



# City of Long Beach

## Financial Condition and Cash Receipts From Recreational Activities

### Report of Examination

Period Covered:

July 1, 2010 — April 30, 2012

2013M-48



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

July 2013

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 Council 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 Long Beach, entitled Financial Condition and Cash Receipts From Recreational Activities. 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

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# EXECUTIVE SUMMARY

The City of Long Beach (City), located in Nassau County, has a population of approximately 35,000. The City is governed by its Charter and State laws. The City Council (Council), which consists of five members, has overall responsibility for the City's operations. The City Manager and other officials are responsible for overseeing and managing the City's daily operations.

The City's operating expenditures for the 2010-11 and 2011-12 fiscal years totaled approximately \$73 million and \$79 million, respectively, and were financed primarily with the collection of real property taxes, refuse and garbage charges, and water and sewer rents. During the year ended June 30, 2012, the City had approximately 375 full-time employees, including 72 police officers and 34 paid firefighters, and more than 460 part-time and seasonal employees.

On October 29, 2012, a few days after completing our fieldwork, the City was struck by Hurricane Sandy.<sup>1</sup> Severe winds and flooding left most of the City without power, water, and sewer service, and caused significant damage to homes, businesses, and the City's famed beach and boardwalk. While the City is on the road to recovery, given the significance of the damage and the work still to be done, the financial impact on the City will likely be felt for some time.

### **Scope and Objectives**

The objectives of our audit were to evaluate the City's financial condition and to examine internal controls over cash receipts from recreational activities for the period July 1, 2010, to April 30, 2012. We extended our analysis of financial condition from July 1, 2008, to July 31, 2012, and our analysis of cash receipts through June 17, 2012. Our audit addressed the following related questions:

- Does the Council adopt realistic budgets, monitor financial operations, and take appropriate actions to maintain the City's financial stability?
- Are City officials adequately safeguarding cash receipts collected by the Parks and Recreation Department?

### **Audit Results**

We found that the Council did not adopt realistic budgets or take necessary actions to maintain the City's financial stability. The City experienced fund balance declines in the general, sewer, and water

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<sup>1</sup> A powerful tropical cyclone that devastated portions of the Caribbean and the Mid-Atlantic and Northeastern United States

funds between the 2008-09 and 2011-12 fiscal years. The City reported total fund deficits of \$8.4 million in the general, water, and sewer funds at June 30, 2012. The general fund had a \$5.7 million deficit at the end of the 2011-12 fiscal year. However, after reclassifying the amounts considered nonspendable fund balance<sup>2</sup> of \$6.4 million, primarily due to long-term cash advances to the water and sewer funds, the unexpended deficit totaled more than \$12.1 million.

As a result, the total unexpended surplus in the three funds declined a total of \$21 million, from a surplus of \$6 million at the end of the 2008-09 fiscal year to a deficit of \$15 million at the end of the 2011-12 fiscal year. The steady decline in fund balance and resulting deficits occurred primarily because of unrealistic revenue and expenditure budget estimates during that period.

The deteriorating financial condition of the water and sewer funds from 2008-09 and 2011-12 resulted in significant interfund advances. While such advances are supposed to be repaid by the end of the fiscal year, the water and sewer funds have been unable to repay the general fund. Also, during the 2011-12 fiscal year, the Council authorized the issuance of \$2.5 million in budget notes due to an insufficient appropriation in the budget for separation payments for the 2011-12 fiscal year. The City's 2012-13 adopted budget did not include an appropriation providing for the repayment of the \$2.5 million in budget notes. In September 2012, the Council approved the issuance of \$5.625 million in bonds to fund separation payments incurred by the City. City officials planned to inappropriately refinance the budget notes issued in 2011-12 with the proceeds from these bonds. Instead of financing these operating expenditures through the issuance debt, which is a fiscally imprudent practice, City officials should have developed long-range plans to pay separation payments, such as funding an Employee Benefit Accrued Liability Reserve.

City officials need to improve internal controls over cash receipts in the Parks and Recreation Department (Department). Department employees have developed their own procedures which may not be consistent with good internal control practices. We reviewed over \$1.2 million in cash receipts from recreational activities and found over \$86,000 in discrepancies between recorded amounts and actual cash collected. These discrepancies were a result of numerous internal control weaknesses. Specifically, Department personnel are not always using duplicate receipts when receiving cash, cash drawers are not reconciled with cash receipts, and receipts are not recorded until after they are deposited. Ultimately, the Department's management does not investigate differences between recorded sales and actual cash collected. As a result, City officials cannot be assured that all revenue collected has been recorded and deposited.

### **Comments of Local Officials**

The results of our audit and recommendations have been discussed with City officials and their comments, which appear in Appendix A, have been considered in preparing this report. City officials generally agreed with the findings and indicated they either plan to initiate, or already have taken, corrective action. Appendix B includes our comments on issues raised in the City's response letter.

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<sup>2</sup> Nonspendable fund balance consist of assets that are not in a spendable form in the current period either because of their form or because they must be maintained intact.

# Introduction

## Background

The City of Long Beach (City), located in Nassau County, has a population of approximately 35,000. The City is governed by its Charter and State laws. The City Council (Council), which consists of five members, has overall responsibility for the City's operations. The City Manager and other officials and staff are responsible for overseeing and managing the City's daily operations.

The City provides police and fire protection, parks and recreation services, sanitation collection, water and sewer services, and construction services. The City's operating expenditures for the 2010-11 and 2011-2012 fiscal years totaled approximately \$73 million and \$79 million, respectively, which were financed primarily with the collection of real property taxes, refuse and garbage charges, and water and sewer rents. During the year ended June 30, 2012, the City had approximately 375 full-time employees, including 72 police officers and 34 paid firefighters, and more than 460 part-time and seasonal employees.

On October 29, 2012, a few days after completing our fieldwork, the City was struck by Hurricane Sandy.<sup>3</sup> Severe winds and flooding left most of the City without power, water, and sewer service, and caused significant damage to homes, businesses, and the City's famed beach and boardwalk. While the City is on the road to recovery, given the significance of the damage and the work still to be done, the financial impact on the City will likely be felt for some time.

## Objectives

The objectives of our audit were to evaluate the City's financial condition and to examine internal controls over cash receipts from recreational activities. Our audit addressed the following related questions:

- Does the Council adopt realistic budgets, monitor financial operations, and take appropriate actions to maintain the City's financial stability?
- Are City officials adequately safeguarding cash receipts collected by the Parks and Recreation Department?

## Scope and Methodology

We examined the City's financial condition and internal controls over cash receipts from recreational activities for the period July 1, 2010, to April 30, 2012. We extended our analysis of financial condition

<sup>3</sup> A powerful tropical cyclone that devastated portions of the Caribbean and the Mid-Atlantic and Northeastern United States

from July 1, 2008, to July 31, 2012, and our analysis of cash receipts through June 17, 2012.

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 C of this report.

**Comments of  
Local Officials and  
Corrective Action**

The results of our audit and recommendations have been discussed with City officials and their comments, which appear in Appendix A, have been considered in preparing this report. City officials generally agreed with the findings and indicated they either plan to initiate, or already have taken, corrective action. Appendix B includes our comments on issues raised in the City's response letter.

The Council has 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 Council to make this plan available for public review in the Clerk's office.

## Financial Condition

A local government's financial condition reflects its ability to provide and finance services on a continuing basis, withstand economic disruptions, and respond to growth, decline, and change. This includes generating sufficient recurring revenues to finance recurring expenditures and provide necessary services, while maintaining sufficient cash flow to pay bills and other obligations when due, without relying on borrowing or interfund advances. The Council is responsible for providing fiscal oversight by monitoring fiscal health and making decisions based on results and outcomes. One of the Council's primary responsibilities is to ensure that budgets are prepared, amended, and adopted, based on reasonable and accurate assessments of revenues, and that City expenditures do not exceed the budget.

The City's financial condition has deteriorated as a result of the Council's decisions when developing and adopting annual operating budgets and its failure to appropriately monitor financial operations. At June 30, 2009, the City's total unexpended surplus<sup>4</sup> for its major operating funds (general, water, and sewer) was slightly over \$6 million. By June 30, 2012, the City's total unexpended deficit for these major operating funds was more than \$15 million. From the 2008-09 through the 2011-12 fiscal years, these operating funds experienced total combined operating deficits of almost \$18 million, primarily because the Council adopted budgets that over-estimated revenues and under-estimated expenditures. As a result, City officials relied on interfund advances, budget notes, and long-term financing to fund operations.

### Fund Balance

A key measure of a local government's financial condition is its level of fund balance. Fund balance is the difference between revenues and expenditures accumulated over time. Fund balance can be used to manage unexpected occurrences such as unanticipated shortfalls in revenues or unexpected increases in expenditures. City officials can legally set aside, or restrict, portions of fund balance to finance

<sup>4</sup> The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term 'unexpended surplus funds' to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

future costs for a specified purpose, designate the unexpended surplus portion of fund balance to help finance the next year's budget, and/or retain surplus fund balance for future use. It is the responsibility of City officials to ensure that the level of fund balance maintained is sufficient to provide adequate cash flow, but not so excessive as to withhold funds that could be put to productive use. A continuous decline in unexpended surplus funds indicates a deteriorating financial condition. Without a healthy and reasonable amount of unexpended surplus funds, a municipality will be unable to absorb unexpected financial events and may need to rely on borrowing to manage such events.

The City reported total fund deficits of \$8.4 million in the general, water, and sewer funds at June 30, 2012. The general fund had a \$5.7 million deficit at the end of the 2011-12 fiscal year. However, after reclassifying the amounts considered nonspendable fund balance<sup>5</sup> of \$6.4 million, primarily due to long-term cash advances to the water and sewer funds, the unexpended deficit totaled more than \$12.1 million. The total unexpended surplus for the three funds declined by a total of almost \$21 million from a surplus of \$6,077,581 at June 30, 2009 to a deficit of \$14,796,556 at June 30, 2012.

<b>Fund</b>	<b>2008-09</b>	<b>2009-10<sup>b</sup></b>	<b>2010-11<sup>b</sup></b>	<b>2011-12</b>
General	\$6,046,021	\$4,891,338	\$ 225,865	(\$12,182,070)
Water	\$15,392	(\$55,080)	(\$528,452)	(\$642,498)
Sewer	\$16,168	(\$452,284)	(\$1,032,082)	(\$1,971,988)
<b>Total</b>	<b>\$6,077,581</b>	<b>\$4,383,974</b>	<b>(\$1,334,669)</b>	<b>(\$14,796,556)</b>

<sup>a</sup> Unrestricted, unappropriated funds  
<sup>b</sup> These amounts are presented as restated in the subsequent year's audited financial statements.

This rapid decline in total unexpended fund balance occurred because the Council did not adopt budgets with reasonable estimates of revenues and expenditures (see Budgeting Practices section). With respect to the general fund, this substantial decline was not only due to the results of operations, as was also the case in the water and sewer funds, but was mostly due to the reclassification of unexpended fund balance to nonspendable of \$6.4 million. The reclassification was necessary to recognize the effect of long-term cash advances to the water and sewer funds which are not liquid or available to fund operations and will not be repaid to the general fund in the near future (see Interfund Advances section).

<sup>5</sup> Nonspendable fund balance consists of assets that are not in a spendable form in the current period either because of their form or because they must be maintained intact.

City officials informed us that they took measures during 2011-12 and in the 2012-13 adopted budget to address both the operating deficits and the unexpended fund deficit. For example, in February 2012, the Council declared a fiscal crisis, granting the City Manager temporary authority to re-appropriate budget accounts, give final approval on all purchases, and establish a hiring freeze. The City also renegotiated its contract with its largest employee union, which, among other provisions, allowed for the conversion of all overtime earned for fiscal years 2012-13 and 2013-14 into compensatory time, and instituted a pay freeze for fiscal year 2012-13.

In May 2012, the Council adopted the 2012-13 budget under the assumption that the deficit financing would be authorized by the State Legislature. The adopted budget included a 7.9 percent increase to the property tax levy totaling an additional \$2.2 million of budgeted revenue, \$1.5 million of which City officials intended to pay for principal and interest on the debt, if the bill was passed. The requested deficit financing legislation was not passed and in September 2012 the Council approved a mid-year tax increase effective January 2013, which was expected to generate an additional \$1.875 million as part of a three-year deficit reduction plan. This tax increase took effect after we completed our fieldwork.

By adopting budgets with unrealistic estimates of revenues and expenditures during the 2009-10 through 2011-12 fiscal years, the Council depleted the City's fund balance, created significant deficits, and relied on borrowing (see Separation Payments section) to fund recurring expenditures. This shifted the cost of services to future taxpayers. In addition, if the City had maintained a reasonable fund balance, it could have assisted the City in absorbing some of the significant financial impact of Hurricane Sandy during the fall of 2012.

## **Budgeting Practices**

It is important that City officials adopt realistic budgets based on reliable data, such as historical revenues and expenditures, and monitor them against actual revenues and expenditures throughout the year. The annual budget provides City officials with the information necessary to help control spending and ensure revenue projections are being met. Revenue estimates, which are budget estimates for the revenues to be received during the fiscal year, are important because they have a direct effect on the property tax levy. Appropriations are budget estimates for the expenditures to be incurred during the fiscal year. Throughout the year, appropriation accounts should be used to control expenses, keeping them within the authorized spending authority. In addition, the City's Code of Ordinances requires the City Manager to immediately report to the Council when it appears revenues will be insufficient to meet the amount appropriated, and for

the City Comptroller to make no payment without first certifying that there are sufficient funds available to cover the claim.

We analyzed the City’s general fund budget results for the 2008-09 through the 2011-12 fiscal years and found that the City had total operating deficits for the period totaling \$15 million.

<b>Table 2: General Fund Operating Deficits</b>					
	<b>FY 2008-09</b>	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>Total</b>
Over-Estimated Revenues	(\$1,320,640)	(\$4,831,524)	(\$1,125,211)	(\$4,988,870)	(\$12,266,245)
Under-Estimated Appropriations	(\$12,221)	\$1,943,085	(\$1,604,902)	(\$3,148,641)	(\$2,822,679)
Operating Deficit	(\$1,332,861)	(\$2,888,439)	(\$2,730,113)	(\$8,137,511)	(\$15,088,924)

Revenues — From the fiscal years 2008-09 through 2011-12, revenues were over-estimated by over \$12 million. Several over-estimated revenues contributed to this total, including utilities gross receipts tax, commercial sanitation, traffic violations, and mortgage tax. For example, in fiscal years 2008-09 through 2011-12, the City over-estimated revenues from utilities gross receipts tax by a total of \$4 million because City officials did not consider historical data for this revenue. The City budgeted \$2.4 million in each of the three fiscal years, 2008-09 through 2010-11, despite actual revenues of \$2,329,067, \$819,878 and \$931,713, respectively. In the 2011-12 budget, the City reduced the estimate to \$1.75 million. However, this was still almost twice the prior year’s actual amount. Actual utilities gross receipts tax for 2011-12 were only \$787,025, or about \$1 million less than budgeted. The City’s 2012-13 adopted budget contains a more reasonable estimate of \$850,000 for utilities gross receipts tax.

The City also consistently over-estimated revenues from commercial sanitation fees. Businesses within the City have the option of contracting with the City or with a private carter for the removal of commercial refuse. Those businesses that do not contract with the City must provide proof that they are in contract with a private carting company. Therefore, while preparing the annual budget, City officials should have a reasonable estimate of the ensuing year’s commercial sanitation revenues based on these contracts. Despite having this information, City officials consistently over-estimated revenues for commercial sanitation by at least \$445,000 each year, or a total of \$1.6 million over the four-year period 2008-09 through 2011-12. The City’s 2012-13 adopted budget includes an estimate of \$900,000 for commercial sanitation revenues. City officials acknowledged that this is about twice what they expect to collect, but planned on making up the difference by raising rates. As of October 2012, four months into the fiscal year, the City had not raised sanitation rates or developed a plan to do so.

Expenditures — From the fiscal years 2008-09 through 2011-12, actual expenditures exceeded budgeted appropriations by a total of \$2,822,679. Many appropriations were significantly under-estimated but were partially offset by other appropriations that were over-estimated. For example, City officials under-estimated overtime salaries by a total of \$3.4 million<sup>6</sup> during this period, by budgeting between \$1.1 and \$1.9 million per year, even though actual overtime expenditures were never less than \$2.4 million in each of those years.

City officials have made recent efforts to reduce overtime costs. In June 2012, the City reached an agreement with its largest employee union, which, among other cost saving provisions, allowed for the conversion of overtime to compensatory time for the two-year period beginning July 1, 2012, through June 30, 2014. In addition, City officials informed us that they are planning to reduce overtime in the police and fire departments by 20 percent during the 2012-13 fiscal year. If City officials put in place the internal controls necessary to realize these planned cost savings, the overtime appropriation of \$1.2 million for the 2012-13 fiscal year appears reasonable. City officials also did not properly budget for separation payments in three of the four fiscal years reviewed, resulting in a total of \$4.2 million in unplanned expenditures (see Separation Payments section).

By not adopting accurate and reasonable estimates of revenues and appropriations, the Council's ability to control expenditures and track revenues is significantly hampered, which has led to overspending, unplanned operating deficits, and fiscal stress.

## **Interfund Advances**

General Municipal Law (GML) allows for moneys held in one fund to be temporarily advanced to another fund; such interfund advances can be used when available cash is not sufficient to pay current obligations. GML requires that repayment be made as soon as moneys are available, but no later than the close of the fiscal year in which they were made. In addition, repayment of advances between funds supported by different tax bases must include an amount reasonably equivalent to the amount of interest that would have been earned on the investment of the moneys that were advanced.

The financial condition of the water and sewer funds has deteriorated from fiscal years 2008-09 through 2011-12. Over the four year period, operating deficits in these funds totaled \$700,000 and \$2 million, respectively, because City officials consistently over-estimated revenues from metered water sales and sewer rents. Between the

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<sup>6</sup> Overtime salaries for 2011-12 were based on unaudited amounts provided by City officials.

2008-09 and 2011-12 fiscal years, City officials over-estimated metered water sales by a total of \$1.6 million and sewer rents by a total of \$2.2 million.<sup>7</sup> During this time, City officials made interfund advances mainly from the general fund to fund water and sewer operations. The water and sewer funds were unable to repay these loans to the general fund throughout this period.

**Table 3: Net Amounts Owed vs. Available Cash**

	June 30, 2009		June 30, 2010		June 30, 2011		June 30, 2012 <sup>a</sup>	
	Amount Owed <sup>a</sup>	Available Cash	Amount Owed	Available Cash	Amount Owed	Available Cash	Amount Owed	Available Cash
Water	(\$1,315,674)	\$290,737	(\$1,241,030)	\$24,831	(\$1,206,632)	\$45	(\$1,929,436)	\$50
Sewer	(\$1,174,281)	\$147,772	(\$1,613,454)	\$56,912	(\$1,590,626)	\$45	(\$3,398,449)	\$50
<b>Total</b>	<b>(\$2,489,955)</b>	<b>\$438,509</b>	<b>(\$2,854,484)</b>	<b>\$81,743</b>	<b>(\$2,797,258)</b>	<b>\$90</b>	<b>(\$5,327,885)</b>	<b>\$100</b>

<sup>a</sup> Cash advances from other funds, net of due to/from other funds

Although the net amount owed by the water fund to other funds is \$2 million, \$2.3 million is owed to the general fund for long-term cash advances. The net amount owed by the sewer fund to other funds is \$3.4 million; however, \$3.9 million is owed to the general fund for long-term cash advances. The sewer fund is supported by a different tax base than the rest of the City because some residents live outside City borders and receive sewer services from the City. Therefore, the sewer fund is obligated to pay interest in addition to repayment of the interfund loan. However, interest has not been paid to the general fund for the outstanding loan balance since at least July 1, 2010.

In June 2012, the Council approved rate increases for metered water and sewer services to raise the revenue necessary to repay the interfund advances. However, the City's 2012-13 adopted budget does not have a provision for repayment of these interfund advances, so we are unable to verify the City's intention to apply these new revenues to the interfund advance balances.

It is unlikely that either fund will have sufficient money available to reimburse the general fund in the near future. Therefore, the loans will continue to have a detrimental effect on cash flow and the general fund's overall fiscal health. Since the general fund is primarily funded by property taxes and water and sewer funds from user charges, applying revenues generated by real property taxes to support the water and sewer funds may have caused a tax inequity to low-usage taxpayers and to City residents because their tax dollars are being used to support sewer services to non-City residents.

<sup>7</sup> Revenues from metered water sales and sewer rents for 2011-12 were based on unaudited amounts provided by City officials.

## Separation Payments

Certain municipal officials and employees are entitled to compensation when they leave municipal employment, either for retirement or for other reasons. This compensation is typically for the payment of accrued and unused leave time, but can also be for other agreed-upon terms such as retirement incentives and other post-employment benefits. It is important for municipalities to ensure that separation payments are accurately projected and budgeted for over the life of an employee's service to prevent an unplanned separation from significantly hampering cash flows and fund health.

Budget notes may be issued pursuant to Local Finance Law, to provide funding for expenditures for which insufficient or no provision was made in the budget. A budget note is a borrowing against the ensuing year's revenues and must be properly accounted for, budgeted for repayment, and paid in the ensuing year. It is only a means of obtaining cash to pay for expenditures which exceed the budgeted appropriation. The issuance of a budget note should be recorded as a liability and has no effect on revenues and expenditures. In the subsequent fiscal year, the City should include more revenues in the budget than are needed to pay for operations. The additional revenues are used to redeem the outstanding budget notes. The redemption of the notes is recorded as an elimination of the liability and has no effect on fund balance.

The City did not plan for separation payments for retiring employees despite personnel records and contractual agreements indicating liabilities that would be incurred. This resulted in significant variances between budgeted and actual separation payments in three of the last four fiscal years. The City paid separation payments exceeding budget estimates by \$1 million, \$300,000, and \$2.8 million for the fiscal years 2008-09, 2010-11, and 2011-12,<sup>8</sup> respectively, or a total of \$4.2 million in unbudgeted expenditures.

During the 2011-12 fiscal year, 52 City employees retired from service. As a result, the City was obligated to pay \$6.2 million in separation payments from the general, water, and sewer funds, approximately \$3.6 million of which was payable in the 2011-12 fiscal year with the remaining \$2.6 million payable in subsequent years. However, the City only budgeted \$618,000 for separation payments, resulting in a budgetary shortfall of \$3 million.

In November 2011, when City officials realized that actual expenditures would significantly exceed budgeted amounts, the Council authorized the issuance of \$2.5 million in budget notes. These budget notes were

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<sup>8</sup> Amounts for separation payments made during 2011-12 were based on unaudited amounts provided by City officials.

not recorded in the City's accounting system correctly, resulting in an overstatement of revenues by \$2.5 million and an understatement of liabilities by \$2.5 million for the 2011-12 fiscal year.<sup>9</sup> In addition, the City's 2012-13 adopted budget did not include an appropriation providing for the repayment of the \$2.5 million in budget notes.

In July 2012, the State Legislature authorized the City to issue bonds payable over five years to finance the costs associated with separations from City employment. Proceeds from these bonds cannot be used to fund expenditures or satisfy debt incurred prior to this authorization, even if the nature of the expenditures or debt is similar.

In September 2012, the Council approved the issuance of \$5.625 million in bonds to fund separation payments. City officials informed us that they plan to refinance the budget notes issued in the 2011-12 fiscal year with the proceeds from these bonds. However, the proceeds of these bonds (or any bond anticipation notes issued in anticipation of the bonds) may only be used to make separation payments to employees. The City is not authorized to use the bond proceeds to redeem any other obligation, including budget notes issued during the preceding fiscal year to finance similar payments.

If City officials had developed long-range plans to pay separation payments, such as funding an Employee Benefit Accrued Liability Reserve, they could have avoided financing separation payments through debt issuances. Relying on debt to finance recurring operating expenditures is not fiscally prudent. This will diminish the City's ability to finance needed services in future budgets because the City will have to devote more of its limited resources to repay the principal and interest on this borrowing. In addition, this practice will saddle future taxpayers with repayment of past service costs with interest, for which they receive little or no benefit.

## **Bank Reconciliations**

Reconciling bank account balances with accounting records is a necessary element of an effective internal control system for cash. This reconciliation, along with an independent review by City officials, should be performed monthly to compare bank balances to balances in the general ledger cash accounts. Monthly bank reconciliations can help City officials maintain accurate records and allow for quicker detection of errors in account balances. Any outstanding checks and/or questionable items identified by the reconciliation should be investigated and resolved. GML requires that checks that have been

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<sup>9</sup> The overstatement of revenues by \$2.5 million has a direct effect on the 2011-12 operating deficit and the fund deficit as of June 30, 2012. We took this into consideration during our review of both Budgeting Practices and Fund Balance and modified our results of operating deficit and fund deficit so that this \$2.5 million of revenues is not included in our calculations.

outstanding for more than one year be canceled and the amount returned to the fund it was originally charged to.

In July 2012, personnel in the City Comptroller's office informed us that the last bank reconciliation prepared for the main operating account was in December 2011. During our fieldwork, the City Comptroller's office completed the bank reconciliations from January 2012 through May 2012. We reviewed the last two completed bank reconciliations and found three of the City's 18 accounts had not been reconciled in over 90 days and the last reconciliation of the City's main operating account, for the month ending April 30, was not completed until September 13, 2012, more than 120 days later.

In addition, there were 97 outstanding checks on the main operating account's May 2012 reconciliation, with the oldest check dating back to November 2010. This included a check for \$650,942 dating back to November 2011, which remained outstanding as of October 2012. Staff in the City Comptroller's office told us that outstanding items are only investigated once a year. However, some of these checks have been outstanding for over a year, and there was no documentation to indicate that they had been investigated. Furthermore, in September 2012, when staff in the City Comptroller's office performed the reconciliation of the April 2012 bank statement for the main operating account, they found a deposit for \$32,668 was not recorded in the accounting records. Therefore, the accounting records had not been accurate for over four months.

The City's bank account used for cash receipts from Beach operations included two deposits-in-transit which dated back to August 10, 2011, totaling \$1,750. The Parks and Recreation management provided the City Comptroller's office with deposit slips that were not stamped by the bank to confirm the total amount deposited. However, these deposits were never actually deposited into the bank account. Furthermore, there is no indication that the City Comptroller's office followed up with the Parks and Recreation management regarding the missing deposits. City officials could not provide us with an explanation for these missing deposits.

City officials have not requested or reviewed monthly bank reconciliations. Without supervisory oversight and review of the bank reconciliations, there can be no assurance that reconciliations are performed timely and accurately. Because bank reconciliations help to safeguard cash by detecting bank errors timely and help to create a stronger control environment, this lack of oversight can lead to the risk that discrepancies will not be detected or resolved in a timely manner.

## Recommendations

1. The Council should develop and monitor a formal plan to reduce and eliminate fund deficits and restore fund balance to an appropriate level.
2. The Council should monitor actual revenues and expenditures to ensure that operations do not deviate significantly from the budget.
3. The Council should adopt realistic budgets based on sound estimates and historical trends.
4. The Council should ensure that the interfund advances are repaid by the close of the year in which the loans were made. Loans between funds with different tax or assessment bases should be repaid with an appropriate amount of interest.
5. The Council should consider establishing and funding an Employee Benefit Accrued Liability Reserve fund in accordance with GML section 6-p to provide funding for future employee separation payments.
6. City officials should require that bank reconciliations be prepared monthly and that these reconciliations be reviewed by the City Comptroller and/or included as part of the monthly financial reports presented to the Council for review.
7. City officials should ensure that outstanding and/or questionable items on the bank reconciliations are investigated and resolved in an expedient manner.

## Cash Receipts From Recreational Activities

A good system of internal controls over cash receipts consists of policies and procedures that allow a local government to provide reasonable assurance that cash receipts are properly accounted for. Management should establish, enforce and communicate clearly defined policies for recording sales, collecting cash receipts from sales, reconciling cash collected versus what was recorded, and making bank deposits.

Internal controls should restrict and control access to undeposited receipts, cash registers, and cash records to personnel based on the specific needs of their job. An employee with custody of cash or checks during his/her shift should be held responsible for it. All receipts, bank deposit slips, and related records from sales transactions should be retained. An effective system of internal controls over cash receipts ensures that accounting records are maintained in a complete, accurate, and up-to-date manner. In order to ensure that cash is properly accounted for, all moneys received by the City should be documented by the issuance of duplicate, pre-numbered cash receipt forms.

The City's Code of Ordinances requires that all books, papers, files, or other records pertaining directly or indirectly to the City's finances should be readily accessible to the City Comptroller for examination and audit. Total deposits should be verified independently by another person by accounting for each sequentially-numbered receipt. In addition, revenues that were actually collected versus the revenues that were recorded should be reconciled on a timely and regular basis. Any discrepancies between the two should be immediately investigated and reported.

The City's Parks and Recreation Department (Department) oversees the activities of Ocean Beach Park, the Recreation Center, and the Ice Arena. The Department provides parks and recreation activities such as day camps, football leagues, Ice Arena rentals, basketball leagues, lacrosse leagues, and swimming lessons. The Department is directed by the Parks and Recreation Commissioner (Commissioner), who reports directly to the City Manager. The Commissioner supervises over 300 mainly part-time employees. Department revenues totaled \$5,101,198 for the 2010-11 fiscal year and \$5,589,710 for the 2011-12 fiscal year.

City officials have not formalized policies and procedures over Department cash collections. As a result, personnel have developed their own procedures which may not be consistent with good internal control practices. Department personnel do not always use duplicate

press-numbered receipts when receiving cash, cash drawers are not closed out between shifts, and some cash collections are not recorded until after they are deposited. In addition, management does not investigate differences between recorded sales and actual cash collected. Therefore, City officials cannot be assured that all Department revenues are accounted for. We reviewed over \$1.2 million in cash receipts and found over \$86,000 in discrepancies between recorded amounts and actual cash collected. Some records were lost or destroyed, limiting City officials' ability to account for all cash receipts during the audit period.

Ocean Beach Park — Ocean Beach Park (Beach) is 3.3 miles long with a 2.2 mile boardwalk. Beach passes are required from 9 a.m. to 6 p.m. from approximately Memorial Day weekend through Labor Day. Beach passes are sold as either a single-use daily pass or full-summer season pass. The Beach is staffed by two managers, and over 250 part-time ticket-takers, cashiers, and supervisors who work from mid-May through Labor Day weekend. There are about 50 points of entry to the Beach, all staffed by a ticket-taker, and approximately 16 kiosks and other entry-points along the boardwalk that are staffed by cashiers. These locations accept cash and Long Island Rail Road (LIRR) "Getaway Package" passes for which the City receives money directly from the LIRR. There are also cashiers at a gazebo near the Recreation Center and a trailer on the boardwalk. These locations sell seasonal passes and accept cash, credit cards and personal checks. For the 2010-11 fiscal year, the City collected \$3,409,100 in revenues from Beach operations and \$3,864,192 in revenues for the 2011-12 fiscal year. Although the Beach and boardwalk suffered significant damage from Hurricane Sandy, the following findings and recommendations should serve to assist City officials in securing future revenues when operations return to normal.

We identified significant internal control weaknesses over cash receipts at the Beach. For example, cashiers selling daily passes out of the boardwalk kiosks and other Beach entry points are not issuing duplicate receipts. At the end of a cashier's shift, one of the managers reconciles the amount of cash collected to the number of passes sold. When amounts do not reconcile, the differences are not investigated or reported to the City Comptroller's office. Instead, Beach management reports the amounts of cash actually deposited in the bank to the City Comptroller's office to be recorded in the accounting records. While Department managers are aware of unaccounted for revenue, this information is not shared with the City Comptroller's office or other City officials.

In May 2012, the Department began tracking these differences as a first step in addressing these weaknesses. However, these differences

were not investigated. Between May 26 and July 8, 2012, they recorded shortages totaling \$11,102 and overages of \$5,630. In one instance, a cashier was short \$2,400 in a single shift. While some of these differences may be due to clerical errors, by not investigating these differences on a timely basis and reporting them to the City Comptroller, City officials cannot be assured that all revenue is accounted for.

The City does not have cashiers stationed at the entry points along the west end of the Beach. Instead, the City sells daily passes at a discount to six businesses who resell them for a small profit. However, Department officials could not find the records of these sales prior to the 2012 Beach season. As a result, \$248,059 in sales of daily passes during the 2011 Beach season could not be traced to supporting documentation and City officials cannot be assured that all the revenue from these sales is accounted for.

The City does not enter into formal agreements with these business owners to sell daily Beach passes. As a result, it is not clear the exact arrangements the City has with these individuals. Several businesses do not pay for the passes in advance, in effect acting as custodians of City revenues without any terms governing such an arrangement. In one case, the City sold a business Beach passes at a lower cost than that charged to other businesses. The Commissioner told us that this business owner did not resell the passes, but rather gave them to patrons of the business. The details of this arrangement should be formalized in a written agreement and approved by the Council.

We also reviewed sales of season passes at the gazebo and the trailer on the boardwalk, and found additional internal control weaknesses. More than one cashier records sales using the same cash drawer without reconciling cash receipts at shift changes and without entering an individual code to the register; therefore, any differences cannot be traced to a specific cashier. Like the sales of daily passes, differences between the cash register tapes and cash on hand are not investigated or reported to the City Comptroller's office. Instead, the Department's management reports the actual cash on hand and amount deposited to the City Comptroller.

We reviewed about \$1.1 million in cash receipts for season passes sold during July 2010, May 2011, and June 2011, and one week in June 2012, and identified differences between sales recorded on cash register tapes and the amounts deposited totaling over \$60,000.<sup>10</sup> The Department's management and the City Comptroller's office could not explain these differences.

<sup>10</sup> Consisting of \$41,220 overages and \$18,850 shortages

Recreation Center — The City’s Recreational Center (Center) is open to the public Mondays through Fridays, 6:00 a.m. to 9:30 p.m. The Center has a total of eight employees, one full-time supervisor, and seven part-time employees. Revenue-generating services provided at the Center include the weight/cardio room, swimming pool, lifeguard training, yoga classes, swimming classes, baseball and softball leagues, locker fees, permit fees, and admission fees for several annual City-sponsored races. The Center collected revenues of \$1,034,208 and \$1,121,208 in the 2010-11 and 2011-12 fiscal years, respectively.

Internal controls over the Center’s cash receipts operations need to be strengthened. More than one cashier records sales using the same cash drawer without reconciling cash receipts at shift changes and without entering an individual code in the register. This makes it impossible to track discrepancies to a specific employee. Also, cash receipts for City-sponsored races were deposited in the bank without first being recorded. As a result, there are no books of original entry (such as cash receipts log) to compare amounts collected and deposited to ensure all cash is account for. At the end of each day, discrepancies were not investigated or reported to the City Comptroller’s office. Instead, the Center’s management would deposit all cash collected, irrespective of differences, and report a total to the Department’s management and the City Comptroller’s office based on bank deposit slips.

As a result of these weaknesses, we tested cash receipts from 66 days<sup>11</sup> during the audit period, totaling \$106,071, and found differences between register tape totals and the corresponding bank deposit slips for 21 of the 66 days, totaling over \$9,000 in errors. In 14 instances, we found that the deposit slip totals exceeded the register tape totals by \$8,100. In seven other instances, the register tape totals exceeded the deposit slip totals by \$989. Some of the problems occurred as a result of employees failing to record receipts from special events in the register. For example, \$5,520 of the \$8,100 of deposit slips exceeding register totals was due to race entry fees that were collected on the boardwalk on the day of the race and deposited in the bank without first recording the receipts or using a duplicate receipt book. None of these discrepancies were investigated or reported to the City Comptroller’s office.

Ice Arena — The City’s Ice Arena is an indoor ice rink facility located in the center of the City. The Ice Arena collects fees for general admission, ice rink rentals for leagues and private events, skate lessons, skate rentals, and concession fees. In the 2010-11 fiscal year, the City collected \$657,890 in revenues from Ice Arena operations and \$604,310 in revenues in the 2011-12 fiscal year.

<sup>11</sup> To test cash receipts, we randomly selected the months of October 2010 and February 2011 and also included one week in June 2012 for a total of 66 days. We included the week in June 2012 in order to test current procedures.

Internal controls over the Ice Arena's cash receipts operations also need to be improved. Multiple cashiers record sales throughout the day on the same cash register without an individual code. This makes it impossible to track discrepancies to a specific employee. The Department's management was unable to locate cash receipts records for Ice Arena operations prior to January 2012 because they were either lost or destroyed. As a result, City officials cannot account for any Ice Arena transactions during our audit period. We reviewed a week of activity in June 2012 and found that, out of \$8,494 cash receipts, actual cash collected and deposited was \$8,232, or a difference of \$262, which could not be traced to an individual employee. In addition, there was no documentation to explain the differences.

By not establishing formal policies and procedures, not requiring cashiers to issue duplicate receipts or be accountable for the receipts they collect, and by not investigating differences between recorded and actual revenues received, the Department's management and City officials cannot be assured that all revenues from park and recreation activities are being accounted for. In addition, allowing third parties to resell passes without clear and consistent policies over such arrangements creates the risk that revenues intended for the City are held by third parties for extended periods of time or could be misappropriated.

## **Recommendations**

8. City officials and the Department's management should establish formal, written policies and procedures for the collection of cash receipts. Policies and procedures should be effectively communicated to employees.
9. The Department's management should ensure that all transactions are properly receipted with duplicate, press-numbered receipts and recorded in detailed cash receipts logs.
10. The Department's management should investigate and resolve any and all variances between money received, as indicated in transaction records, with the actual daily cash collected and the bank deposits.
11. The City should enter into formal agreements with third parties that sell Beach passes. The agreements should detail the rights and responsibilities of each party.
12. Each cashier should have an individual cash drawer and that drawer should be reconciled at the end of each shift. Each cashier should have a unique code to enter in the register to identify the user. All discrepancies should be investigated.

13. The Department's management should ensure that sufficient transaction documentation, such as cash register tapes, receipts, and cash receipt logs, be retained and safeguarded.
14. The Department's management should provide the City Comptroller's office with cash reports containing cash receipts logs along with the deposit slips.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



# CITY OF LONG BEACH

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LONG BEACH, N.Y. 11561  
(516) 431-1001  
FAX: (516) 431-1389

**JACK SCHNIRMAN**  
CITY MANAGER

May 13, 2013

Office of the New York State Comptroller  
NYS Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, New York 11788-5533

Re: Response to New York State Office of the State Comptroller Draft Report, City of Long Beach  
Financial Condition and Cash Receipts from Recreational Activities

We are very pleased that the Office of the State Comptroller accepted our invitation to conduct a comprehensive audit of the City of Long Beach's financial condition and cash receipts from recreational activities.

As a new administration that came into office in January 2012, we had serious and significant concerns regarding the City's internal controls and cash controls, particularly as they related to the summer season, our most economically critical time of year. In our first few months, we uncovered just how severe a fiscal crisis we had inherited. That is why it was so important that we reached out to your office to assist us in our efforts to turn around the city's finances.

We were pleased to receive the draft audit report with its findings and recommendations, and welcome the opportunity to offer our comments. The report validates and illuminates the areas of concerns we identified in the first few months of this administration in 2012. Clearly prior to 2012, the City did not properly budget revenues and expenses and did not have adequate cash controls in place.

We would like to personally thank you and your staff for your cooperation in our March, 2012 request to have your office conduct an audit. We have found your report to be unquestionably beneficial and we would like to assure you that we are well on our way to remedying many of those items rightfully brought to light in your report.

The City is already embracing the overwhelming majority of the draft report's recommendations and where necessary, we will be taking additional corrective actions as part of our effort to reform city government and improve internal operations.

It is also important to note that Wall Street rating agencies praised our administration for our corrective responses thus far, as well, declaring a fiscal crisis and "slowing expenditure growth," specifically by saving the City millions of dollars in reduced overtime costs, departmental spending cuts, lower overall management salaries, and amortizing state pension payments. The road to recovery is a long one, but as Moody's stated in their last report on Long Beach's status, "the City is on the right track and making progress on returning to structural balance."

Thank you again for the 14 recommendations in your draft report. What follows is the city's acceptance, response, and corrective actions to date regarding those recommendations. In addition, attached please find some detailed thoughts and comments offered in an attempt to further refine and provide additional perspective to the findings and observations contained in the report.

Once again, I would like to thank you for the efforts of your staff and the important recommendations offered in the draft report.

If you have any questions or wish to discuss our responses, please do not hesitate to contact myself or Jeff Nogid, City Comptroller at (516) 431-1001.

Thank you.

Sincerely,

Jack Schnirman  
City Manager

Cc: Jeff Nogid, Comptroller



## HIGHLIGHTS OF CITY OF LONG BEACH CORRECTIVE ACTION PLAN

### ✓ **Balanced Budgeting**

- Despite rising fixed costs, we've cut spending to \$1,190,583 below last year's levels, without cutting services.
- Right-sizing the workforce, reducing headcount by 12%, to the lowest levels in over a decade, reducing labor and personnel costs from 83% of the budget down to 63%, placing the cost structure of government on a more affordable and sustainable trajectory.
- Realistically and conservatory estimating revenues and expenses.
  - Expected revenues have been reduced due to Superstorm Sandy – anticipated storm related loss of revenue is reflected in the 2013-2014 proposed budget.
  - Moody's stated that the detailed credit discussion emphasizes that the 2012-2013 budget is "more conservative." It mentions that "economically sensitive revenues, a primary driver of the city's deficit, have been significantly reduced in the fiscal 2013 budget. Sales tax (which represents 3% of revenue) was reduced by 8% from the fiscal 2012 budget, utility taxes (2%) were reduced by 51%, parking fees (1%) were reduced by 58%, and mortgage taxes (2%) were reduced by 40%. These revenues have been brought closer in line with what the city has historically received".
- Generate policies and procedures to increase accountability and generate much needed cost savings.
  - Reduction in overtime hours worked.
  - Management contribution into healthcare plans.
  - Negotiated concessions with union partners.
- Employing tried-and-true methods to improve city operations, identify efficiencies and save taxpayer dollars, and are continuing to reduce departmental spending.
- Moody's reported, "the city is on the right track and making progress on returning to structural balance."

### ✓ **Establishing Standard Operating Procedures**

- Standard operating procedure for cash controls
- Accountability for those responsible for cash management
- Defined communication between comptroller's department and cash receiving departments.

**Response to Recommendations:**

1. The current administration concurs with this recommendation and has developed a plan to reduce and eliminate fund deficits and ultimately restore fund balance to an appropriate level. The city is proud to now be considering its second consecutive balanced budget, placing city finances on a more responsible, affordable trajectory going forward.
2. The current administration concurs with this recommendation and is monitoring actual revenues and expenditures to ensure that operations do not deviate significantly from the budget. Additionally, the budget process incorporates actual revenues and expenditures in preparation of the budget.
3. The City concurs with this recommendation and adopted a realistic budget in Fiscal Year 2012-2013 and has proposed a realistic budget for Fiscal Year 2013-2014.
4. The City concurs with this recommendation and is working on restoring the fund balances to the Water and Sewer funds and to eliminate the interfund advances as soon as is practicable. In the interim, the City has begun to charge the Water and Sewer funds interest on the amounts advanced as recommended by your report.
5. The City agrees that there should be an established fund for Employee Benefit Accrued Liability Reserve fund for future employee separation payments and will look into establishing such once city fund balances are restored. The City Council during the recent budget hearing asked the City Manager to investigate the use of unspent appropriations in the new budget to be used to fund reserves instead of being reallocated to other uses during the year.
6. The City agrees that bank reconciliations be prepared and reviewed monthly and will be hiring a Deputy Comptroller/Internal Auditor who will be tasked with supervising staff to accomplish this task and address other former perennial financial weaknesses.
7. The City agrees that outstanding and/or questionable items on the bank reconciliations should be investigated and resolved in an expedient manner. The addition of the Deputy Comptroller/Internal Auditor will allow for this long term weakness to be rectified.
8. The City concurs with this recommendation and many policies and procedures have been put forward since last summer season. Additionally, the City has drafted a formal set of Policies and Procedures for the Parks & Recreation Department.
9. The City concurs with this recommendation and this item has been resolved in the new Policies and Procedures for the Parks & Recreation Department.
10. The City concurs with this recommendation and this item has been resolved in the new Policies and Procedures for the Parks & Recreation Department.
11. The City concurs with this recommendation. Please be advised, the City does not plan on utilizing third parties to sell Beach Passes in the upcoming season. Should this policy change all third parties will be required to enter into a formal agreement drafted by the City's Corporation Counsel.
12. The City concurs with this recommendation and this item has been addressed in the new Policies and Procedures for the Parks & Recreation Department. Unfortunately, current cash registers do not have the ability for employees to have unique codes but we are looking into resolving this matter shortly.

13. The City concurs with this recommendation and this item has been resolved in the new Policies and Procedures for the Parks & Recreation Department.
14. The City concurs with this recommendation and this item has been resolved in the new Policies and Procedures for the Parks & Recreation Department as well as the addition of the Deputy Comptroller/Internal Auditor in order to address this long time cash control issue.

Page 5

**Report Statement**

*“The City’s 2012-13 adopted budget did not include an appropriation providing for the repayment of the \$2.5 million in budget notes.”*

**Management Response**

The adopted budget has an appropriation of \$8,565,312 for the repayment of principal and interest on debt. At the time the budget was adopted the city had principal and interest payments on its long term debt of \$5,703,935. The principal and interest payment on the budget notes was \$2,544,986. The sum of these two items, \$8,248,921, is less than what was appropriated for the repayment of the long term debt and budget notes.

See  
Note 1  
Page 31

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Page 5 & 13

**Report Statement**

*“City officials planned to inappropriately refinance the budget notes issued in 2011-12 with the proceeds of these bonds.”*

**Management Response**

The City, after consulting with its bond counsel at the time of and before the approval of the bond ordinance, understood that the use of the bond proceeds to pay off the budget notes would be an appropriate use of the funds. The City has revisited discussions with bond counsel who still agrees with his advice given at the time of the adoption of the bond ordinance.

See  
Note 2  
Page 31

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Page 9

**Report Statement**

*“However there is no indication in the 2012-13 fiscal year budget that these funds were actually allocated to reduce the deficit.”*

**Management Response**

Please note, the events described below took place after the period in which NYS OSC staff conducted their field study but they were made aware of the City’s future intentions. The original budget was adopted with the anticipation that the City would have the ability to finance the 2011-12 projected deficit from NYS through the use of deficit financing, a common financial tool utilized by many local municipalities that had never previously been denied by the state. Due to the denial from NYS for Deficit Financing the City moved to Plan B which was to amend the budget and approve a mid-year tax surcharge in order to reduce the deficit. The City amended the budget on September 19, 2012 to capture the additional \$1.875 million of tax revenue and then offsetting this by including an increase to the fund balance (via negative fund balance revenue) in the post adoption modifications to the budget.

See  
Note 3  
Page 31

Pages 11 & 12

**Report Statement**

*“City officials made interfund advances mainly from the general fund to fund water and sewer operations. The water and sewer funds were unable to repay these loans to the general fund throughout this period.”*

**Management Response**

This very important finding was helpful in providing an explanation as to how the depth of the city’s financial problems was submerged prior to December 2011. The City is currently working on restoring the fund balances to the Water and Sewer funds and to eliminate the interfund advances as soon as is practicable. In the interim, the City has begun to charge the Water and Sewer funds interest on the amounts advanced as recommended by your report. This interest charge was made in the 2011-12 FY (including catch up interest for prior years).

See  
Note 4  
Page 31

Throughout the Report (ex. Page 4, 5, 15 & 16, etc.)

**Report Statement**

*Throughout the report it is stated that “The Council has not adopted...” or “The Council should develop and monitor a formal plan “or “The Council needs to improve...”*

**Management Response**

This particular phrasing is perhaps more accurately attributed to a Town rather than a City government. In the City of Long Beach departmental policies are approved and enforced by the City Manager not the City Council. Please see the City Charter Subpart A Article 3 Section 20 & Article 5 for more information on this matter. Nevertheless, we concur with the recommendations and have already moved to make the appropriate policy and procedure changes.

See  
Note 5  
Page 31

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Page 16

**Report Statement**

*“The Council has not adopted policies and management has not formalized procedures over Department Cash Collections.*

**Management Response**

We agree that cash handling practices needed to be improved. As part of the City’s effort to ensure that cash is being handled appropriately, the City has drafted a new set of Policies and Procedures for the Parks & Recreation Department to follow. Please note, many of these policy changes took place during the 2012 summer season as real time issues arose. The procedures developed last summer are currently being reviewed with departmental management and supervisory staff for their input in order to further improve upon the policy changes made last year. These revised policies and procedures will be implemented with the start of the 2013 summer beach season.

See  
Note 6  
Page 31

## APPENDIX B

### OSC COMMENTS ON THE CITY'S RESPONSE

#### Note 1

Appropriations for the repayment of principal and interest on short-term debt should not be combined with appropriations for the repayment of long-term debt. City officials should have budgeted \$5,703,935, instead of \$8,565,312, for payment of principal and interest on long-term debt. City officials should have appropriated \$2,544,986 for the repayment of the budget notes, as is required by law, separately from the appropriation for long-term debt service.

#### Note 2

Before the end of our fieldwork, we informed City officials and the City's bond counsel that the use of the bond proceeds (or any BANs issued in anticipation of the bonds), authorized by the State Legislature in July 2012, may only be used to make separation payments to employees. The City is not authorized to use the bond proceeds to redeem any other obligation, including budget notes issued during the preceding fiscal year to finance similar payments.

#### Note 3

We revised the report to indicate that the funds were allocated to debt service, which were intended to pay the principal and interest associated with deficit financing, had the State Legislature authorized the bill presented. However, the bill did not pass. City officials indicate in their response that they appropriated negative fund balance in the 2012-13 amended budget to reduce the prior year deficit. Appropriating negative funds in budgets to fund prior years' fund deficits is not a prudent practice. City officials should consult with their Corporate Counsel to determine whether appropriating a negative fund balance is permissible under the City Charter.

#### Note 4

These interest charges were made retroactively and subsequent to the conclusion of our fieldwork. Therefore, we have not audited these transactions.

#### Note 5

Per the Charter, the Council is charged with governance over City operations. However, Departmental policies and procedures can be approved and enforced by the City Manager. We have revised the report where these changes are appropriate.

#### Note 6

During our fieldwork, we reviewed the procedures that were in place during the 2012 summer season and found that, although the Department began tracking differences between recorded sales and actual cash collected, these differences were not investigated.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goals were to determine if the Council provided adequate oversight of the City's financial condition and if City officials were adequately safeguarding cash receipts from recreational activities. To accomplish the objectives of this audit and obtain valid evidence, our audit procedures included the following:

- We interviewed City officials and reviewed Council meeting minutes and selected supporting documentation to gain an understanding of City policies and procedures.
- We reviewed the City's annual update document, annual budgets, and accounting records to ascertain if budget estimates were reasonable.
- We reviewed the City's audited financial statements and the general ledger when reviewing the City's interfund advances between the general, water, and sewer funds.
- We reviewed legal proceedings, Council minutes, and the journal entries to the general ledger when reviewing the City's issuance of budget notes and the authorization of termination bonds.
- We judgmentally selected the months of July 2010, May 2011, and July 2011 for the Beach Park, September 2010 and November 2011 for the Ice Arena, and October 2010 and February 2011 for the Recreation Center to determine if revenues were properly receipted, recorded, and deposited timely and accurately. We selected these months because they represented the busiest periods for the respective areas of operation. We compared the cash receipts per the bank statement to the composition of deposits per the deposit slip detail and traced transactions from deposit slips to the cash receipts journal and the computerized accounting records.
- We interviewed key personnel involved in the cash receipts cycle at the Parks and Recreation Department, including the managers and cashiers.
- We performed a walk-through of the Beach Park operations on one day and reconciled all cash collected during that day by the cashiers at 17 kiosks and entry points to the Beach Park to the number of Beach Park passes sold and to the daily cash receipts log.
- We selected one week of cash receipts during June 2012 and performed similar testing in order to assess the effectiveness of newly enacted procedures in the Beach Park operations.

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 objectives.

## APPENDIX D

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**APPENDIX E**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT**  
**AND SCHOOL ACCOUNTABILITY**

Andrew A. SanFilippo, Executive Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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