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August 24, 2012

Mayor Brian Tobin
Members of the Common Council
City of Cortland
25 Court Street
Cortland, NY 13045

Report Number: 2010M-91-F

Dear Mayor Tobin and Members of the Common Council:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage City officials to reduce costs, improve service delivery and to account for and protect their City's assets. In accordance with these objectives, we conducted an audit of City to assess the financial operations of the City. As a result of our audit, we issued a report, dated December 2010, identifying certain conditions and opportunities for City management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the City in May 2012 to review the City's progress in implementing our recommendations. Our follow-up review was limited to interviews with City personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, it appears that the Common Council (Council) has made some progress in implementing our recommendations. Of the six audit recommendations, four recommendations were implemented, one recommendation was partially implemented, and one recommendation was not implemented.

Recommendation 1 – Financial Information

The Council should demand current and reliable financial information for use in monitoring City finances and preparing budgets.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Council now receives current and reliable financial information. The current Director of Administration and Finance (Director) implemented a financial dashboard¹

¹ The financial dashboard contains a variety of financial information, such as year-to-date revenues and expenditures compared to the budget, change in fund balance, operating cash balances, and wages and salaries as compared to the budget.

system that provides financial information to both the Council and the public. Additionally, the Deputy Director of Administration and Finance (Deputy Director) prepares monthly cash-flow reports for Council members. Further, all Council members were issued tablet computers so they could receive the above information electronically.

Recommendation 2 – Accurate Budgets

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.

Status of Corrective Action: Fully Implemented

Observations/Findings: According to the Mayor, the City has completely changed its budget practices. During the creation of the 2012 budget, the Director included Department Heads and the Council in the budget process, and considered historical trends of past expenditures in determining appropriations. For example, during our previous audit, we found that the City budgeted amounts for health insurance costs that were less than the prior year's actual costs. For the 2012 budget, the Director and Council considered the prior year's actual expenditures for health insurance to arrive at a realistic appropriation for this cost.

Recommendation 3 – Budgetary Controls

The Council should implement a system to ensure that expenditures are within budgetary amounts. Upgrades to the accounting system and the implementation of encumbrance and purchase order system can accomplish this.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Director told us that the City's current accounting software was changed to display a message indicating that a budget line will be over-expended if a current purchase is applied. The account clerk responsible for processing accounts payable then informs the Department Head that a budget transfer is required. The Director is planning to install new accounting software² that should enable the City to implement additional budgetary controls.

Recommendation 4 – Financial Monitoring

The Council should continuously monitor the City's finances, including cash and inter-fund borrowings, to reestablish a positive fund balance and correct cash flow deficiencies.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Director prepares monthly financial information for the Council's review, and the Deputy Director prepares monthly cash flow reports so Council members can monitor the City's finances. Furthermore, the general fund's fund balance has increased

² The City is currently phasing in components of the new software. According to City officials, the live switch-over to the new software will not occur until January 2013.

significantly since our audit: as of December 31, 2009, the general fund had an accumulated deficit of \$149,117; as of December 31, 2011, the fund balance and reserves in the general fund totaled \$3 million.

Recommendation 5 – Municipal Cooperation

City officials should contact Cortland County and explore cooperation opportunities to share information technologies services like Internet, phone systems, and accounting software sharing.

Status of Corrective Action: Fully Implemented

Observations/Findings: City officials did meet with County personnel about possible cooperative opportunities. Based on those meetings, City officials determined the County options did not meet their current needs and/or provide for cost savings opportunities at this time.

Recommendation 6 – Centralizing Business Functions

The Council should centralize key business functions to improve monitoring and control of activities and potentially achieve cost savings.

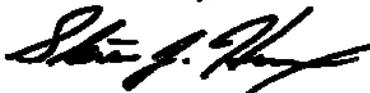
Status of Corrective Action: Not Implemented

Observations/Findings: The Director informed us that the City is purchasing new accounting software that will allow for centralization of key business functions. The Council approved the purchase of new accounting software during the June 19, 2012 Council meeting. The Director said that he is waiting for that installation before centralizing any functions.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage you to continue with your efforts to implement our recommended improvements in your fiscal management.

I trust that our follow-up review was of assistance to you. If you have any further questions, please contact Todd Eames, Chief Examiner of our Binghamton Regional Office, at 607-721-8306.

Sincerely,



Steven J. Hancox
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Division of Local Government
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