



THOMAS P. DiNAPOLI
STATE COMPTROLLER

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER
110 STATE STREET
ALBANY, NEW YORK 12236

ROBIN L. LOIS, CPA
DEPUTY COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY
Tel: (518) 474-4037 Fax: (518) 486-6479

July 2024

Deborah Kaufman, Mayor
Members of the Common Council
City of Little Falls
659 East Main Street
Little Falls, NY 13365

Report Number: 2021M-54-F

Dear Mayor Kaufman 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. The Office also works 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 the City of Little Falls (City) to determine whether the Common Council (Council) and officials adopted realistic, structurally-balanced budgets; routinely monitored financial operations; and took appropriate actions to maintain the City's fiscal stability. As a result of our audit, we issued a report, dated June 25, 2021, identifying certain conditions and opportunities for the Council's review and consideration.

To further our policy of providing assistance to local governments, we revisited the City in March 2024 at the request of the current Mayor 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. We also reviewed the City's corrective action plan (CAP) for the audit, which was approved by the Council on September 7, 2021. Based on our limited procedures, the City has not made progress implementing corrective action, as none of the 12 audit recommendations were implemented. City officials could not provide reasonable explanations for their lack of corrective action.

Background

While the City has experienced a change in leadership since the 2021 audit, seven of the eight Council members who were present are still on the Council. However, the current Mayor took office on January 1, 2024, and four individuals have served as the City Treasurer (Treasurer) since our fieldwork during the last audit. The current Treasurer was appointed in July 2022 and subsequently elected to take office in January 2024.

Recommendation 1 – Fund Balance Policy

The Council should adopt a written fund balance policy that addresses the reasonable amount of fund balance the City should maintain in each fund for unanticipated expenditures, revenue shortfalls and cash flow purposes.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council did not adopt a written fund balance policy. According to the Council's CAP, the Council would begin working on establishing a fund balance policy. However, two Council members told us that the Council did not take action to develop and adopt a policy.

Recommendation 2 – Budgeting

The Council should adopt structurally balanced budgets that include realistic estimates and fund recurring expenditures with recurring revenues.

Status of Corrective Action: Not Implemented

Observations/Findings: We reviewed the City's 2023 budget and determined that the Council did not adopt a structurally balanced budget with realistic estimates. For example:

- Annually, the City receives revenue from Herkimer County (County) for unpaid real property taxes. However, the Council did not budget for this revenue in the 2021, 2022 and 2024 budgets. The Treasurer indicated the Council budgeted a revenue of \$487,482 in the general fund in 2023 because the Council needed to fill a budget gap when developing the 2023 budget. The Council should consistently budget for this recurring revenue.
- Although the City had debt schedules indicating principal and interest payments totaling \$483,799 that were due in 2023 for five bonds, officials did not budget the principal payments in the water fund for two of these bonds totaling \$211,989 (44 percent of the total amount of bond payments due). The Treasurer told us that officials intended to adjust the payment schedule to delay the principal payments in 2023. However, this did not occur and the City ultimately made the scheduled debt payments.

When the Council does not adopt realistic budgets, there is an increased risk that the City will not realize all the estimated revenues budgeted or that actual expenditures will be greater than the budgeted appropriations, which could cause the City to experience unplanned operating deficits that result in a decline in fund balance. For 2023, the City reported a \$264,000 decline in fund balance in the general fund and a \$489,000 decline in the water fund because expenditures exceeded revenues for the year.

Recommendation 3 – Amending the City’s Charter

The Council should review the budget adoption and real property tax collection timing and consider amending the Charter to require adopting the budget prior to the beginning of the fiscal year and collecting real property taxes to coincide with the start of the fiscal year.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council did not amend the City’s Charter to require adopting the budget prior to the beginning of the fiscal year and to change the real property tax collection period to coincide with the start of the fiscal year. The City operates its fiscal year on a calendar year basis, but the Council does not adopt the annual budget until April each year and the City does not start collecting real property taxes until May. As a result, the City does not have a financial plan prior to the start of each year that details how much the City will spend on its operations and the estimated revenues it expects to receive to finance expenditures.

Although the City’s Charter states that officials shall not make purchases in excess of budgetary limitations (appropriations), City spending occurs the first three months of each year without any available budgetary appropriations. In addition, real property taxes totaled about \$3.5 million in 2023, which represented a major revenue source for the City (about 46 percent of total estimated revenues). Because the City’s Charter allows for real property taxes to be collected beginning in May, the City has less cash in the first four months of the year to pay for its operations, and it has continued to rely on issuing short-term debt each year to help with cash flow (also see Recommendation 5 for additional details).

The Council’s CAP acknowledged that amending the Charter is not a simple task – it must be done by local law and may require a referendum (public vote). The CAP indicated that officials would continue to take our recommendation under advisement, but at that time, they had chosen to focus on the more pressing and immediate concerns and issues relating to the City’s budget.

Two Council members told us the Charter was not amended because there were concerns about changing the beginning of the tax collection period from May to January, which would coincide with the County real property tax collection period and may present a hardship for many taxpayers. While the Council may be hesitant to change the Charter to begin collecting taxes in January of each year, it is not a good business practice to continue to adopt the budget after the first quarter of the year has already passed.

Recommendation 4 – Financial Reporting

The Council should review periodic financial reports that include cash activity and reconciled cash balances, balance sheet accounts, and budget-to-actual comparisons for revenues and expenditures.

Status of Corrective Action: Not Implemented

Observations/Findings: Based on discussions with the Treasurer and a review of Council meeting minutes, we determined the only financial reports provided to the Council in 2023 were budget-

to-actual expenditure reports for the general fund for six months of the year. The Council did not receive or request budget-to-actual revenue and expenditure reports for the water, sewer and golf funds or budget-to-actual revenue reports for the general fund. Additionally, the Council did not receive periodic financial reports that included cash activity, reconciled cash balances, and balance sheet accounts (including assets, liabilities and fund balance).

Recommendation 5 – Monitoring City Finances

The Council and City officials should monitor the City’s finances, including available fund balance and cash balances, to prevent further decline in the City’s financial condition.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council and City officials have not adequately monitored the City’s finances, and the City’s financial condition has continued to decline since our last audit. As previously discussed in Recommendation 4, the Council did not receive adequate financial reports for monitoring finances. In addition, the City’s accounting records were not accurate (see Recommendation 10), so financial reports generated from the financial system were not reliable for monitoring finances.

The City hired a certified public accounting (CPA) firm to prepare the City’s 2023 annual financial report (AFR), which was filed in May 2024. The CPA firm recommended significant prior period adjustments that reduced the City’s reported general fund balance by \$2.2 million and were necessary to correct various accounting errors. These adjustments reduced the 2023 beginning fund balance from \$190,158 to a deficit of about \$2 million. As of December 31, 2023, the City reported the deficit fund balances totaling nearly \$2.8 million in three of its operating funds (Figure 1).

The City has also continued to experience cash flow difficulties. During our last audit period, the City issued tax anticipation notes (TANs) in January of each year to provide cash flow until the City started receiving its real property tax collections in May. However, due to its declining financial condition, the City had to issue TANs earlier than in previous years to cover operations. For example, in November 2022, the City issued a TAN for \$1.8 million to have cash for operations in advance of the real property tax collection season starting in May 2023. The City paid this TAN off during 2023 and issued another \$1.9 million TAN in November 2023 for anticipated real property taxes to be collected in May 2024. The City also issued a revenue anticipation note (RAN) in September 2023 for \$875,000 to pay for the day-to-day costs of doing business and for needed repairs. Both the \$1.9 million TAN and \$875,000 RAN are due in July 2024.

Figure 1: Reported Deficit Fund Balances as of December 31, 2023	
Fund	Deficit Fund Balance
General	\$2,250,121
Water	504,745
Golf	29,800
Total	\$2,784,666

In addition, the City did not pay its Employee Retirement System (ERS) and Police and Fire Retirement System (PFRS) annual invoices totaling \$1,387,144 when they became due in February 2023 (\$702,864) and February 2024 (\$684,280). The Treasurer told us that the City did not have

sufficient cash resources to pay the annual retirement bills. The City has recently entered into a payment plan with the New York State and Local Retirement System (NYSLRS) that requires the City to make monthly payments of \$30,000 through November 2028. The payment plan includes \$255,619 in total interest payments. The City will also be required to make its full ERS and PFRS payments to the NYSLRS in February 2025, which are projected to total \$817,609.

Given the continued decline in the City’s financial condition and its cash flow challenges, it is critical that the Council and officials receive accurate financial reports and closely monitor the City’s finances.

Recommendation 6 – Golf Fund

The Council and City officials should establish a plan to eliminate the golf fund balance deficit and ensure that the fund is self-sustaining.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council and City officials did not establish an adequate plan to eliminate the golf fund balance deficit and ensure that the fund is self-sustaining. While the Council has increased revenues by raising membership fees and charging league fees since our last audit, the golf fund’s financial condition has shown little improvement. According to the City’s AFRs, the golf fund had deficit fund balances the last three years (Figure 2).

The Council’s CAP indicated a long-term equipment plan would be put into place to ensure expenses could be planned for and the equipment would be replaced per the long-range schedule. It also stated that a Council member who is on the golf committee would provide a written update each month showing the golf course’s real-time financial status. However, there were no written updates provided to the Council showing the golf course’s financial status, and the current Treasurer and Mayor told us they are not aware of any equipment plan prepared for the golf course.

Figure 2: Reported Golf Fund Deficit Fund Balances	
Year	Deficit Fund Balance
2021	\$29,524
2022	\$35,214
2023	\$29,800

Recommendation 7 – Bond Proceeds

The Council and City officials should ensure bond proceeds are only used for their intended purpose.

Status of Corrective Action: Not Implemented

Observations/Findings: The City issued bond anticipation notes (BANs) in 2021 totaling \$725,485 for the purchase of an ambulance and fire truck. However, the previous and current Treasurers did not establish or maintain separate capital projects fund records to track the use of these debt proceeds and ensure the funds were used for their intended purpose.

In addition, in November 2023, the Council authorized \$8.6 million in bonds for an upcoming capital project for the City’s wastewater treatment plant. It is imperative that the Council and City officials ensure these funds are deposited into a separate bank account and that appropriate records are maintained to ensure the funds are used for the authorized and intended purpose and not used to finance other City expenditures.

Recommendation 8 – Budget Modifications

The Council and City officials should monitor the budget throughout the year, ensure timely budget modifications are made when necessary and not allow appropriation accounts to be overspent.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council did not receive sufficient budget-to-actual reports to monitor the budget for all funds throughout the year. In addition, the Council and officials did not ensure budget modifications were made during the year, and they allowed appropriation accounts to be overspent.

For example, according to the December 31, 2023 budget-to-actual report for all funds, 93 appropriation accounts (35 percent) were overspent by approximately \$840,000 at year-end. The Treasurer and two Council members told us there was no formal process to bring budget modifications to the Council for approval.

Recommendation 9 – Financial and Capital Plan

The Council and City officials should develop and adopt comprehensive, written multiyear financial and capital plans to provide a framework for preparing future budgets and managing the financing of future capital needs.

Status of Corrective Action: Not Implemented

Observations/Findings: Although the Council’s CAP stated that the Council would begin working on establishing multiyear financial and capital plans, the Council did not develop or adopt any plans.

Recommendation 10 – Accounting Records

The Treasurer should correct the errors in the accounting records and ensure accurate results are reported on the City’s AFR.

Status of Corrective Action: Not Implemented

Observations/Findings: The Treasurer did not take adequate steps to correct errors in the accounting records and ensure the accuracy of the City’s AFRs. As discussed previously, the CPA firm hired to prepare the City’s 2023 AFR recommended significant prior period adjustments to

fund balance that were necessary to correct various accounting errors. These prior period adjustments reduced the general fund balance by about \$2.2 million. Prior period adjustments were also made to reduce the beginning fund balance in the sewer fund by about \$87,600 and the golf fund by about \$6,300.

Also, the Treasurer does not maintain any accounting records for capital projects or the cemetery fund and downtown revitalization initiative. While activity in these funds was reported in the 2023 AFR, the City did not have accounting records to support the reported balances.¹

Furthermore, the Treasurer did not reconcile the City's bank account balances with the cash balances in the accounting records (see Recommendation 11). Therefore, errors in the accounting records have occurred and gone undetected and uncorrected.

Recommendation 11 – Bank Reconciliations

The Treasurer should perform timely monthly bank reconciliations and promptly investigate and correct any differences.

Status of Corrective Action: Not Implemented

Observations/Findings: Based on our discussion with the Treasurer and review of the records, the Treasurer is not performing bank reconciliations for the City's 10 bank accounts. While the Treasurer prepares a list of outstanding checks for two bank accounts, the Treasurer does not compare the adjusted bank balances to the accounting records for these two accounts or any of the other bank accounts.

Because the prior and current Treasurers did not reconcile the bank accounts for a number of years, any errors that have occurred and accumulated over the years have not been identified and corrected. The CPA firm the City hired to prepare the 2023 AFR provided the Treasurer with adjusting entries that should be recorded in the records to provide more accurate starting cash balances for 2024. Going forward, the Treasurer should prepare timely monthly bank reconciliations and promptly investigate and resolve any differences.

We performed limited testing to compare bank activity to the accounting records for the City's golf fund and determined that not all bank deposits were properly recorded. For example, six deposits totaling \$8,319 were reflected on bank statements but not recorded in the City's accounting records. Additionally, one deposit totaling \$2,430 was recorded in the City's accounting records but did not appear on a bank statement. We reviewed the deposit supporting documentation (including the deposit receipt from the bank) and determined that a bank error resulted in the funds being deposited into a bank account that did not belong to the City. We advised the Treasurer of this discrepancy, and she is working with the bank to resolve the matter and recover the deposit amount.

¹ The cemetery fund and revitalization initiative were reported in a miscellaneous fund in the 2023 AFR.

When the Treasurer does not perform monthly bank reconciliations, errors and discrepancies such as this can go undetected and can result in lost City funds.

Recommendation 12 – Capital Projects

The Treasurer should maintain complete records for each capital project to track all financial activity.

Status of Corrective Action: Not Implemented

Observations/Findings: The Council’s CAP did not specifically address this recommendation. Based on discussions with the Treasurer and City Engineer, the City purchased an ambulance and fire truck and has two on-going capital projects which include a wastewater treatment plant project and a creek drainage project. However, the prior and current Treasurers did not record transactions for these projects within the financial system or maintain other records to track the financial activity.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues, and we provided technical assistance to the current Mayor and Treasurer. We encourage City officials to continue their efforts to fully implement our recommended improvements.

Thank you for the courtesies and cooperation extended to our auditors during this review. If you have any further questions, please contact Rebecca Wilcox, Chief of Municipal Audits of our Syracuse Regional Office at (315)-428-4192.

Sincerely,

Robin L. Lois, CPA
Deputy Comptroller