

Olean Common Council
Annual Report – Buffamante, Whipple and Buttafaro, PC
Council Chambers – Olean Municipal Building
Tuesday, December 12, 2017 – 6:00 p.m.,

Present: Aldermen Gonzalez, Witte, Andreano, Dougherty, Crawford, Smith, and George.
Others: Mayor William Aiello; Al Utecht, City Clerk; Nicholas DiCerbo, Jr., City Attorney; Fred Saradin, City Auditor; Keri Kerper, Community Development Program Coordinator; Bob Ring, Director of Public Works; Gregg Piechota, City Assessor, and Tiffany Taylor, Managerial Confidential Administrative Secretary.

Alderman Gonzalez began by introducing Dave DiTanna from Buffamante, Whipple and Buttafaro, P.C.

Mr. DiTanna stated that it is his firm's responsibility to provide the City with an opinion on the numbers and disclosures in the documents he provided to the Council and City Officials. Their opinion is the same of last year's, in that they find that the financial statements are in accordance with Generally Accepted Accounting Principles.

He began to summarize the "Financial Statements and Supplemental Information" by stating that a large part of the City's assets are our infrastructure improvements, and a large part of our liabilities are payments associated with these. Our net position has increased a total of \$4 million, making our total net position \$49 million. \$44 million of this is invested in our infrastructure, and is not liquid. He stated that over the last five years, our net position has increased a total of \$15 million. A part of this is attributed to Capital Grants received, which we recognize as revenue. From an operational standpoint, we have had basically no increase or decrease.

In the General Fund, equity decreased by \$645. We have \$1.5 million Fund equity, which is 16.5% of the City's total General Fund budget of \$17 million. He stated that financials shown in the General Fund are very comparative to the budget. Revenue has decreased \$500,000 or about 3%. This is because in the last budget year, three buses were bought with federal money. Sales tax was down about \$100,000, and we received approximately \$50,000 less due to the removal of parking meters.

He continued in stating that expenditures were up \$325,000, or approximately 2%. This is due to equipment purchases, and rising costs in health insurance and worker's compensation.

Mr. DiTanna stated that the Water Fund basically broke even. Revenue was \$29,000 more than expenditures, which represents a less than 1% increase from last year. Expenditures increased roughly \$100,000 due to health insurance and worker's compensation increases. He stated that a key revenue driver in the water fund is industries in the area that use large amount of water for

their operation. Our equity in the Water Fund is \$818,000, which is 20% of the Water Fund budget.

He stated that the City had a very good year in the Sewer Fund. The City had \$616,000 in revenues over expenditures, and a \$2.5 million Sewer Fund balance which equates to 70% of the budget. He stated that, due to the Sewer Treatment Plant Project, we can expect expenses to go up in the future.

Mr. DiTanna continued in stating that Sewer revenues were up \$464,000, or 14% from last year. Expenses were up \$175,000, which is almost entirely for debt service.

Alderman Crawford stated that he would like to have a follow up discussion on this audit, as we was not on the Council when this last budget was prepared so he is not familiar with some of the items being discussed. He questioned what major capital expenditures were budgeted from the Fund Balance, and Mr. Saradin stated that he would get that information for him.

Mr. DiTanna stated that the next section of the audit presentation includes reports on internal control and compliance. He stated that this is done annually because Olean is a city in the State of New York, as well as because the City has received more than \$50,000 in federal awards. Their response is not to provide an opinion on the City's internal controls, only the City's numbers. Their response is to their understanding of our internal controls. If they detect a weakness, they are required to bring this to our attention in writing if it is significant or material.

He continued in stating that there are three material weaknesses. The first two items also appeared on last year's audit. First, the City looked to BWB to provide adjustment and assistance to put together the audit document. This is not atypical for governmental entities. Their recommendation is that we continue to accept and review any adjustments.

The second weakness is related to reconciliation of the General Ledger and Capital Projects. With respect to Capital Projects, the City has a computer system that lists all revenues, expenses, and liabilities related to each Capital Project. There is a separate Excel worksheet for each project that details the same. Throughout the year, the two do not always match. BWB aids the City in ensuring that the two documents agree.

The third material weakness is new this year. He stated that it was brought to BWB's attention that management of the City of Olean was presented with a claim for payment in the amount of approximately \$993,000 from a contractor related to the North Union Street project, which was signed by the City's outside engineering firm indicating their approval. BWB has been advised that management disputes the claim. In addition, BWB has been notified that there is litigation in process regarding this amount, in addition to an additional \$285,000 of unbilled work, plus interest. He stated that the issue could not be addressed by the Council, as information and communication to the Council was lacking.

Mr. DiTanna presented the four audit recommendations. First, they recommend that the City establish a policy regarding pending or threatening litigation, including a process and a level at which the Council is to be notified. Second, a policy should be established regarding preparing a budget versus actual expense report for Capital Projects over a certain dollar level. This report should be presented routinely to the Council. Third, a policy should be established regarding the process for approval of change orders for Capital Projects that exceed a certain dollar threshold. The policy should require change orders to be presented to the Council when they exceed this threshold, and should also designate who should sign the change orders.

Finally, a policy should be established developing a schedule that outlines how a Capital Project will be funded. A schedule should be maintained throughout the course of the project that tracks funding sources that have been received and that is owed. This should be presented to the Council on a monthly basis.

Alderman Andreano asked what amount Mr. DiTanna recommends using for the threshold for pending and threatened litigation. He responded that he recommends we do analysis of claims and litigation against the City to see what the historical trend is. If a majority is less than \$5,000, then we could choose to require disclosure for anything above that amount. It may be higher, such as \$20,000.

Alderman Witte questioned if a monthly update is feasible for large Capital Projects. Mr. DiTanna stated that this is what they are recommending. They understand that it is easier said than done, however. A project may also span over a long period of time, so we may find that there is very little activity for some time periods.

Mr. DiTanna presented to the Council accumulated deficits that the City currently has on their books, which does not include the \$1,278,000 in potential costs from the litigation previously discussed. HE stated that it is not unusual to see a deficit due to Capital Projects. When the City issues a short term debt, it is listed as a liability. When the short term debt is transferred to long term debt, it is then recognized as revenue.

He continued in stating that the City anticipates covering \$22,417,225 of the deficits with revenue from bond proceeds, as well as federal, state, and local sources. \$905,797 of the deficit may be covered by transfers from the General Fund or completed Capital Projects with excess funds. He stated that of the \$784,421 shown for the North Union Street rehabilitation, \$600,000 was to be paid by ESD. The time to receive this reimbursement had expired. It is his understanding that we can request an amendment to the timeline, and if this amount is received, it will reduce the amount to \$184,421. Mr. Saradin added that we had received \$70,000 from an additional source after June 1st, so the current amount is \$714,421, and would be reduced to \$114,421.

Ms. Kerper provided an update to the amendment stating that she did receive notification from ESD that they had granted the City's request to amend the timeline. We are currently going

through their normal reimbursement process. We have submitted the signed amendment to the Grant Disbursement Agreement. She stated that tis not unusual for a timeline to expire and be amended due to the lengths of the projects that ESD provides funding for.

Absent any additional questions, Alderman Gonzalez thanked Mr. DiTanna for his time. Mr. DiTanna invited the Council to contact him with any questions or concerns that they may have regarding the audit.

Discussion ended at approximately 6:30 p.m.