

**H. Carl McCall**  
**Comptroller**

State of New York  
Office of the State Comptroller

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City of Schenectady

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## **Report of Examination**

**96M-228**

Division of Municipal Affairs  
Bureau of Examinations

**TO THE MAYOR AND MEMBERS  
OF THE CITY COUNCIL  
OF THE CITY OF SCHENECTADY,  
SCHENECTADY COUNTY, NEW YORK:**

Among my top priorities as the State Comptroller is to maintain a strong partnership between my office and the local governments of New York State. One of the main objectives of this partnership is to assist local governments in improving their financial condition and strengthening their financial management systems.

The audit reports issued by my office are an important component in accomplishing this objective. These reports are expected to be a resource to you. They are designed to identify current and emerging fiscal problems and provide recommendations for improvement.

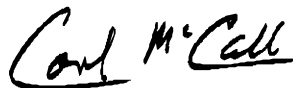
Prudent fiscal management, sound fiscal policy and a commitment to working together will enable us to serve the taxpayers more effectively by making better use of our limited resources. Toward this end, I look forward to working with your municipality and all other local governments throughout the State.

To make our audit report more useful and understandable, it now includes:

- g Table of contents;
- g Executive summary to highlight recommendations; and
- g Headings that separate Findings and Recommendations.

If my office can be of assistance to you or if you have any questions concerning this audit report, please feel free to contact the local area office for your county listed at the back of this report.

Sincerely,



H. Carl McCall

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## EXECUTIVE SUMMARY

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Our examination disclosed findings which should be reviewed by the City Council for appropriate action. Good management practices require that city officials take prompt action concerning our recommendations. We believe prompt action by city officials will help improve the city's financial condition, protect the city's resources from possible loss or improper use, and ensure its compliance with appropriate statutory requirements. For the ready reference of the reader, the recommendations are summarized in the following section. However, this is not meant to serve as a substitute for reviewing the Findings and Recommendations section of the report, which begins on page 7. Please note that of the five findings in this report, three findings are similar to those contained in our prior Report of Examination issued March 8, 1993.

The City Council should prepare a plan of action that addresses our recommendations and forward the plan to our office within ninety days. For guidance in preparing the plan of action, you may refer to applicable sections contained in the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

We are available to assist you in providing guidance in preparing the plan. The local area office for your county is listed in the back of this report.

## SUMMARY OF RECOMMENDATIONS

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### ! Financial Condition !

The following recommendation relates to the city's financial condition. Failure to properly implement the recommendation could unnecessarily burden future taxpayers who may not have benefitted from the services currently provided.

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### **Deficit Fund Balance** (For Full Discussion See Commentary, Page 7)

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The Mayor and City Council should monitor the 1996 budget on a monthly basis. Corrective action should be taken to modify the budget when required. Also, the City Council should review its policies and procedures as they relate to the deposit and use of reserve fund moneys and proceeds of obligations, giving full consideration to the General Municipal Law and Local Finance Law.

## **! Internal Control and Compliance !**

An effective system of internal control is necessary so that the City Council can have reasonable assurance that resources are safeguarded and that transactions are executed in accordance with management's authorization, are in accordance with statutory requirements and are properly recorded.

Failure to establish proper controls could expose the city's resources to loss or improper use. The following recommendations help ensure that the city's resources are not at risk and that transactions are properly authorized and are in compliance with statutory requirements.

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### **Competitive Bidding** *(For Full Discussion See Commentary, Page 9)*

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The City Council should adopt procedures that will ensure that the city officials follow competitive bidding provisions to help assure prudent and economic use of public moneys and to facilitate the acquisition of goods and services of desired quality at the lowest cost.

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### **Low Bidder Not Awarded Contract** *(For Full Discussion See Commentary, Page 10)*

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The City Council should follow competitive bidding provisions and document its reasons when awarding a contract to other than the low bidder to help assure the prudent and economic use of public moneys and to facilitate the acquisition of goods and services of desired quality at the lowest cost.

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### **Use of City-Owned Cellular Telephones** *(For Full Discussion See Commentary, Page 11)*

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The City Council should adopt written policies and procedures to control the assignment and use of city-owned cellular telephones.

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### **Fixed Assets Inventory** *(For Full Discussion See Commentary, Page 11)*

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The City Council should take appropriate action to ensure that fixed asset records are maintained and that inventories are periodically taken and reconciled with these records.

**Report: 96M-228**  
**Filed: August 23, 1996**

## **AUTHORITY AND SCOPE LETTER**

**TO THE MAYOR AND MEMBERS  
OF THE CITY COUNCIL  
OF THE CITY OF SCHENECTADY,  
SCHENECTADY COUNTY, NEW YORK:**

Pursuant to the State Constitution, Article V, §1 and further authority vested in the State Comptroller by Article 3 of the General Municipal Law, we have examined the financial affairs of the City of Schenectady.

Our responsibilities are to review the financial condition and fiscal operations of the city in order to identify areas needing improvement and to inform local officials and the public of our findings and recommendations. Consistent with these responsibilities, the objectives of this examination were to identify conditions indicating possible fiscal stress and to test for noncompliance with certain finance related statutory and regulatory provisions as well as guidance of the Office of the State Comptroller. It was not our objective to, and we do not, express an Audit Opinion on the financial statements of the city or provide assurance as to either its internal control structure or the extent of its compliance with statutory and regulatory requirements as well as guidance of the Office of the State Comptroller.

The management of the city is responsible for its financial affairs and for safeguarding its resources. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and are properly recorded; that appropriate financial reports are prepared; that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings. Nevertheless, errors, irregularities, or instances of noncompliance may occur and not be detected because of inherent limitations in any internal control structure. The city engaged an independent public accountant who issued report(s) dated August 30, 1995 on the city's general purpose financial statements for the year ended December 31, 1994, its internal control structure and its compliance with certain laws, rules and regulations.

In determining the scope of our examination, we conducted an initial audit survey for the city's fiscal operation for the period January 1, 1994 through July 5, 1995. We obtained an overview of the operations through inquiry, analytical procedures, observations and the inspection of records and reports. In this process, we considered the city's financial condition, its internal controls, applicable statutory provisions, guidance of the Office of the State Comptroller and other relevant information. As a result of this planning process, we limited our examination to the following areas:

- Financial Condition
- Cash Management — Deposits and Investments
- Purchasing
- Retirement Reporting
- Reserves
- Budgeting

We conducted our examination in accordance with Generally Accepted Government Auditing Standards (Government Auditing Standards, issued by the Comptroller General of the United States). For the areas selected, we gained an understanding of the city's internal control structure. Based upon this understanding, we assessed risks and designed and performed such tests which we considered necessary to satisfy our audit objectives. The period covered by our procedures is noted in each of the findings contained in the Findings and Recommendations section of this report. We believe that our examination provides a reasonable basis for our report.

The results of our examination procedures disclosed certain findings and recommendations which are presented in this Report of Examination. These findings and recommendations have been discussed with local officials and their comments have been considered in preparing this report.

The City Council has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the City Council should prepare a plan of action that addresses the recommendations in this report. We encourage the City Council to prepare a corrective action plan which would be available for public review in the city clerk's office and the Office of the State Comptroller.

Very truly yours,

**Office of the State**

**Comptroller**

OFFICE OF THE STATE COMPTROLLER  
DIVISION OF MUNICIPAL AFFAIRS

**Albany, New York  
September 12, 1995,  
except for the examination of  
Financial Condition for which  
the date is January 25, 1996**

## FINDINGS AND RECOMMENDATIONS

### ! Financial Condition !

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#### **Deficit Fund Balance**

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##### ***Finding***

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The city's general fund has incurred deficit fund balances as a result of operating deficits caused by budgeting deficiencies. Cash flow problems resulting from these general fund deficits are being funded through the use of moneys required to be set aside and restricted for specific purposes.

The city's audited financial statements for the fiscal year ended December 31, 1994, showed that the general fund had an unreserved deficit fund balance of \$1,144,707. Additionally, \$400,000 of non existent surplus was appropriated for use in the 1995 adopted budget. As a result, the city started the 1995 fiscal year with an unreserved unappropriated deficit fund balance of \$1,544,707 in the general fund. The primary reason for this deficit was an operating loss in 1994. In 1994, actual revenues were approximately \$900,000 less than estimated. The primary shortfall was real property taxes (\$992,000). At the same time, expenditures exceeded appropriations by approximately \$728,000. Several categories had significant overexpenditures such as police (\$699,402), fire (\$175,871) and transportation (\$566,401). The deficit would have been greater had there not been a number of categories in which the city did not fully expend its appropriations.

The deterioration of the city's financial condition continued in 1995 with another operating loss. At April 16, 1996, based on our review of the unaudited records of the city's finance department, the general fund will have an accumulated unreserved deficit fund balance of approximately \$2,500,000 for the fiscal year ended December 31, 1995. This increase in the deficit was caused by a shortfall of revenues of approximately \$257,000 and overexpenditure of appropriations of approximately \$707,000. Individual categories that accounted for revenue shortfalls, i.e., transfer station (\$168,076) and mortgage tax (\$150,616) were offset in part by other revenues. The total overexpended appropriations were comparable to 1994 and included categories such as police (\$289,273) and parks and recreation (\$126,891). Subsequent to the completion of our field work, the city filed its unaudited financial statements (AUD) which indicated that the general fund had an unreserved fund deficit of approximately \$3.2 million. Similar to 1994, real property tax revenues were approximately \$766,000 less than estimated in the budget. Additionally, amounts included in the unaudited financial statements indicated that there were significant overdrawn appropriations in the following categories:

Transportation	\$951,000
Employee Benefits	257,000
General Government Support	223,900

The city's general fund also experienced severe cash flow problems. However, the finance department maintains one bank account (Central Cash) for the operating funds of the city. Commingled in this (Central Cash) bank account are reserve fund moneys, the major portion

of which are restricted for payment of debt, and capital projects fund moneys consisting mostly of borrowings which are restricted for specific purposes. It is the practice of the city to use cash of the reserve funds and capital projects fund to help finance operating expenditures.

Contributing to the unfavorable variances (shortfalls) in real property taxes over this two year period (\$1.76 million) and a factor causing the city's cash flow problems has been the city's failure to provide in the annual budgets an amount needed to provide for uncollected and uncollectible city real property taxes. The amount of this tax overlay should take into account the city's collection rate, and an amount estimated to provide for payment of those unpaid taxes of the county and the city school district that are paid first by the city.

Pursuant to Article 2 of the General Municipal Law, reserve fund moneys shall be deposited in a separate bank account and only expended for the purpose for which the reserve was established. Also, Local Finance Law, § 165.00 provides that proceeds of obligations shall only be deposited in a special bank account or, if authorized by board resolution, commingled in a special bank account with other proceeds of obligations or with budgetary appropriations for capital projects; proceeds of obligations may only be expended for the purpose for which the obligations were issued. If the city had adhered to the provisions of the General Municipal Law and Local Finance Law, cash belonging to the reserve funds and capital projects fund would not be available to fund operating expenditures.

Given the decline in its financial condition we reviewed the city's 1996 budget estimates. For the 1996 fiscal year, the city also established a separate fund to account for the activity of its municipal golf course. In previous years the golf course operations were budgeted and accounted for in the general fund. We reviewed the city's 1996 budget and the unaudited 1995 records available to us as of April 1996. When comparing the 1996 general fund adopted budget with the 1995 anticipated results of operations, after adjusting for (removing) golf course operations in previous years, the following observations were made:

- g Estimated revenues for 1996 are approximately \$146,500 less than 1995 actual revenues.
- g Estimated expenditures in 1996 are approximately \$1,392,500 less than 1995 actual expenditures.
- g The 1996 budget does not include any provision addressing the general fund's accumulated deficit.

Based on the above comparison between the 1996 adopted budget and unaudited 1995 results of operation, the city will need to make major reductions in expenditures in order to achieve its 1996 budget estimates city officials must vigilant in monitoring both costs of operations and the resources needed to fund them. Otherwise, the general fund accumulated deficit will continue to increase.

A similar finding appeared in our prior Report of Examination.

### ***Recommendation***

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**The Mayor and City Council should monitor the 1996 budget on a monthly basis. Corrective action should be taken to modify the budget when required. Also, the City Council should review its policies and procedures as they relate to the deposit and use of reserve fund moneys and proceeds of obligations, giving full consideration to the General Municipal Law and Local Finance Law.** A plan of action should be instituted providing a means for eliminating the fund deficit and repayment of reserve and capital project fund loans. The mayor and City Council should give consideration to including provisions in annual budgets for tax overlays and, in the future, to the development of multi-year operating budgets.

## **! Internal Control and Compliance !**

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### **Competitive Bidding**

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#### ***Finding***

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No documentation was presented to indicate that bids had been requested by public advertisement for the following public works contracts during the fiscal year ended December 31, 1994:

- g Dog control services, primarily the collection and housing of stray dogs, which totaled \$36,169.
- g Computer processing services which totaled \$118,693.

With certain exceptions, which appear not to be applicable in the above instances, all purchases involving an expenditure of more than \$10,000, and contracts for public works involving an expenditure of more than \$20,000 shall be awarded to the lowest responsible bidder after public advertisement for sealed bids (General Municipal Law, §103). The failure to award these contracts after public advertisement for sealed bids indicates a weakness in the controls over purchasing.

A similar finding was included in our prior Report of Examination.

***Recommendation***

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The City Council should adopt procedures that will ensure that the city officials follow competitive bidding provisions to help assure prudent and economic use of public moneys and to facilitate the acquisition of goods and services of desired quality at the lowest cost.

For guidance in this area, we recommend that the City Council refer to Section 8 of the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

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**Low Bidder Not Awarded Contract**

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***Finding***

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The City Council awarded a purchase contract to other than the low bidder. There was no indication that the City Council fully documented and justified its determination.

In January 1994, the city advertised for requests for proposals for the maintenance of the city’s municipal golf course. In response to the advertisement, the city received two proposals for golf course maintenance:

	1994	1995	1996	Lump Sum 5 Year Agreement
Vendor A	\$119,500	\$126,500	\$133,500	\$667,500
Vendor B	112,430	118,051	123,954	622,245

On February 14, 1994, the City Council awarded the contract to Vendor A at a price of \$119,500 for 1994, \$124,000 for 1995, and \$129,000 for 1996. No documentation was presented to indicate why the low bid was not accepted. In addition, no documentation was presented to indicate why Vendor A was awarded contracts for 1995 and 1996 that were less than what had initially been bid.

While we recognize that the City Council has the right to exercise reasonable discretion within the guidelines of Article 5-A of the General Municipal Law, in determining which bids to accept or reject, the City Council should fully document and justify its determination. Good management practices dictates that such justification be included in the minutes of the proceedings of the City Council.

***Recommendation***

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The City Council should follow competitive bidding provisions and document its reasons when awarding a contract to other than the low bidder to help assure the prudent and economic use of public moneys and to facilitate the acquisition of goods and services of desired quality at the lowest cost. For guidance in this area, we recommend that the City Council refer to Section 8 of the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

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## **Use of City-Owned Cellular Telephones**

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### ***Finding***

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The city does not have written guidance covering the the assignment and use of city-owned cellular telephones.

Our examination disclosed that at September 8, 1995, the City Council had not established written guidelines concerning the use of city-owned cellular telephones. A written policy would help to improve controls over the assignment and use of cellular phones. Written guidelines should include provisions for the following:

- g Determining the criteria for assigning cellular telephones to employees, and restricting their use.
- g Requiring each employee to keep records of long-distance telephone calls, to be reconciled to the monthly invoice of telephone charges.
- g Requiring each employee to certify on the monthly invoice of telephone charges that the calls were made in accordance with the city's adopted procedures.

### ***Recommendation***

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**The City Council should adopt written policies and procedures to control the assignment and use of city-owned cellular telephones.** The policies and procedures should be reviewed periodically and revised as necessary. For guidance in this area, we recommend that the City Council refer to Section 3 of the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

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## **Fixed Assets Inventory**

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### ***Finding***

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The city does not maintain adequate control over its fixed assets. As of July 5, 1995, except for a fleet inventory, the City of Schenectady does not maintain an inventory of fixed assets. Every local government unit should have an inventory of fixed assets. Property record cards should be maintained and include, as a minimum, the type and description of assets: land, buildings, machinery and equipment; identification numbers, date acquired, cost and source of funding.

The objectives of maintaining an inventory of fixed assets are to:

- g Create a system to safeguard the assets.
- g Determine the adequacy of insurance protection.
- g Provide a means of planning for future replacement.

Physical inventories should be conducted annually and results compared with the property record cards. Procedures should be established to provide for the recording of additions and deletions of assets.

A similar finding appeared in our prior Report of Examination

### **Recommendation**

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**The City Council should take appropriate action to ensure that fixed asset records are maintained and that inventories are periodically taken and reconciled with these records.** For guidance in this area, we suggest that the City Council refer to Section 3 of the publication issued by the Office of the State Comptroller entitled *Financial Management Guide for Local Governments*.

# APPENDIX

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