unauthorized payments with payroll processing could occur and remain undetected because there is no segregation of duties or oversight of the payroll clerk's work, including certification of payroll.

Recommendations

The Council should:

14. Designate a City official, independent of the payroll process, to review the completed payroll for accuracy and certify it to indicate their review.

The Council and City officials should:

15. Adopt a payroll processing policy and establish procedures that adequately segregate the payroll clerk's duties. If duties cannot be segregated adequately due to limited staff resources, the Council should implement compensating controls within the payroll process, such as requiring supervisory or management review of all the payroll clerk's work.

APPENDIX A

RESPONSE FROM CITY OFFICIALS

The City Officials' response to this audit can be found on the following pages.

Reginald A. Spinello
Mayor
Sandra Clarson
Controller
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December 28, 2017

Office of the State Comptroller
Ira McCracken
110 State Street
Albany, NY 12236

Unit Name: City of Glen Cove

Audit Report Title: Financial Condition, Claims Processing and Payroll Report of Examination

Audit Report #: 2017M-210

For each recommendation included in the audit report, the following is our corrective action (s) taken or proposed. For recommendations where corrective action has not been taken or proposed, we have included the following explanations.

Audit Recommendation # 1: Adopt structurally balanced budgets which finance recurring operating expenditures with recurring operating revenues.

Implementation Plan of Action (s): The City agrees with this recommendation with an explanation. When the City was in deficit financing the goal was to protect taxpayers and generate revenues using non-recurring revenues. The City made the last deficit financing payment in 2017 and will no longer need to use non-recurring revenues to balance the budget.

Implementation Date: Adopted budget of 2019.

Audit Recommendation # 2: Ensure that routine operating expenditures are paid by annual appropriations contained in the City's budget.

Implementation Plan of Action (s): Same as audit recommendation # 1.

Implementation Date: Adopted budget of 2019.

Audit Recommendation # 3: Determine ways to increase revenues in the recreation fund so it can be self-sufficient, including developing and implementing a financial plan and the gradual elimination of the fund deficit.

Implementation Plan of Action (s): As a diverse City it is difficult to accomplish this request in the short term. The City will consider this recommendation and gradually increase fees to make the funds self-sufficient. Additionally, the City will continue to support these families to pay full price for recreational activities.

Implementation Date: Will be gradually implemented from 2019, and planned full implementation date of 2021.

Audit Recommendation # 4: Ensure interfund transfers are in compliance with the City's charter and do not exceed fund surplus amounts.

Implementation Plan of Action (s): The City agrees with this finding and will be implementing the recommendation.

Implementation Date: Immediately.

Audit Recommendation # 5: Maintain detailed interfund loan records, including itemized records to support composition, dates and repayment of loans.

Implementation Plan of Action (s): The City agrees with this finding and will be implementing the recommendation if interfund loans are processed.

Implementation Date: Immediately.

Audit Recommendation # 6: Ensure that all interfund loans are authorized and paid back by the end of the fiscal year as required by GML.

Implementation Plan of Action (s): The City agrees with this finding and will be implementing the recommendation if interfund loans are processed.

Implementation Date: Immediately.

Audit Recommendation # 7: Review the interfund loan balances to determine the funds' ability to repay. If officials determine the loans cannot be repaid, they should be written off.

Implementation Plan of Action (s): The City agrees with this finding and will be implementing the recommendation if interfund loans are processed.

Implementation Date: Immediately.

Audit Recommendation # 8: Formally adopt the multiyear financial plan and review the plan each time it is updated.

Implementation Plan of Action (s): The City agrees with this finding. In the past years, the City has always utilized an informal multiyear financial plan. We plan to implement this in the future.

Implementation Date: The City plans on adopting, date to be determined.

Audit Recommendation # 9: Adopt a written fiscal improvement plan that identifies the City's fiscal performance goals, establishes specific actions with quantifiable benefits, and sets benchmarks to assess the progress of those specific actions taken.

Implementation Plan of Action (s): The City disagrees with this finding.

Implementation Date: N/A

See
Note 1
Page 27

Audit Recommendation # 10: Consider amending the Charter to designate an official, independent of the purchasing or check signing process, to audit claims.

Implementation Plan of Action (s): The City agrees with this recommendation and has implemented changes immediately. The duties have been assigned to an employee effective May 15, 2017.

Implementation Date: May 15, 2017.

Audit Recommendation # 11: Ensure a deliberate and thorough audit of all claims prior to payment by establishing a claims auditing policy.

Implementation Plan of Action (s): The City agrees with this recommendation and plans on adopting a claims auditing policy.

Implementation Date: February 5th, 2018.

Audit Recommendation # 12: Establish a claims processing policy that provides guidelines to ensure claims contain appropriate documentation and are valid City expenditures prior to forwarding them for audit.

Implementation Plan of Action (s): The City agrees with this recommendation and plans on adopting a claims processing policy.

Implementation Date: February 5th, 2018.

Audit Recommendation # 13: Ensure that employees involved in the purchasing process follow GML and the City's purchasing policy when procuring goods and services, and document their decision for not selecting the vendor with the lowest price.

Implementation Plan of Action (s): The City agrees with this recommendation and has implemented changes immediately. The City has implemented a standard form which documents the required three bids and decision for selecting the vendor and explanation.

Implementation Date: March 20, 2017.

Audit Recommendation # 14: Designate a City official, independent of the payroll process, to review the completed payroll for accuracy and certify it to indicate their review.

Implementation Plan of Action (s): The City agrees with this recommendation. The City Controller will be reviewing the completed payroll documents for accuracy, and will certify that it has been reviewed.

Implementation Date: February 7th, 2017.

Audit Recommendation # 15: Adopt a payroll processing policy and establish procedures that adequately segregate the payroll clerk's duties. If duties cannot be segregated adequately due to limited staff resources, the Council should implement compensating controls within the payroll process, such as requiring supervisory or management review of all the payroll clerk's work.

Implementation Plan of Action (s): The City agrees with this recommendation. The creation of new employee profiles in the City's financial system, making changes to employee's pay rates will be entered by the Human Resource department. In addition, the City Controller will be reviewing the payroll clerk's work.

Implementation Date: The HR dept. needs to be trained by February 5th, 2018. The Controller reviews the payroll clerk records since February 7th, 2017.

Sincerely,

Honorable Reginald Spivey
Mayor

Cc: Sandra Clarson, City Controller

APPENDIX B

OSC COMMENT ON THE CITY'S RESPONSE

Note 1

As stated in our report, if the multiyear financial plan reveals a projected budget imbalance between the revenues and expenditures, the Council should establish a written fiscal improvement plan which identifies goals and actions to improve long-term fiscal stability. Without a fiscal improvement plan that communicates the City's fiscal performance goals, establishes specific actions with quantifiable benefits, and sets benchmarks to assess progress of the actions taken, there is little assurance that the City's financial condition will improve.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- Interviewed City officials and Council members and reviewed the City charter to gain an understanding of procedures used to account for the City's financial operations processes.
- Reviewed audited financial statements from 2013-2016 prepared by the City's external auditors.
- Performed trend analysis on fund balance, compared budgeted to actual revenues and expenditures, and analyzed results of operations for the general, water and recreation funds for the period January 1, 2013 through December 31, 2016.
- Compared revenues and expenditures for fiscal years 2013-2016 to determine whether the City's budgets were structurally balanced.
- Analyzed interfund transfers for fiscal years 2013-2016 to determine their impact on the financial condition of the related funds.
- Reviewed all financial records for interfund loans to determine whether loans were detailed, recorded itemized transactions and were repaid in compliance with GML.
- Reviewed minutes to determine whether interfund loans were authorized by the Council.
- Reviewed the multiyear expenditure, revenue and fund balance projections prepared by the Mayor and Controller.
- Analyzed budget to actual variance for bond anticipation notes, tax certioraris and separation payments.
- Reviewed the 2017 budget to document interfund transfers and budgeted non-recurring revenues.
- Reviewed a sample of claims for 20 vendors paid \$1,259,909 out of 1,462 vendors paid \$51,715,922 during the audit period to determine whether claims were audited and adequately supported for a valid City purpose, and whether GML bidding and the City's purchasing policy's quotation requirements were adhered to. We judgmentally selected five vendors that received payments above the bidding threshold and judgmentally selected 15 vendors that received payments within the City's quotation threshold.
- Randomly selected a sample of 20 employees paid \$433,259 out of 692 employees paid approximately \$38.1 million during the audit period to determine whether they were bona-fide City employees.

- Selected a sample of 20 employees (19 random and one judgmental based on job duties) paid \$1,117,764 to determine whether payments were made for actual services rendered, properly recorded and at the approved pay rates. We reviewed the largest payment for each of the 20 employees.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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