



City of Binghamton

Financial Operations

Report of Examination

Period Covered:

January 1, 2008 — August 17, 2010

2011M-17



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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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 City 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 Binghamton, entitled Financial Operations. 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 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 Binghamton (City) has approximately 47,000 residents and is located within Broome County in central New York. The seven-member Common Council (Council) is the City's legislative branch. The Mayor is the City's chief executive officer and the Comptroller is charged with superintending the City's fiscal affairs. The City Charter governs City operations and outlines the powers and duties of City management including the Council, Mayor, and Comptroller.

The City's 2010 general fund budget totaled \$56.8 million and was funded primarily by property taxes, sales taxes and State aid. The City provides the following services to its residents: general government support, police and fire protection, street maintenance, parks and recreation programs, and water, sewer and refuse service. In addition, the City owns and runs four parking facilities. The City also administers the Community Development Block Grant and Section 8 Housing programs. The City commingles funds for all of these services in its various bank accounts.

Scope and Objective

The objective of this audit was to determine if the Council and Mayor managed City affairs properly for the period January 1, 2008 to August 17, 2010. We expanded our scope to include the period January 1, 2005 through December 31, 2010 to review the City's financial records and financial condition. Our audit addressed the following related questions:

- Does the City have a healthy financial condition?
- Are internal controls over cash receipts properly designed?
- Did the Mayor and Council adequately manage financial operations?

Audit Results

We found that, while the accounting records report the general fund's unreserved, unappropriated fund balance as more than \$2.8 million, this amount is overstated because of misstatements of receivables and because of liabilities in other funds that the general fund would have to absorb. As a result, if the general fund was adjusted for these issues, it would have a deficit fund balance of \$551,287.

City officials could not account for over \$20,400 in cash receipts in the Treasurer's Office. After City employees discovered receipts were missing, the former Treasurer confessed to stealing about \$17,400 of this amount and has pleaded guilty to one felony count of fourth-degree grand larceny. The City

removed her from her position. The former Treasurer's overriding of internal controls partly allowed this theft to occur. Further, the Comptroller was not monitoring outside vendors used to operate the City's parking facilities and online systems for collection of water, sewer and parking violation payments. We found that over \$13,000 was unaccounted for in relation to parking operations.

Key aspects of the City's accounting records were deficient. Neither the Treasurer nor the Comptroller reconciled the amounts recorded as owed for water and sewer rents in the general ledger with the aggregate of the individual water and sewer customer accounts since at least December 31, 2008. We compared the control account with the subsidiary ledgers for five different months and found discrepancies of as much as \$1.1 million. Because of these deficiencies, the City Council does not have reliable financial information with which to make informed decisions and is not fully aware of the City's financial condition.

Comments of City Officials

The results of our audit and recommendations have been discussed with City officials and their comments, which appear in Appendix B, have been considered in preparing this report. Except as indicated in Appendix B, City officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix C includes our comments on issues City officials raised in their response.

Introduction

Background

The City of Binghamton (City) has approximately 47,000 residents and is located within Broome County in central New York. The seven-member Common Council (Council) is the City's legislative branch. The Mayor is the City's chief executive officer and the Comptroller is charged with superintending the City's fiscal affairs. The City employed a Deputy Comptroller and a Treasurer to assist the Comptroller with the City's finances. The Second Class Cities Law governs City operations by outlining the powers and duties of City management, including the Comptroller and the Mayor. The Mayor has the responsibility to supervise, direct and control the administration of all City government departments. The Comptroller is responsible for the City's finances.

The City began an upgrade to its financial accounting software in October 2009. This upgrade is still ongoing as of May 5, 2011. In addition, the City hired a management company to run the parking facilities owned by the City. It also contracted with two vendors to collect online payments on the City's behalf for parking fines and water and sewer payments.

The City's 2010 general fund budget totaled \$56.8 million and was funded primarily by property taxes, sales taxes and State aid. The City provides the following services to its residents: general government support, police and fire protection, street maintenance, parks and recreation programs, and water, sewer and refuse service. In addition, the City owns and runs four parking facilities. The City also administers the Community Development Block Grant and Section 8 Housing programs. The City commingles funds for these services in various bank accounts.

Objective

The objective of this audit was to determine if the Council and Mayor managed City affairs properly. Our audit addressed the following related questions:

- Does the City have a healthy financial condition?
- Are internal controls over cash receipts properly designed?
- Did the Mayor and Council adequately manage financial operations?

**Scope and
Methodology**

We examined the City’s cash receipts, cash disbursements and financial records for the period January 1, 2008 to August 17, 2010. We expanded our scope to include the period January 1, 2005 through December 31, 2010 to review the City’s financial records and financial condition.

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 D of this report.

**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 B, have been considered in preparing this report. Except as indicated in Appendix B, City officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix C includes our comments on issues City officials raised in their response.

City officials have 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 the 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 City Council to make this plan available for public review in the City Clerk’s office.

Financial Condition

Financial condition may be defined as the City's ability to balance recurring expenditure needs with recurring revenue sources, while providing 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 in fiscal stress usually struggles to balance its budget, suffers through disruptive service level declines, has limited resources to finance future needs, and has minimal cash available to pay current liabilities as they become due. As a result, it may have to borrow money from other funds. To ensure financial accountability, any interfund advances should be recorded in a timely manner, reported accurately, and repaid by the end of the fiscal year. Outside of a Council policy that specifies otherwise, any City operation that generates revenue should seek to be sufficiently supported by those revenues.

We found that, while the accounting records report the general fund's fund balance as more than \$2.8 million, this amount is overstated because of misstatements of receivables and because of liabilities in other funds that the general fund would have to absorb. As a result, if the general fund was adjusted for these issues, it would have a deficit fund balance of approximately \$550,000. In addition, many of the City's operating funds ran short on cash that resulted in other funds advancing them money. However, the Comptroller recorded these advances as negative cash balances instead of as interfund loans, which is improper accounting.

Deficit Fund Balances

The Board of Estimate and Apportionment,¹ with input from City department heads and staff, must ensure that budgets are prepared and submitted to the Council for adoption based upon reasonable and accurate assessments of resources to fund appropriations. The annual budget is a plan, subject to modifications when appropriate, that provides City officials with the information necessary to control City spending and ensure revenue projections are being met during the year. The Comptroller provides department heads with periodic financial reports to better monitor City operations against the amended budget.

The amount of available fund balance supports the budget estimates as a potential financing source. Fund balance is the cumulative difference between revenues and expenditures. Fund balance can be

¹ Comprised of the Mayor, the Comptroller, the City Engineer, Corporate Counsel, and the Commissioner of Public Works

reserved, or set aside, for particular purposes, or appropriated as a financing source for the ensuing year's budget. An operating deficit occurs when expenditures exceed revenues. An operating deficit can be planned for and financed by appropriating fund balance. An unplanned deficit also can occur when budget appropriations are exceeded, or the City receives less revenue than what was originally estimated.

Below is unreserved, unappropriated fund balance for each operating fund since 2005, as recorded in the City's general ledger:

	2005	2006	2007	2008	2009 ^a	2010 ^b
General Fund	\$982,386	\$2,432,617	\$262,917	\$1,767,693	\$1,274,361	\$2,820,694
Refuse Fund	\$33,908	\$10,901	(\$167,997)	(\$163,743)	(\$95,585)	(\$27,841)
Parking Fund	(\$155,646)	(\$272,676)	(\$389,740)	(\$398,140)	(\$312,616)	(\$187,523)
Recreation Fund	(\$148,441)	(\$245,370)	(\$353,041)	(\$409,350)	(\$458,918)	(\$492,132)
Sub-Total: General Fund Obligations	\$712,207	\$1,925,472	(\$647,861)	\$796,460	\$407,242	\$2,113,198
Sewer Fund	\$949,534	\$1,273,725	\$1,398,047	\$957,236	\$534,005	(\$343,104)
Water Fund	\$287,888	(\$157,791)	(\$339,294)	(\$119,776)	\$424,062	\$1,026,529

^a We did not audit the 2009 figures, but made some adjustments that the external auditors recommended.
^b We obtained the 2010 figures from the trial balance prepared by the City, which we have not audited, and the external auditors have not adjusted.

General Fund – The general fund reported a positive, but significantly overstated, fund balance over the past six years. Much of this fund balance is supported by \$3.5 million reported as due from the County for the unpaid property taxes for properties that the County owns. In April 2010, the County provided the City with a report showing the County's estimate of the value of the remaining liens to be \$2.5 million less than what the City had recorded as a receivable. The Comptroller increased the allowance for receivables by \$1 million as of December 31, 2009; however, this allowance should be increased by an additional \$1.3 million.

In addition to the general fund's overstated receivable, the self-insurance (MS) fund, which is used to account for the City's workers' compensation claims, has net current assets² of a negative \$1.4 million as of December 31, 2010. This deficit is a general fund liability and could cause the fund balance to decrease. In addition, the general fund is liable for the deficits of the parking, refuse and recreation funds, which are \$707,000 for the 2010 fiscal year. In fact, since the recreation fund is no longer financed on a user fee based system, it should be absorbed by the general fund.

² The MS fund has a total deficit, including long-term assets and liabilities, of \$3.7 million. These represent estimated liabilities provided by the City's third-party administrator of potential workers' compensation claims. These claims are from prior years when the City was self-insured for workers' compensation.

After considering all the adjustments discussed above, the general fund's available fund balance is negative \$551,287.

Table 2: Adjusted General Fund Balance December 31, 2010	
Fund Balance per Accounting Records	\$2,820,694
Adjustments to Balance Sheet Accounts:	
Overstated Receivable (Taxes from County)	(\$1,300,000)
MS Fund	(\$1,364,485)
Other Funds That are General Fund Obligations:	
Refuse Fund	(\$27,841)
Parking Fund	(\$187,523)
Recreation Fund	(\$492,132)
Net Fund Balance	(\$551,287)

Because of the overstatement of fund balance, the general fund has had significant cash flow issues and has needed to borrow cash from other funds (as discussed in the finding entitled "Interfund Advances").

Sewer Fund – The sewer fund finances the City's collection, treatment, and disposal of wastewater. The sewer fund's fiscal health has declined over the six fiscal years ended 2010 due to the continual use of available fund balance to finance sewer operations and rising expenditures. The City appropriated a total of \$2.4 million of fund balance over the past six years. In addition, the former Deputy Comptroller told us that sewage expenditures have increased drastically over the past few years. For example, the City's contractual expenditures for sewage treatment increased by \$1.7 million from fiscal years 2005 to 2009, without a corresponding increase in revenue until the 2009 fiscal year. During the 2009 budget process, the City estimated that revenue would increase from \$6.4 million to \$8.2 million as a result of a rate increase; however, the City realized only \$7.6 million in revenue in 2009 with the increased rates. The unreserved, unappropriated fund balance was a deficit of approximately \$340,000 at December 31, 2010.

Water Fund – The water fund is used to account for the purification and delivery of water to City residents. Between 2005 through 2007, the water fund had operating deficits totaling more than \$1.5 million. Generally, the water fund's actual expenditures were less than budgeted appropriations; however, revenues fell short of budget estimates by an average of \$205,000 each year. City officials used fund balance to finance these operational shortfalls, and they

appropriated the last of their fund balance totaling \$248,500 to finance a planned deficit in 2006. This caused the water fund to have deficit unreserved, unappropriated fund balances from 2006 to 2008. In response to a history of insufficient revenues to finance expenditures, the City raised rates by 77 percent from 2007 to 2009. As a result, the water fund's 2009 year end unreserved, unappropriated fund balance was positive \$424,000, and the 2010 fund balance was over \$1 million.

Interfund Advances

Any interfund borrowings should be recorded to maintain a clear view of the City's financial condition and need of each underlying accounting fund. The Council must approve any loans that exceed \$10,000. Such loans should be paid back at year end. The need for one fund to borrow from another is an indication of cash flow problems which also may indicate financial concerns. The preparation of cash flow analyses for the various funds is a useful tool to foresee the need for interfund borrowings.

The City has one checking account which is used by the general, water, sewer, parking, recreation, refuse, workers' compensation, capital, and pension funds. The City's commingling of funds enabled operating funds with cash flow problems to use available cash from other funds without formally recording those advances. We reviewed cash flow activity through September 30, 2010 and found that the general fund had positive cash balances for eight of the nine months reviewed; the refuse fund had positive cash balances for two of the nine months; the water fund only had positive cash once during the nine months; the parking and recreation funds never had cash for their operations; and the sewer fund had positive cash during all nine months. Instead of reporting zero cash and establishing an interfund liability when performing interfund advances, the Comptroller allowed various funds' cash accounts to be recorded as a negative without identifying the fund that cash was owed to.

Because the Comptroller did not prepare a cash flow analysis, the interfund loans occurred without being approved by the Council or being recorded by the Comptroller. As a result, in their report on the City's financial statements, the external auditors included cash balances as zero (if applicable) for each fund and then showed a liability to the capital fund. However, the capital fund has money that is likely restricted for specific purposes and cannot be advanced to other funds. Since the Comptroller does not complete a cash flow analysis, City officials did not have information about City funds' cash balances, and there was confusion about which funds had loaned money to other funds.

Recommendations

1. The Council should adopt budgets that accurately estimate revenues, expenditures and available fund balance and then monitor actual activity against the budget throughout the year to avoid unplanned operating deficits.
2. All interfund advances should be properly recorded in the accounting records and paid back by year end. Advances must be from funds that do not contain restricted moneys.
3. The Council should continuously monitor the City's finances, including cash and interfund borrowings, to reestablish a positive fund balance and correct cash flow deficiencies.
4. The Comptroller should perform cash flow analyses to monitor the various operating funds' fiscal health.

Financial Accountability

The Comptroller is responsible for the City's financial affairs. He should ensure that proper internal controls are in place over the City's financial operations to safeguard City money. Also, the Comptroller should monitor any vendors that provide services involving the City's cash collections to ensure those vendors deposit all money due to the City. Finally, the Comptroller should ensure that reimbursements to the vendors are provided only with adequate support.

City officials could not account for \$20,400 paid to the City at the Treasurer's office. After City employees investigated a reduction in parking ticket receipts, the former Treasurer confessed to stealing \$17,400 of this amount; the rest is unaccounted for. In addition, the vendor responsible for managing the City's parking facilities could not account for at least \$13,000 in receipts. Also, the City did not monitor the online vendors receiving certain payments on behalf of the City to ensure they were turning over all the money due to the City.

Cash Receipts

The Comptroller must ensure that internal controls are in place over cash receipts to provide reasonable assurance that the City's money is secure. Internal controls can include segregating duties so that one person does not control all aspects of the transaction. If complete segregation of duties is not feasible, someone independent of the process should review the work performed. This review should ensure that all money collected is deposited intact.³ In addition, duplicate press-numbered receipts should be tracked and accounted for, and any changes to a customer's account should be documented and reviewed for appropriateness.

Proper internal controls were not in place over the cash receipts process. Although some controls were corrected with the installation of new accounting software beginning in October 2009, significant weaknesses remained. In the beginning of our audit period, cashiers within the Treasurer's office did not track duplicate press-numbered receipts issued to customers or other City departments to ensure that all moneys collected were recorded and deposited. In addition, the Treasurer's cash receipts duties were not segregated; she collected, recorded, and deposited cash and also could adjust water, sewer, and parking fine transactions without any oversight. She also was solely responsible for relevying unpaid water and sewer accounts on the respective real property tax bills.

³ Intact means that the cash vs. check composition at the time of sale is what was deposited into the bank account.

The Treasurer also prepared a report that summarized the cash collection activities of up to three cashiers in the Treasurer's office. Although the accounts payable clerk ensured this report matched the deposit slips, she did not compare the source documentation from the cashiers to the deposit slips to determine that all moneys were deposited intact. City employees voided cash receipt transactions from the cash register system; however, the Comptroller could not provide us with any support for these voided transactions. In addition, the Comptroller and the Treasurer did not have procedures in place to ensure that all the money collected by other City departments was being deposited.

In July 2010, City employees detected a decline in parking ticket receipts. Their investigation found that the former Treasurer was substituting checks received for cash and then keeping the cash. We verified this substitution activity. We traced two months of cash receipts to a deposit in the bank and to the accounting records and verified 15 months of City deposits for intactness.⁴ In total, we found that the former Treasurer deposited \$20,439 less than what she and her staff actually collected. For example, we found that the former Treasurer received checks mailed to the City for parking ticket collections and did not properly record revenue totaling \$17,365. Although these checks were deposited into a City account, the amount of cash deposited was less than what was reported by the collective cashiers, and the checks for parking ticket collections were not recorded as revenue received. Apparently, the former Treasurer took cash equaling the checks that she received for parking ticket collections and substituted the unrecorded checks for the cash in the deposit. She confessed to taking \$17,365, was arrested, and pleaded guilty to one felony count of fourth-degree grand larceny. The Mayor and Comptroller told us that the former Treasurer disregarded proper procedures to perpetrate this fraud.

We also found an additional \$2,900 in discrepancies in the former Treasurer's records (see Appendix A, *Details of Discrepancies Found*). These discrepancies occurred because expected procedures were not followed and/or controls were not designed adequately over the collection and recording of moneys received by the City. The City's cash receipts process remains susceptible to significant risks of loss because moneys may be collected, not recorded, and not deposited with limited ability to detect and correct the action. Prior to October 2009, the risk of loss was much higher because of the near vacancy of internal controls over cash receipts, including lack of retaining documentation.

⁴ See Appendix D for more detailed methodology (steps 7-15 pertain to the cash receipts testing).

Monitoring Outside Vendors The Comptroller must monitor the performance of certain outside vendors with which the City contracts to manage and operate certain City properties. The Comptroller should develop reporting systems to monitor the vendors' contractual obligations and verify that all moneys due the City are paid over, and that payments to vendors are authorized and for appropriate purposes.

The Comptroller did not develop a system to monitor the performance of various vendors contracted to manage and operate certain City operations. As a result, receipts from and disbursements to vendors that manage the City's parking operations and an online system to collect water and sewer rents and parking ticket fines were not always adequately supported.

Parking Operations – The contract between the City (via the Binghamton Parking Authority⁵) and the vendor that runs the parking operations states that the Comptroller should establish procedures for the collection and deposit of money. These procedures should ensure that all money collected by the vendor's employees from the various City-owned parking facilities are accounted for and deposited into a City bank account, and that everyone who uses a City parking facility pays the amounts due. Also, any payments to the vendor for reimbursements of its expenditures should be properly supported.

The Comptroller did not create appropriate procedures to ensure that all money collected by the vendor's employees was accounted for and deposited into a City bank account. Instead, the Comptroller relied on the vendor's internal controls. However, the vendor's controls were inadequate, as the same employees that collected payments for monthly parking permits also recorded the payments and deposited the money. Further, the vendor did not have procedures in place to verify that all tickets issued at the parking facilities were paid for by the customers. Finally, the Comptroller authorized payments to the vendor for reimbursement based only on summary statements instead of actual invoices or bills for those expenses.

⁵ The Binghamton Parking Authority was created by L 1969, ch 903 (Public Authorities Law §1599 et seq.). Pursuant to Public Authorities Law § 1599-c, its corporate existence was to continue only until December 31, 1999, "and thereafter until all its liabilities have been met and its bonds have been paid in full ... or otherwise discharged" (see also Public Authorities Law § 1599-q). While we found that the Authority continues to hold regular board meetings and otherwise conduct current operations, the City was unable to provide us with evidence that it still has outstanding bonds or other liabilities. Nonetheless, for purposes of this Report, we have assumed that the Binghamton Parking Authority still has a corporate existence. The City, however, should consult with the Corporation Counsel to determine that the Authority continues to meet the statutory criteria for having a continued existence. Note that upon the Authority's ceasing to exist, all its rights and properties pass to the City (see also Public Authorities Law § 1599-q).

Because of these weaknesses, we tested all 10,800 accounts and their issued monthly parking tags for eight randomly selected months to the vendor's records and to deposits into the City's bank account. We also reviewed 1,205 tickets related to parking for events for the same eight months to determine if all the money collected at these events was deposited into the City's bank account. Finally, for one month, we determined whether all 1,000 electronic swipe cards issued were associated with a payment into the City's bank account. We found a pattern of regular and consistent discrepancies totaling \$13,000 (see Appendix A, Detail of Discrepancies Found).

In addition, the Comptroller did not require supporting documentation when the vendor submitted a reimbursement for its expenses. We reviewed 34⁶ invoices totaling \$31,400 out of the \$768,900 paid to the vendor during our audit period; none of these claims were supported by invoices. Instead, they were supported by a summary report of expenses paid by the parking vendor. The Comptroller authorized payments for eight invoices totaling \$7,400 in which the vendor could not provide documentation as to why it was charging the City the price listed on the claim form. For example, the City pays the vendor \$52,400 a year for liability insurance. The vendor does not maintain support on file for the amount charged. Without proper documentation, the City could pay for expenses that do not relate to its parking operations.

On-Line Payment Vendors – The City also contracts with two vendors to operate on-line systems. The first vendor provides a system through which water and sewer customers can pay their bills. The second vendor collects payments from people for fines resulting from tickets they received for parking violations. The Comptroller is responsible for designing a system that monitors the money collected on-line by these vendors. Such a system should include verifying that all moneys paid on-line are recorded and deposited in the City's bank account in a timely manner. This can be achieved by comparing the amounts recorded as collected by the vendor to the amount deposited in the City's account.

The Comptroller did not establish procedures to effectively monitor the two on-line payment vendors to ensure that they deposited all of the money that they received from customers into City bank accounts. Thus, City officials cannot be sure that all moneys due the City are collected and deposited by these vendors on a timely basis.

⁶ We reviewed all the claims for reimbursement for expenses that were higher than amounts routinely paid to the vendor.

Water and Sewer Payments – Throughout a given month, the vendor will deposit moneys collected from water and sewer customers into a City account. The former Treasurer told us that she would obtain a listing of customer payments from the vendor to post to their individual accounts. However, she did not compare these payments to the vendor’s deposit to ensure that all moneys reported as collected were deposited in a timely manner. Since the vendor did not provide detailed documentation supporting the amounts deposited, often representing multiple payments, City officials could not provide us with documentation to verify that each payment was deposited.

Parking Fine Collection – The vendor deposits moneys collected for parking fines paid on-line into a City bank account. However, City officials do not maintain an inventory of parking tickets issued, paid, and still outstanding to compare to the on-line vendor’s activity. Therefore, the Comptroller cannot verify that all parking ticket payments received by the vendor are deposited. The City does not keep a listing of parking tickets that were entered into the parking ticket system and, therefore, could not provide us with documentation to verify that all the tickets entered into the system were accounted for.

When adequate internal controls and systems are not in place to monitor performance against contractual obligations and expectations, not only are the respective revenue streams at risk of loss, but the underlying assets being managed are as well. In addition, inappropriate payments may be made without detection or correction. The City does not have adequate systems in place and, as a result, money was missing from the Treasurer’s office and from the parking operations.

Recommendations

5. The Comptroller should establish internal controls over the cash receipts process, and document this process to provide reasonable assurance that City money is secured. These controls should include:
 - Segregating duties or implementing effective mitigating controls
 - Verifying that all moneys are deposited intact
 - Monitoring other City departments’ cash collection activities
 - Documenting and reviewing any changes to a customer’s account.

6. The Comptroller should establish procedures that ensure that everyone who parks at City-owned facilities is charged appropriately and that all moneys received by the vendor are deposited into the City's bank account.
7. The Comptroller should require the parking facility vendor to include sufficient documentation to support its reimbursement requests.
8. The Comptroller should put procedures in place to verify that both online payment vendors are turning over all the money they have collected to the City.

Financial Records

The Comptroller is responsible for verifying that the amounts billed by the City, paid by customers, and owed to the City for water and sewer services are accurate and complete. A key control over the water and sewer billings is comparing the Water and Sewer Rents Receivable Control Account (control account)⁷ with the aggregate subsidiary accounts.⁸ Such comparison helps to ensure the accuracy of the amounts owed and to assist in verifying that all the amounts billed were properly collected, deposited and recorded, or remain outstanding. Any discrepancies should be investigated and resolved.

The control account does not balance with the aggregate subsidiary accounts. We compared the control account with the subsidiary ledgers for five different months and found the following discrepancies:

Month End	Receivable Control Account	Total of Subsidiary Ledgers	Difference
November 2007 ^a	\$1,298,150	\$1,298,150	\$0
December 2008	\$1,670,815	\$1,635,308 ^b	\$35,507
December 2009	\$2,924,047	\$2,056,093	\$867,954
March 2010	\$2,848,362	\$1,680,844	\$1,167,518
July 2010	\$1,617,099	\$1,631,562	(\$14,463)

^a November 2007 was the most recent date that City officials were able to reconcile the control account to the subsidiary ledgers.
^b The total of the subsidiary ledgers is per the City's reconciliation; as of the end of fieldwork, the Comptroller could not provide us with support for this number.

The Comptroller did not ensure his staff verified that the water and sewer rents receivable matched the subsidiary ledgers on a monthly basis. In fact, the former Deputy Comptroller completed the most recent analysis in December 2008 and found more than \$35,000 in discrepancies. Although City officials followed up on the majority of the \$35,000 in discrepancies, they were not able to provide us with support to explain any of these discrepancies while we were conducting our fieldwork.

If the control account does not match the aggregate of the subsidiary accounts, it is likely that activity was recorded in one account and not the other. Such activity could include recording a payment for an individual customer without recording a corresponding payment to reduce the receivable in the City's control account. When these discrepancies are not identified, the error or wrongdoing will remain undetected. Also, when the control account is not supported by the

⁷ This account tracks the total water and sewer amount billed, paid, and owed.

⁸ These accounts are the individual customer activity and balances.

subsidiary ledger, the actual amount of what is owed to the City cannot be verified. These recording discrepancies could have been made in error or intentionally to cover up wrongdoing.

Recommendation

9. The Comptroller should put procedures in place to reconcile the water and sewer rents receivable control account to the aggregate of the subsidiary ledgers.

APPENDIX A

DETAIL OF DISCREPANCIES FOUND

Treasurer's Office, 43 instances totaling \$23,339:

31 instances totaling \$20,439 of less money deposited

- We found 12 instances totaling \$17,365 in which the former Treasurer substituted unrecorded checks for parking ticket collections for cash in the daily deposit. The former Treasurer confessed to taking \$17,365; she was subsequently arrested and removed from her job.
- We found three additional instances totaling \$678 where money was not deposited intact.
- We found 10 instances totaling \$1,900 where the former Treasurer deposited less money than the cashiers gave to her (per the cashiers' signed cash drawer reports).⁹
- We found three duplicate receipts totaling \$376 that were not recorded on the financial records or deposited into the bank.
- We found three voided parking tickets that were unsupported totaling \$120.

6 instances totaling \$1,100 of more money deposited

- We found two instances totaling \$500 in which deposits were not made intact. In fact, the former Treasurer deposited more cash than the clerks gave to her but, in total, deposited the same amount that the clerks gave to her.
- We found four instances totaling \$600 where the former Treasurer deposited more money than was given to her per the signed cashier's reports (the total discrepancy included only checks).

We also found six instances totaling \$1,800 where the former Treasurer cashed her own personal checks in the daily cash deposit.¹⁰

Parking Operations: 393 instances totaling \$13,346

- There were 240 monthly parking tags issued to various customers. Although the vendor recorded payments totaling \$10,000 in the customers' records, neither the vendor nor City officials could provide documentation to determine that a payment was deposited in the City's bank account for these tags.

⁹ We found two instances in the new system that had reasons why the funds were not deposited; the parking tickets were already paid, and the former Treasurer mailed payees back their checks. However, there was no documentation to support that the money was mailed back to the person in the new or old system.

¹⁰ These checks were properly deposited but cash was removed from a deposit. Therefore, the integrity of the cash vs. check composition was not accurate for this deposit.

- There were 44 monthly parking tags used, but neither the vendor nor City officials had documentation to trace these tags to the customers' records or to a payment in the City's bank account totaling about \$2,000.
- Two ramps use monthly parking tags and electronic swipe cards to get in and out of the parking ramps. We found 20 swipe cards totaling \$990¹¹ used at the ramps but neither the vendor nor City officials could provide us with a record of payment for these cards.
- The log book showed that parking tickets were issued for an event in May 2009. We determined that there were 89 tickets issued at this event, resulting in \$356 in revenue. Neither the vendor nor City officials could provide documentation to determine that this money was deposited into the City's bank account.

¹¹ Of these 20 unaccounted for swipe cards, six belonged to parking ramp personnel. However, the contract did not state that these workers could park for free.

APPENDIX B
RESPONSE FROM CITY OFFICIALS

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



Office of the Mayor and City Council

Mayor, Matthew T. Ryan

Council President, Charles Kramer
Finance Chair, Teri RENNIA

BINGHAMTON CITY COUNCIL RESPONSE TO NYS OSC AUDIT 2011M-017 PERIOD COVERED: JANUARY 1, 2008 TO AUGUST 17, 2010

On October 20, 2008, the Binghamton City Council passed Resolution R08-95 requesting the NYS Office of the Comptroller to perform an audit of the City of Binghamton's finances. This request was made in recognition of the mounting fiscal challenges being faced by the City of Binghamton. The City Council also wanted to ensure that all of the City's financial operations were as efficient and transparent as possible. We are grateful for the diligent efforts of the Office of the State Comptroller. Their examination has provided very useful information. As noted in the Executive summary of this report, "the City Council does not have reliable financial information with which to make informed decisions." This report will be very helpful as we move forward with proposed institutional changes to improve the City's fiscal oversight.

Structured as we are, as a Second Class City, the City of Binghamton has a "strong Mayor's position." City Council acts on financial and other decisions based upon information provided by the City Comptroller's office. City Council and the Mayor's Administration have reviewed the OSC Report of Examination and we are providing this response in accordance with the OSC Request that the best response would be from both governing bodies.

The financial standing of the City of Binghamton is of great concern to the City Council and the Administration, and our efforts over the last four years, most in partnership with each other, have resulted in the slow but steady improvement of nearly all fund balances. Rather than pass on difficult decisions, we have committed to collaboration, openness and informed deliberations in order to address our financial stresses in a responsible manner. Knowing most fund balances had been in decline since 2003, this Council and Administration carefully researched, analyzed and implemented necessary increases to water fees, sewer fees, parking fees and garbage bag fees. We went to outside management for the golf course, and approved nearly 50% increases to the self-insurance fund in 2010—the benefit of which was negated by state "reforms" to worker compensation laws that have dramatically increased expenses and ongoing liabilities to local governments. And with increasing rigor, we have pursued cost-saving reforms and carried out substantial spending cuts during the last three budget cycles. The Council and the Administration will continue our strong cooperation in heeding the various OSC recommendations to tighten fiscal systems. And when necessary, we will push ahead independent from one another, just as we did in requesting this OSC Audit.

We provide more direct responses below to some of the key issues raised in this report:

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1. **GENERAL FUND BALANCE.** The OSC report correctly draws attention to the outstanding tax receivable due to the City from the County, the last outstanding item of the very successful tax consolidation agreement of 2006. As the report notes, the County provided documentation to the City in April 2010 of the estimated value of the remaining liens. According to the City Comptroller, there appear to be discrepancies in the back-up documentation. The OSC report recommends that the City write-off \$1.3 million to clear this receivable. Prior to the development of the 2012 Budget, the City Council will direct the Comptroller to encumber \$1.3 million from the unreserved, unappropriated general fund balance, and then work cooperatively with the County and City Administrations to conduct a third-party audit of this transaction to carry out our fiduciary responsibility to all taxpayers.
2. **UNRECONCILED WATER & SEWER RENTS.** During the time of the examination, the City was in the process of upgrading to a new financial enterprise software, ██████ which went live October 2009. This investment was made with the support and advocacy of both the Administration and the Council because there was a clear understanding that the outdated systems being used by the City were fraught with areas for concern. The implementation of this new enterprise software is intended to more accurately track the various financial operations as well as clarify user rights. This major IT reform will not only enhance internal controls and the segregation of duties, but will also provide department heads, the executive office, and City Council with real-time analysis, more reliable financial reporting, greater accountability and improved fiscal management. Many of these benefits were acknowledged in the auditor's report, and the City remains committed to fully tap the potential of this major software investment to the benefit of local taxpayers and to readily address some of the concerns noted in this audit.

To be anticipated with any enterprise-wide software upgrade, such as ██████ there were issues that arose during the transfer of data from one system to another. In fact, the discrepancies in utility fund balances noted in the OSC report were a direct result of glitches during implementation of the utility billing module in October 2009. Fortunately, as the audit findings reveal, the discrepancy between the receivable control account and subsidiary ledgers—which were excessive in December 2009 and March 2010—were mostly resolved and corrected by July 2010 (less than \$15,000 difference). The Comptroller's Office and ██████ software representatives confirm water/sewer billings have been posting correctly for nearly a year, and that more focus can be applied to correcting the minor, past discrepancies now that the year-long audit, ██████ conversion/implementation glitches, and incident with the Treasurer are completed.

3. **SEGREGATION OF DUTIES.** In order to address some of the identified weaknesses over internal controls, the Council is beginning an examination of the City Code and Charter as they pertain to financial operations. The goal of this will be to clarify titles and duties of personnel involved in fiscal management. We anticipate that changes will more clearly define various positions with fiscal responsibilities, and better segregate job

duties. In addition, it is anticipated that City Council will introduce additional legislation to ensure that future financial matters are addressed with increased legislative oversight.

4. **REPORTING & INFORMATION SHARING.** City Council engages in a line by line review and approval process of the City of Binghamton operations budget every year. This is completed based upon information provided by the City Comptroller. Moving forward, as a part of the City's Corrective Action Plan, tighter controls and greater reporting requirements will be instituted on the Office of the City Comptroller. Several steps are already being explored and we would anticipate that improvements, based on OSC recommendations will already be in place by the time of the Corrective Action Plan. ██████ appears to have improved managers'—as well as the public's—access to reports, and the Council will continue to encourage and, if necessary, require the Administration's laudable commitment to posting monthly budgets online for public review (launched in February of 2011).

While it is noted that the majority of recommendations of OSC are referred to the Comptroller of the City, Council members will be playing a greater role in ensuring the City is managing its finances in the best ways possible. For example, the Council's Finance Chair will participate in future efforts to search for and recruit personnel to the City's Finance Department. To date, the Council has not participated in such efforts.

5. **INTER FUND TRANSFERS & CASH FLOW ANALYSIS.** As far back as 2002, the City has been submitting Annual Update Reports to the Office of the State Comptroller with negative cash balances and without interfund loans—and the OSC has not raised concerns once during this period. *That being said*, legislation is currently being pursued by City Council, and will be presented to the Mayor, placing tighter controls on inter-fund borrowing. This legislation will require the comptroller to follow best practices, such as recording journal entries "due to" and "due from" to balance the transaction. The comptroller will also be required to develop cash flow models for each fund based on historical data and anticipated needs. Quarterly, he will report to the Council on cash balances and anticipated borrowing. These reports will address actual cash flow as well as inter-fund transfers. The goal of this legislation will be to create greater accountability as far as commingling of funds is concerned.

As mentioned above, the Administration has worked with the City Council over the past several years to improve nearly every one of the City's fund balances. We are, however, limited by the same practical considerations of all other stressed cities, particularly those upstate, that increases to taxes and user fees must be gradual, extended over multiple years and combined with cost-effective reforms and spending cuts. As we maneuver carefully and successfully through one of the nation's worst economic climates, the City will continue to advance a long-term financial strategy that moves fund balances toward the black without overwhelming property owners and renters with dramatic increases across the board or drastic reduction of services.

6. **MONITORING OF ONLINE VENDORS.** City Council will further mandate greater accountability from the City's outside vendors. This will include, but not be limited to monitoring performance, receipt of payments and proper documentation for expense reimbursement. Additionally, Council will begin a review of the Parking Authority. This review will examine whether it is necessary to continue to have a separate entity to oversee that management company. Other steps will be taken with regards to outside vendors as well. It is anticipated that these will include requiring SAS 70 from vendors to establish that their internal controls are in good standing. We will also look at bonding outside vendors.

As state and federal governments continue to face increasing financial strain, it should only be expected that municipal governments will also face increasing financial stress. The residents and taxpayers of the City of Binghamton have a right to expect that their tax dollars are managed in a responsible way that maximizes efficiencies at every level. This report illustrates that we have restored health to most of our fund balances over time despite extremely challenging circumstances. This report also illustrates that there are areas where we need to do a better job of accountability. The weaknesses of specific internal controls cited in the OSC Report are cause of concern to the Binghamton City Council and the Administration. We recognize the immediate need for enhanced internal controls and greater oversight based on accurate information. We look forward to more fully developing and implementing the Corrective Action Plan to improve the overall financial condition of the City.

Finally, in keeping with the City's long track record of transparency and engaging the public in more meaningful dialogue about local government actions and decisions, the City will develop a specific page on the city's website (Finance Department) to provide additional information and progress with implementing the Corrective Action Plan (www.cityofbinghamton.com).

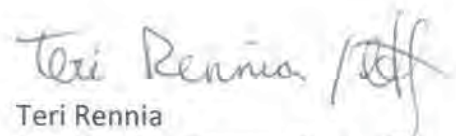
Very truly yours,



Matthew T. Ryan
Mayor



Charles Kramer
City Council President



Teri Renna
City Council, Finance Chair

The City Comptroller wanted to include the following clarifying notes. As the City Council did not want to feature them in the body of the City's official response, we are including these on a separate sheet:

- a. The Office of the State Comptroller's assertion that the Self-Insurance Fund is solely a General Fund liability is inaccurate and does not accurately reflect the structure of the Self-Insurance Fund. This fund is an internal service that receives its revenues from not just the General Fund, but also each of the other funds, including the Water and Sewer funds. The Self-Insurance Fund liability would only need to be absorbed in the event that the City ceased operations; at that point, the liability would be allocated proportionally across all of the operating funds.
- b. The liabilities in the other funds (Refuse, Parking, & Recreation) would need to be absorbed by the General Fund only in the event that operations are ceased.
- c. All of the City's operating fund balances, whether positive or negative, have been reported annually in the City's Audited Annual Financial Statements. Since 2006, these statements have been available on the City's website.
- d. In regards to cash receipts, controls are in place to provide reasonable assurance that the City's money is secure. These controls allowed City employees to note inconsistencies in cash receipts, bring them to the attention of the Comptroller's Office, and resulted in the arrest of the former Treasurer.

See
Note 1
Page 28

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Note 2
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Note 3
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APPENDIX C

OSC'S COMMENTS ON THE CITY OFFICIALS' RESPONSE

Note 1

We assigned the Self-Insurance Fund's deficit cash position to the General Fund because the Comptroller did not present any records assigning the liability otherwise. We found that the vast majority (approximately 88 percent) of the activity in the Self-Insurance Fund related to the General Fund. Moreover, while the Self-Insurance Fund's total deficit was approximately \$3.7 million, we assigned only the negative cash balance as a General Fund liability. Finally, it is not correct that the General Fund would only be responsible for this liability if the City ceased operations. With no money and substantial liabilities, the Self-Insurance Fund will have to borrow money from the General Fund or significantly increase charges; either way, the General Fund will have to fund the Self-Insurance Fund's liabilities.

Note 2

Liabilities should be reorganized on an on-going basis, without regard to the operations ceasing. The General Fund is used to account for all governmental operations that are not required to be recorded in a separate fund. The financial position of the Recreation, Parking, and Refuse Funds are General Fund obligations simply because they are not the liability of the Water or Sewer Funds.

Note 3

While we applaud the City staff members who discovered the fraud perpetrated by the former Treasurer, the fraud occurred because the Treasurer was able to circumvent the City's controls. As of the date of our audit, the City's cash receipts process remains susceptible to significant risks of loss because moneys may be collected, not recorded, and not deposited with limited ability to detect and correct the action.

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by City officials to safeguard City assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial records and reports, cash receipts and disbursements, procurement, claims processing, payroll and personal services, user charges and information technology.

We interviewed City officials and employees and reviewed Council minutes, Council policies and City procedures to obtain an understanding of the City's operations. We also reviewed relevant contracts between the City and outside vendors. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected cash receipts and disbursements, financial records, and financial condition.

Financial Condition¹²

1. We reviewed the trend of revenues, expenditures, receivables, payables and fund balances from the 2005 to 2009 fiscal years.
2. We compared the budgeted revenues and expenditures to the actual results of operations for the 2005 to 2009 fiscal years.
3. We reviewed the details of various receivable and payable accounts to determine if they were reasonably estimated for the fiscal years ending 2008 and 2009.
4. We reviewed the latest CPA financial statements for the year ending December 31, 2008 to determine how they reported the City's interfund loans.
5. We gained an understanding over what accounting funds share the same bank accounts.
6. We reviewed the cash balances per the general ledger for each fund to determine when the cash balances were negative.

Cash Receipts

7. We received collection reports from eight third party vendors and three City departments in which the moneys were given to the Treasurer's office mainly during our audit period. We traced \$1.8 million in payments to the Treasurer's reports.¹³ We attempted to conduct this testing from January 2008 to August 2010, but all of the vendors only had 2009 and 2010 data available.

¹² We reviewed the general, water, sewer, recreation, parking, refuse and MS funds for our financial condition finding.

¹³ We later traced from the Treasurer's reports to the deposits (for 15 of 29 months).

8. For every business day in November 2008 and May 2009, we added up all the duplicate receipts totaling \$3.9 million that were attached to the Treasurer's reports to ensure the totals equaled the deposits. These duplicate receipts were issued by the Treasurer's office and other departments.
9. For 15 of the 29¹⁴ months in our audit period, we tested the deposits totaling \$72.4 million for the proper intactness using the bank images of the deposit tickets. For this sample, we also added up the three cashiers' cash drawer reports and validation tapes¹⁵ to ensure all the money the cashiers collected was deposited into the bank.
10. We reviewed each deposit per the bank statement for all the bank accounts for November 2008 and May 2009 totaling \$4.7 million to ensure that they were all supported by a City transaction.
11. We analyzed a report that showed all the deleted cash receipt transactions in the new computerized financial software for October 2009 to August 2010.
12. We reviewed the October 2009 report of billing voids in the new computerized financial software for support.
13. City officials were not able to provide us with a report of all the cash activity so that we could see what receipts were voided in the cash register system that the City used until October 2009.
14. We tested 19 water/sewer accounts totaling \$9,900 from May 2009 to April 2010 to ensure each of the adjustments were supported and that all payments were deposited into the bank.
15. We tested 145 dismissed parking tickets totaling \$9,000 for October and December 2009 and April 2010 to ensure they were supported by a judge's approval.

Monitoring Outside Vendors

16. For eight months, we compared all 1,205 parking tickets issued for events to the bank statement deposits for these events.
17. For eight months, we reviewed cash received per the parking attendants' reports totaling \$482,400 to the cash deposited on the bank statements.
18. For eight months, we reviewed all the 10,800 customers' account activity recorded in the sheets maintained by the parking facilities operator and parking attendant's reports on file at the parking garage to bank statement deposits for the individuals who pay for monthly parking tags. For eight months, we compared all the used monthly tags to a deposit into the bank account for these items. For one month, we reviewed all 1,000 electronic key card activities to ensure each key card used was associated with a monthly tag that was paid for.
19. We reviewed 34 invoices totaling \$31,400 out of the total paid to the vendor totaling \$768,900 during our audit period. These invoices were paid out of expense lines that were higher than the normal monthly payment.

¹⁴ We could not get deposit ticket images from the bank of those deposits where less than five checks were deposited.

¹⁵ Validation tapes were only used in the previous financial system.

Financial Records

20. We compared the accounts receivable control accounts in the water and sewer funds to the detailed listing of water and sewer arrears for five months.

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

APPENDIX E

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