

CITY OF BINGHAMTON
AUDITORS' REPORT ON
AUDIT OF FEDERAL FINANCIAL
ASSISTANCE PROGRAMS

DECEMBER 31, 2009

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Established in 1955

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Members of City Council
City of Binghamton, New York

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the CITY OF BINGHAMTON as of and for the year ended December 31, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 19, 2011. We expressed an adverse opinion on the City's Statement of Net Assets and Statement of Activities because the City had not recorded general infrastructure assets. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Binghamton's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Binghamton's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Binghamton's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule to be material weaknesses: 2009-01, 2009-02 and 2009-03.

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City of Binghamton

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Binghamton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

The City of Binghamton's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.



PIAKER & LYONS, P.C.

Binghamton, New York
April 19, 2011

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Members of City Council
City of Binghamton, New York

Compliance

We have audited the compliance of the CITY OF BINGHAMTON with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2009. The City of Binghamton's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Binghamton's management. Our responsibility is to express an opinion on the City of Binghamton's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*." Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Binghamton's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Binghamton's compliance with those requirements.

In our opinion, the City of Binghamton complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2009-04.

Internal Control Over Compliance

The management of the City of Binghamton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Binghamton's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Binghamton's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of control deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not be designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Binghamton as of and for the year ended December 31, 2009, and have issued our report thereon dated April 19, 2011. In our report, we expressed an adverse opinion on the City's Statement of Net Assets and Statement of Activities because the City had not recorded general infrastructure assets. In our opinion the remaining financial statements present fairly, in all material respects, the respective financial position of the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Binghamton, New York, as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Piaker & Lyons

City of Binghamton

The City of Binghamton's response to the finding identified is described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies and pass-through entities and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Robert Lyons, P.C." The signature is written in a cursive style with a large, looping initial 'R'.

PIAKER & LYONS, P. C.

Binghamton, New York
April 19, 2011

CITY OF BINGHAMTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2009

Federal Grantor/Pass-Through Grantor/Program Title	Federal CDFA #	<u>Expenditures</u>
<u>Primary Entity</u>		
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Community Development Block Grant	14.218	\$ 3,492,935
ARRA - Community Development Block Grant	14.218	241,620
Community Development Block Grant - Section 108 Loan	14.218	4,969,000
Section 8 Housing Choice Vouchers	14.871	1,732,466
HOME Investment Partnerships Program	14.239	717,542
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257	160,826
Emergency Shelter Grants Program	14.231	<u>103,222</u>
Total Department of Housing and Urban Development		<u>11,417,611</u>
U.S. DEPARTMENT OF TRANSPORTATION		
Passed Through: New York State Department of Transportation		
Highway, Planning, and Construction Program -		
Chenango Riverfront/Norfolk Southern RR Bridge Projects	20.205	116,080
ARRA - Main Street, Mill and Single Course Paving	20.205	<u>734,602</u>
Total Department of Transportation		<u>850,682</u>
U.S. DEPARTMENT OF HOMELAND SECURITY		
Direct		
Homeland Security Grant Program	97.067	139,965
State Domestic Preparedness Equipment Support Program	97.004	<u>144,029</u>
Total Department of Homeland Security		<u>283,994</u>
U.S. DEPARTMENT OF JUSTICE		
Weed and Seed Program	16.595	<u>23,552</u>
Total Department of Justice		<u>23,552</u>
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE		
AmeriCorps * VISTA Supervision and Transportation Grant	94.013	<u>12,244</u>
Total Expenditures of Federal Awards - Primary Entity		<u>12,244</u>
<u>Component Unit - Binghamton Local Development Corporation (8/31/09)</u>		
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		
Community Development Block Grant	14.218	<u>247,508</u>
Total Expenditures of Federal Awards - Component Unit		<u>247,508</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS - REPORTING ENTITY		<u>\$ 12,835,591</u>

The accompanying notes are an integral part of this schedule.

CITY OF BINGHAMTON
 NOTES TO THE SCHEDULE OF
 EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED DECEMBER 31, 2009

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *"Audits of States, Local Governments, and Non-Profit Organizations."*

NOTE 2 - SUBRECIPIENTS

Of the federal expenditures presented in the schedule, the City of Binghamton provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 210,012
Emergency Shelter Grant	14.231	\$ 103,222
Homelessness Prevention and Rapid Re-Housing	14.257	\$ 160,826

CITY OF BINGHAMTON
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED DECEMBER 31, 2009

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Adverse
 Internal control over financial reporting:
 Material weakness (es) identified? yes no
 Significant Deficiency (ies) identified
 not considered to be material weakness? yes none reported
 Noncompliance material to financial statements noted? yes no

Federal Awards

Internal Control over major programs:
 Material weakness (es) identified? yes no
 Significant Deficiency (ies) identified
 not considered to be material weaknesses? yes none reported
 Type of auditor's report issued on compliance
 for major programs: Unqualified
 Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? yes no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program(s)</u>
14.218	Community Development Block Grant
14.218	ARRA - Community Development Block Grant
14.218	Community Development Block Grant Section 108 Loan
14.257	ARRA - Homelessness Prevention and Rapid Re-Housing Program
20.205	Highway Planning and Construction
20.205	ARRA - Highway Planning, and Construction Program

Dollar threshold used to distinguish
 Between Type A and Type B programs: \$ 300,000
 Auditee qualified as low-risk auditee? yes no

CITY OF BINGHAMTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

Section II - Financial Statement Findings

Prior Year

No matters were reported.

Current Year

2009-01. Cash

Condition: Several bank reconciliations were not completed accurately or timely.

Criteria: Reconciliations should be prepared on all accounts monthly, with any variances investigated and resolved. They should then be reviewed by the management.

Cause: There was lack of oversight and lack of accounting knowledge to ensure cash would be properly reconciled and on a timely basis.

Effect: Due to lack of oversight and accounting knowledge, 2010 cash receipts were posted to 2009, causing an overstatement of cash. Also, because of the significant delay in providing accurate reconciliations, there was a delay in completing the audit and filing a timely financial report.

Recommendation: We recommend that management emphasize the importance to the Treasurer's office in preparing and turning over accurate bank reconciliations for review and approval. We also recommend the proper review of the reconciliations when completed.

Management's Response: The bank reconciliations were completed accurately and timely up through September 30, 2009. On October 1, 2009, the City of Binghamton went live with a new financial software system, and initial software issues delayed bank reconciliations. The software issues were resolved, but the former City Treasurer was uncooperative and failed to complete the bank reconciliations. The bank reconciliation duties were taken away from the former City Treasurer and assigned to other staff to complete the bank reconciliations in question. Shortly thereafter, staff noticed inconsistencies in the city's records and the former City Treasurer was relieved of her duties due to theft. After discovery of the theft, the City re-reviewed and/or re-reconciled banks to which the former Treasurer had access. A new City Treasurer has been appointed and bank reconciliations are being completed in an appropriate manner.

2009-02. Cash

Condition: Treasurer was opening mail, recording receipts, making deposits and preparing bank reconciliations.

Criteria: There should be segregation of duties for these responsibilities in the handling of cash.

Cause: Lack of separating duties makes it easier for fraudulent activity to take place.

Effect: Subsequent to year end it was discovered the Treasurer was stealing cash.

Recommendation: We recommend that management put procedures in place that help ensure there are different personnel responsible in the handling of mail, recording receipts, making deposits and preparing bank reconciliations.

Management's Response: The former City Treasurer modified the controls in place for cash receipts, acting on her own, so that select incoming transactions were intercepted and processed by her. Controls were in place for cash receipts which allowed City employees to note the former City Treasurer's actions. The resulting inconsistencies were noticed by staff and brought to the Comptroller's office attention. It was through internal controls that the theft by the former City Treasurer was discovered. The former City Treasurer was charged with third degree Grand Larceny for the theft of \$17,000. The new City Treasurer's system permissions have been modified so that receipts can no longer be recorded by the City Treasurer.

2009-03. Material Audit Adjustments

Condition: During field work, it was necessary to propose material audit adjustments in order to record transactions and produce financial statements in accordance with generally accepted accounting principles (GAAP).

Cause: MUNIS, the new software, was implemented in 2009. More training should have been provided in utilizing the system and posting transactions before the implementation took place.

Effect: Multiple accounts in all funds, including cash, accounts receivable and accrued liabilities were misstated and had to be adjusted during the engagement. Cash receipts in 2010 were posted as 2009 cash receipts causing cash to be overstated. This also attributed to Finding 2009-01.

Recommended: We recommend Finance employees be retrained on utilizing MUNIS. Bank reconciliations and other reports produced by MUNIS could be beneficial if used to its full capacity.

Management's Response: The City of Binghamton went live with a new financial software system on the October 1, 2009, and adequate training was scheduled for staff prior to and during implementation, but the former City Treasurer was disruptive and uncooperative during the training process and failed in her duty to ensure that both her and her staff learned the new software system. Subsequently, the former City Treasurer was relieved of her duties in August 2010. Unfortunately, in the case of the former City Treasurer, no amount of training would have resolved these issues. In October 2010 a new City Treasurer was appointed and additional training has been provided to Finance staff to address these issues.

Section III - Federal Award Findings and Questioned Costs

Prior Year

No matters would be reported under the U.S. Office of Management and Budget (OMB) Circular A -133 "*Compliance Supplement.*"

Current Year

2009-04. All Programs Listed on the Schedule of Expenditures of Federal Awards (SEFA)

Condition: The City of Binghamton failed to be in compliance with the filing requirement under the U.S. Office of Management and Budget (OMB) Circular A-133 section 320. The report submission to the Federal Audit Clearinghouse is due the earlier of nine months after fiscal year end or 30 days after receipt of the report.

Cause: As discussed at Finding 2009-01, bank reconciliations were not prepared accurately or timely. Due to the delay in providing proper reconciliations, the audit was not completed before the due date for filing the submission.

Effect: In addition to not being a low-risk auditee for two (2) years, the City of Binghamton's funding from federal agencies could be jeopardized by not complying with this requirement.

Recommendation: We recommend the City be cognizant of filing requirements and ensure that all accurate reconciliations and information be provided to the auditors in a timely fashion.

Management's Response: The City of Binghamton's Finance department resources were placed under unprecedented demands during the end of 2009 and all of 2010. A new financial software system was being implemented. A key position in the Finance department experienced turnover. The City had four separate audits; two Federal and two State audits. Finally, the discovery and subsequent investigation of the theft perpetrated by the former City Treasurer put additional demands on an already overburdened staff. These events inhibited the Finance department's ability to address issues as they arose. It is anticipated the City will be able to provide accurate reconciliations and information to the auditors to ensure timely filings in the future