

FINANCE

Tuesday, January 16, 2018 – 5:30 p.m.

Police Training Room – Olean Municipal Building

Present: Members: Vice Chairman Crawford, Alderman Andreano, Alderman Gonzalez, Alderman Smith, and Alderman George. Others: Mayor William Aiello; Nicholas DiCerbo, Jr., City Attorney; Fred Saradin, City Auditor; Bob Ring, Director of Public Works; Jeff Rowley, Police Chief, and Tiffany Taylor, Managerial Confidential Administrative Secretary.

1. Roll Call

Alderman Crawford called the meeting to order at 5:30 p.m. and asked that the record show that all committee members were present except Alderman Witte and Alderman Dougherty, who were excused.

2. Approval of Minutes of the Previous Committee Meeting (Tuesday, December 5, 2017)

A motion to approve the minutes of the December 5, 2017 committee meeting was made by Alderman Crawford, seconded by Alderman Smith. Voice vote, ayes all. Motion carried.

3. Unfinished Business

None

4. New Referrals for Consideration

a. Finance Discussion – Buffamante, Whipple, and Buttafaro, P.C.

Alderman Crawford stated that he invited Mr. Dave DiTanna from Buffamante, Whipple, and Buttafaro, P.C. to come back to further discuss the audit with the Council. He would like the Council to have a better understanding of the City's financials prior to the upcoming budget preparations.

Mr. DiTanna stated that, at the last meeting, a lot of time was spent going over reports. He would like to go over graphs (as presented in a handout and PowerPoint presentation), and look at the trends as to where we are now versus five years ago. He would also like to present the Council with the opportunity to ask any questions.

He stated that the Independent Auditor's Report is that the financial statements are in accordance with accounting principles generally accepted, which is the basis of what we are trying to accomplish. He stated that there are a significant amount of disclosures required under governmental accounting. The numbers are presented and represented in a way that they should be.

He stated that there are two additional reports that are included with the audit. The first is the report on internal control and on compliance in accordance with Governmental Auditing Standards, which means that if there were any circumstances under which BWB came to the conclusion during the audit that the City did not comply with Governmental Accounting Standards, that they would be required to disclose this information to us. The second report is required because the City was a recipient of more than \$750,000 in Federal funding, and their unmodified, clean opinion is that the City complied with the laws and regulations that are required as the recipient of Federal funds.

Alderman Andreano questioned, if the City was found to not be in compliance, would the City be required to submit a Corrective Action Plan (CAP). She seems to remember this being the case in the previous year. Mr. DiTanna replied that as far as BWB is aware, there are no areas of non compliance. There are only three areas of material weakness. Mayor Aiello stated that the Comptroller's Office found weaknesses, but no issues of noncompliance. Alderman Gonzalez, as the Council President at the time, did submit an action plan to the Comptroller's Office in response to the audit.

Mr. DiTanna stated that there were three material weaknesses found during the audit. He stated that a material weakness is when a condition exists in which the internal control structure and either cause an error or allow for fraud. The City had previously submitted a response to this report, stating what they plan to do to address the weaknesses.

The first weakness is in the preparation of financial statements. Mr. DiTanna stated that this is found pretty often in government audits. It means that BWB aids the City in putting together this document. The City looks for guidance in developing disclosures, and also looks to BWB for the preparation of journal entries. He stated that the City reports on a cash basis their inflow and outflow. Once a year, we are required to prepare a document such as this that is on a modified cash basis that includes assets and liabilities. BWB provides the City with adjusting journal entries to aid in this.

Alderman Crawford questioned if this is fairly common, and Mr. DiTanna replied that the need for assistance is very common. Some entities will do as many journal entries as possible, and some depend on an external auditor for assistance with this. However, this does not interfere with day to day operations.

The next weakness is in the area of reconciliation of general ledger and capital projects. Mr. DiTanna explained that a cash basis system does not always tell the full story. If assets and liabilities are not presented month to month, the information that the Council and City makes decisions on may not be the best information.

He continued in stating that the system that is used to track the General Fund, Water Fund and Sewer Fund is also used to track the Capital Projects. The problem with the system is that it does not segregate each and every project that the City has. It is critical to be able to tell on a project by project basis the current revenues, expenditures and equity. The project by project information is being tracked in Excel, which is a separate program. The weakness is that the numbers in one system do not always match up with the numbers in the other.

Alderman Smith questioned if different software would aid in solving this weakness. Mr. DiTanna stated that he has spoken with Mayor Aiello and Mr. Saradin, and they will be looking into the current system to see if there is a way to track projects without the need for a separate Excel spreadsheet.

Alderman Crawford questioned what the current system is, and Mr. Saradin replied that InCode is the system that is used City-wide. It is maintained by one of the employees in the IT Department and is updated often. He has not found an easy way to move everything into this system, but he will be contacting InCode to see if there is a way to do so, and possibly bring someone in for additional training, if necessary.

Alderman Smith questioned if Mr. DiTanna is saying that at any given time, we do not have an accurate snapshot of where we are in a project. Mr. DiTanna stated that he is correct. We do not have the current ability to see on a project by project basis where we are in the InCode system.

Alderman Gonzalez stated that fixing this will be no small task. Alderman George questioned if InCode and Excel could work together or if they are completely separate, and Mr. DiTanna stated that they are completely separate. The two systems need to agree and be reconciled.

Alderman Crawford questioned if Excel is updated each time something is entered into InCode, and Mr. Saradin replied that when a check is issued or revenue is received, it is recorded in Excel and InCode. Cash reconciliations with the bank statements occur each month.

Mr. DiTanna stated that he is unsure if the budget to actual numbers would actually give relevant information to the Council. It is a tool, but it is not the end all and there needs to be more that is looked at than just this.

Alderman Smith questioned if this is a new comment, or if we hear this every year. Mr. DiTanna stated that this is a recurring comment.

The third weakness is in regards to internal controls on capital projects. He stated that this involves the North Union Street Project, and it was discussed during the last audit meeting. BWB recommends that the City put policies in place regarding when the Council and members

of management are notified of certain situations, such as litigation and change orders. He stated that they also recommend regular reporting to the Council of project financing and where a project stands in terms of budgeted versus actual.

Alderman George questioned if there are any industry best practices that can be referred to, or if it something that the Council needs to draft on their own. Mr. DiTanna stated that it is up to the Council to make a decision based on their experiences and what they are comfortable with. Mayor Aiello mentioned that the Council had approved the change order for the Sewage Treatment Plant covers because of the amount of the change order.

Mr. DiTanna explained that the first set of numbers presented is entity wide and encompasses the General Fund, Sewer Fund, Water Fund, and Capital Projects. He stated that there is growth in the City's assets driven by investments in our infrastructure, and growth in liabilities driven by the debt increases to pay for the investment. There is currently a lot of short term debt that will eventually be converted to long term debt.

He stated that revenues are pretty flat, and consist mostly of sales tax and property tax revenues. There is not a huge increase in expenses; however, because revenues are flat, any increase in expenses can be negative.

General Fund

In the General Fund, assets are almost the same as the last year. There is a slight decrease in cash, and a slight increase in monies due from other funds. This is caused by timing issues of when and where money comes in from, and what it pays for.

Liabilities are up in total; however, the amount in due from other funds in assets almost washes out with the amount due to other funds in liabilities. Deferred inflow of revenues is due to the date that tax bills go out and are paid. If money comes in before May, it is not shown as an asset until the next fiscal year.

In terms of the Fund Equity, the assigned funds reserved for encumbrances is money committed from the current budget, but that has not yet been incurred. For example, the generator project's funding was designated and contracts were signed; however, the project wasn't finished by the end of the fiscal year, so there was still money due for the project. Assigned funds designated for the subsequent year show that total expenses in the General Fund exceeded revenue by \$150,000. The budget used \$602,000 in equity. He stated that it is not necessarily a bad thing, but there was no amount used in previous years. We were budgeting to be flat and ended up adding a lot of money to surplus. Now we are using it.

He continued in stating that revenues in the General Fund are mainly real property and sales taxes. It has run basically flat since 2012. The major change seen in Federal and State Aid is because three buses were purchased with aid last year, and none were purchased this year.

Alderman Smith questioned if there were any non-property tax items that were not from sales tax. Mr. DiTanna replied that there are also franchise fees and utility gross receipts considered in this category, but sales tax receipts are the driver.

Mr. DiTanna explained that there is a \$325,000 increase in expenditures this year. Expenditures increased in the “general government support” category due to the generator purchase, in “public safety” due to the new radio equipment for the police department, and under “culture and recreation” due to equipment purchases. There were \$180,000 more in employee benefits including \$50,000 in workers compensation and \$75,000 in insurance.

He stated that the “operating transfers out – capital” include three large amounts for 2012 (East State Street Project), 2013 (East State Street Project and Bradner Stadium), and 2014 (North Union Street Project). The expenditures in this category have decreased drastically since.

Mr. DiTanna stated that, without transfers to capital, there has been a \$1,000,000 increase in expenditures and other uses since 2012. Alderman Crawford questioned if this sets off any alarms at this point, and Mr. DiTanna stated that it will if the trend continues.

Alderman Smith questioned what caused the 1.2% increase from one year to the next, and Mr. DiTanna stated that it could be anything.

Alderman Crawford questioned if pending litigation previously discussed is included in any of these numbers, and Mr. DiTanna stated that it is not.

Mr. DiTanna stated that the use of equity is pretty close to the budget; however, it’s tight. The budgets that we are presenting are pretty close to where we are actually heading.

Water Fund

Mr. DiTanna stated that it has been a pretty flat year in the Water Fund. Assets increased due to a cash increase and money due from other funds, and liabilities increased due to money due to other funds. The total increase in fund equity is \$29,000.

He continued in stating that we used \$85,000 from the fund balance in the budget. Alderman Crawford questioned why we did this, and Mr. Saradin replied that Mr. Windus had envisioned doing a lot of repairs to the infrastructure, and had to borrow \$85,000 from the fund balance in order to plan for this. Alderman Smith questioned if this was part of the DEC mandates, and Mr.

Ring replied that the DEC mandates were for sewer only, not water. Alderman Crawford stated that he thought that water and sewer funds were raised to create a balanced budget.

Mayor Aiello stated that Indek didn't use the anticipated amount of water through the year, so we lost revenue that we had anticipated seeing. Mr. Saradin stated that there is \$200,000 in the capital outlay for transmission and distribution, and in order to budget \$200,000, \$85,000 needed to be taken from fund balance.

Mr. DiTanna stated that revenue is flat, and expenditures were up approximately \$100,000. Fund equity is trending pretty flat.

Alderman Smith questioned if we were \$29,000 under budget, and Mr. DiTanna replied that we budget to be neutral; however, at the end of the year, we were in the positive \$29,000.

Sewer Fund

Mr. DiTanna stated that there was pretty substantial growth in assets and equity in the Sewer Fund.

Alderman Crawford questioned if this includes the new Sewage Treatment Plant, and Mr. DiTanna stated that it does not, as we are not making large debt service payments towards this yet. Mr. Saradin stated that we will be making a \$630,000 payment on February 1st. Sewer rates were increased for these debt service payments, as well as for a \$250,000 per year commitment to sewer line repairs.

Mr. DiTanna stated that there is a pretty substantial raise in revenue from both a raise in sewer rates, as well as an increase in residential usage of 13%. He stated that fund equity was used in 2012 for the East State Street Project and 2014 for the North Union Street Project, but it has been increasing since.

Alderman Smith questioned if it is fair to say that the Sewer Fund is not revenue neutral, and Mr. DiTanna replied that the Sewer Fund is currently revenue positive. This is because we have a Sewage Treatment Plant to pay for. Sewer rates went up 5% in 2016-2017 and 2017-2018 for this purpose. Alderman Smith stated that, based on the debt load, it seems that we will need to increase rates every year. Alderman Crawford added that the revenue gap will eventually disappear because of debt service payments.

Mr. DiTanna stated that he tried to find data from other cities, towns and villages in New York State that are similar in size to Olean. He found data on eleven, with an average population just under 17,000. He wanted to see how their equity and debt compared to ours. He found the following:

On average, their equity compared to budget is 28%; we are at 16%. Jamestown is the low with 4%, and Oneonta is the high with 70%.

On average, their general debt (not including water and sewer) compared to their budget is 30%; we are at 58%. However, we could have a lot of current projects going on, while other municipalities may not have done any projects in the last several years.

On average, their water sewer equity is 63% of their budget; ours is 47%. Dunkirk is the lowest with -13%, and Batavia is the high with 185%.

Their water/sewer debt to budget average is 100%, while ours is 500%. Geneva is the next highest with 440%, and Batavia is the lowest with 18%. Our high number is because we are in the midst of a new Sewage Treatment Plant Project.

Alderman Crawford questioned if Mr. DiTanna could send this information to the Aldermen, and he stated that he would. However, he wants them to be aware that these are rough figures and may not be exact. Alderman Crawford stated that this is just a talking point.

Mr. DiTanna stated that the Management Letter presented in the original audit presentation contains a lot of information for the Council to consider. For example, the City has a lot of Capital Projects on the books, and we should take the time to examine what is still active and what is not, so that we can close out the projects that are complete or not active and transfer funds where needed. He stated that right now, we have roughly 30 projects on the books, and we could probably cut this number in half.

Alderman Crawford asked if this could be because of a delay in reimbursement of grant funding, and Mr. Saradin stated that a lot of this is housekeeping, He will prepare a Resolution to present to the Council to close out the funds.

Mr. DiTanna noted that those that are funded with debt must return leftover funds to the debt service fund, but anything funded locally could be returned to the General, Water, or Sewer funds, or transferred to other projects.

He stated that the biggest note in the Management Letter is in regards to looking at project budget versus actual on a routine basis. Also, Community Development has some outstanding loans to individuals and businesses that are not being paid. These should be evaluated to see what is collectable and what is not, and then either pursue recovery or write off the loan.

Mr. Saradin stated that at the last audit presentation, it was mentioned that we were waiting on \$600,000 reimbursement for the North Union Street Project. We have since received this funding.

- b. PL #03-18: (Crawford) To amend the City of Olean Code of Ordinances Section 2-41, Standing Committees, to include “Audit and Compliance Committee” consisting of five members.

Alderman Crawford stated that he feels that this goes along with what we just discussed. He is open to suggestions. He sent an email to the Mayor and Aldermen, which describes the focus of the proposed committee.

Alderman George stated that he agrees with the idea, but he feels that there should be seven committee members rather than five.

Alderman Crawford stated that he wants to differentiate between the Finance Committee, which handles finances and budget planning, with this separate entity which will handle audit and compliance issues. The purpose of the committee will be to oversee the accounting, audit and financial reporting and compliance processes of the City, and encourage continuous improvement of the City’s finance, accounting, legal and regulatory policies, procedures and practices on all levels. The duties and responsibilities of the committee will include establishing proper reporting to be provided to the Council on a monthly, quarterly, and annual basis; provide oversight and monitoring of financial internal controls regarding financial reporting, accounting, legal and regulatory compliance; review and modify appropriate policies and ethical standards; work and coordinate with the City’s independent auditing firms; and to ensure an open venue exists for communication with the State and independent auditor with City officials, including correcting of weaknesses or deficiencies with conjunction of the Mayor’s office. He stated that these are just “talking points” that he threw out there, and he is open to thoughts and comments.

Alderman Gonzalez stated that he feels that this is a good idea. A lot of this is needed. He likes the idea of seven committee members, at least initially, since this is uncharted territory for the City.

Alderman Smith stated that he likes the idea of creating this committee. A lot of the same weaknesses arise from year to year. This could help us wrap our heads around them, and put them to bed. Our surplus is getting tighter and tighter and we are losing wiggle room.

Alderman Andreano stated that we all need to be on the same page about where we are and where we are going. She feels that she needs to be more versed on this.

Alderman Gonzalez questioned if this is the type of direction that a legislative body should take. He understands the need for this committee, but he wonders if a legislative body is an appropriate venue for this. Alderman Crawford stated that he thinks that it is. He stated that it

is the committee's job to create legislation, such as that suggested earlier for change orders and litigation. It would not be the job of the committee to put the policies into action.

Alderman Crawford continued in stating that Mr. DiTanna pointed out the potential for error and fraud. Someone needs to oversee this. Alderman Gonzalez stated that when he looks at an organization that he is familiar with, which includes a Board of Directors and a CEO, it is up to the CEO to ensure that the organization is in compliance. Alderman Andreano stated that, whether or not the Council likes it, as elected officials things will fall back on them.

Mr. DiCerbo stated that there should be a quasi independent committee that does not consist of any management members. He recommends members of the community with a working knowledge of Generally Accepted Accounting Principles. The Audit committee would report to the Council. If everyone on the Council is on the committee, there would be no reason for the committee. He stated that the State Comptroller's office has a lot of information on audit committees; however, it is directed towards school districts. Everything Alderman Crawford states that they should do is correct; however, the committee should not be too big and include the entire Council. Some municipalities include a mix of Council and non Council members.

Alderman Crawford stated that this is something to consider, having a group of people with a specific knowledge and skill set.

Alderman George questioned if the proposed tasks could be handled in an existing committee, and Alderman Crawford replied that they could. However, he feels that the Finance committee encompasses too much.

Alderman Gonzalez stated that he likes the idea of non Council members, as he is not familiar with a lot of this. Alderman Andreano stated that she likes to keep finances separate. She would like to see a "new" committee look at the audit results. Alderman Crawford added that the committee would sit down with local management to see how issues can be addressed.

Mr. DiCerbo added that the Audit committee should be responsible for hiring the external auditor.

Alderman Smith stated that he is not sure if he likes the analogy of a Board of Directors. On State and Federal levels, there are all sorts of audit committees. He does like the idea of having some members that are not Council members. He feels that members should be more accountants, and not novices.

Alderman Crawford stated that this may be something where the committee drafts legislation, and then presents it to the Finance committee to vote on and pass. The Audit committee could suggest policies and improvements.

Alderman Smith stated that he likes the legal advice the Council has received. He doesn't want to model the committee on anything the public school system does.

A motion to postpone PL #03-18 to the next Finance committee meeting was made by Alderman Crawford, seconded by Alderman Gonzalez. Voice vote, ayes all. Motion carried.

5. Approval of Committee Reports

None

6. Adjournment

A motion to adjourn was made by Alderman Crawford, seconded by Alderman Andreano. Voice vote, ayes all. Motion carried. Meeting adjourned at approximately 7:15 p.m.