

# ULSTER COUNTY COMPTROLLER'S OFFICE

Elliott Auerbach, Comptroller



Annual Audit Report

(1st Quarter 2015)

January 1 – March 31, 2015

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# Introduction

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## **Comptroller's Annual Audit Report**

The Ulster County Charter § C-57(I) charges the Office of the Ulster County Comptroller with submitting an annual audit report including a risk assessment of the accounting methods utilized by the County, to the County Legislature and Executive, and post the report on the County website. The Charter also charges our Office with producing reports at least quarterly on the County's financial condition and the efficiency of its management, with the goal of informing Ulster taxpayers as to the issues which impact the expenditure of their tax dollars. All of our Office's reports and audits are posted on our website at [youreyesonulster.com](http://youreyesonulster.com).

In furtherance of these multiple goals, this Annual Audit Report also serves as our First Quarter Report for 2015.

As the principal objective of the Comptroller's office is to audit the operations of the County, and not the annual financial statements, our office conducted a county-wide risk assessment to evaluate risk among the county's various administrative units in preparation for this report.

## **The Audit Role**

The Comptroller is the chief audit officer of the County. That central role establishes the primacy of the audit function in the discharge of our duties.

Generally Accepted Government Auditing Standards (GAGAS) and the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing require the establishment of a risk-based approach to determine the priorities for internal audit activities. Therefore our Office has completed a County-wide Risk Assessment as a means to help identify, measure, and prioritize potential audits based on the level of risk to the County and for preparing the 2015 Audit Plan.

## **The Audit Plan**

Fundamental to the audit function is the creation of an audit plan, to provide a reasoned approach to protecting the County through review and oversight of government programs and departments. One key factor in the development of an Audit Plan is a Risk Assessment, by which priorities can be established through an understanding of the nature and magnitude of a governmental unit's regular course of business. To that end, our office has undertaken an internal risk assessment of government units and programs in determining an audit plan. In 2015, this process was supported by the circulation and evaluation of a Risk Assessment Questionnaire to unit heads.

# County-wide Risk Assessment

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We have reviewed the completed surveys as well as compiled financial information relating to business processes in each department/agency to identify additional possible areas of risk.

We have designed our risk-based Audit Plan to encompass those issues we consider being the highest priority, while limiting the scope of work to what can be realistically completed with the staff resources available. Our risk ratings are based on current information that fluctuates frequently given the nature, variety, magnitude and influence of County operations on the public.

We are dedicated to completing our Audit Plan while continuing to be flexible and responsive to the dynamic environment in which the County operates. We are constantly considering new areas for audit as they become apparent to us through our work and through the recommendations of the public and county law and policymakers.

## **The Risk Assessment Methodology**

The overall objective of performing a risk assessment is to identify and prioritize potential audit areas that pose the greatest risk and liability to the County. In order to effectively prioritize the potential audit areas identified, the Audit team has developed a risk assessment model to organize and rank potential audit areas based on relevant risk factors.

Using a systematic approach to analyze risk can provide several benefits. The formal risk assessment has allowed us to document our process for risk analysis and provide the basis for our conclusions. Using a standardized approach to evaluating risk will also allow us to incorporate new and relevant data as it becomes available in the future. Lastly, the risk assessment model will allow us to consistently set operational guidelines for quantifying risk and will allow us to allocate scarce audit resources to the areas of the greatest importance in current and future years.

## **Defining the Audit Population**

The first step in defining an audit plan is to identify the audit population. An audit population or audit universe encompasses all auditable activities within the County. For Ulster County, the audit universe includes a variety of programs, activities, and functions of a particular department that contribute to the achievement of the administrative unit's strategic objectives.

For our purposes, we have identified the Ulster County primary audit universe as County departments, based on the proposed 2015 operating budget. From this analysis we have acknowledged a total of 30 administrative units.

- Department of the Environment
- Public Defender

- Emergency Management
- County Attorney (Law)
- Finance (Including Budget and Real Property)
- Health Department/Mental Health
- Fire Coordinator
- Department of Public Works
- Planning
- Safety Office
- Insurance Department
- Human Rights/Youth Bureau
- Weights and Measures
- Aging, Programs for the
- Office of Employment and Training
- Purchasing
- Probation
- County Executive
- Department of Social Services
- Tourism
- Ulster County Area Transit (Bus Operations)
- Personnel
- Veterans Services
- Central Data Processing (IS)
- Arson Task Force
- County Clerk
- District Attorney
- Sheriff
- Board of Elections

We also recognize that other potential audit segments may be identified over time, and reserve the right to define new segments to the risk assessment model in the future as they become apparent. Examples of these further defined segments might include a division within a department, a particular program or project within a department, a specific process or transaction that is common across all or several departments (i.e. – payroll).

### **Relevant Risk Factors**

The relevant risk factors used to identify potential audit areas are based on research and professional best practices related to the development of an audit plan using a risk based model. Risk factors selected were based on the significance of that factor with respect to the nature and objectives of the audit and reporting environment in which the County operates. The audit team has identified the following risk factors during the initial assessment and has developed the following definitions and guidelines for each factor:

<b>FACTOR</b>	<b>DEFINITION AND GUIDELINES</b>
<b>BUDGETED EXPENDITURES</b>	Expenditures per the 2015 Adopted Budget
<b>BUDGETED REVENUES</b>	Revenues per the 2015 Adopted Budget
<b>BUDGETED PAYROLL</b>	Payroll expenditures per the 2015 Adopted Budget
<b>NO. OF INVOICES PROCESSED</b>	Number of invoices processed since the implementation of New World
<b>\$ OF INVOICES PROCESSED</b>	Dollar value of invoices processed since the implementation of New World
<b>NO. OF OPEN CONTRACTS</b>	Current number of Open Contracts in Contract Management
<b>COMPLEXITY OF TRANSACTIONS</b>	A measure of exposure or loss due to the nature and process of recording transactions and maintaining account balances and the presence or absence of proper internal controls to regulate such transactions effectively. Responses from the Internal Control Questionnaire completed by each respective administrative unit in addition to the knowledge of the audit staff has been utilized to determine this risk factor as well as considerations regarding the organizational structure and the operating environment of each unit.
<b>COMPLIANCE WITH LAWS AND REGULATIONS</b>	A measure of exposure, loss or regulatory sanction due to the complexity and or volume of regulations and penalties for noncompliance. The audit team considered the nature and types of grants and contracts, in addition to the nature and number of Federal, State and County regulations or conditions that the department would be subject to. Legal ramifications for non-compliance has also been considered.
<b>INTERNAL CONTROL QUESTIONNAIRE ASSESSMENT</b>	A measure of exposure or loss due to a lack of written policies or procedures, or a failure to properly implement those policies and procedures in practice.

**Internal Control Questionnaire**

To enhance our understanding of each unit and its processes, our Office distributed an internal control questionnaire to be completed by each unit head as an integral part of our risk assessment strategy.

Several factors were considered in the evaluation of internal controls based on survey responses. These factors include, but are not limited to, the presence of written rules and guidelines particular to the operation of the unit, presence of inventory controls, physical securities, segregation of duties among tasks and personnel, and whether there has been significant reorganization amongst staff and or operations.

Each questionnaire completed was reviewed by our senior staff and evaluated for possible risks based on the responses provided. Each question was evaluated separately, and then an overall assessment was determined for each administrative unit based on the evaluation of those questions taken as a whole.

Refer to **Appendix A** for a detailed discussion of Internal Control and the COSO Integrated Framework as developed by the AICPA.

# 2015 Audit Plan:

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After identifying the risks associated with each department and function, we have developed the following Audit Plan for 2015.

## **Operational Audits**

Department of Public Works- Wright's Express Program Evaluation

Information Services - IT Equipment Audit

Timeforce Evaluation (County-wide payroll process audit)

UCAT - TBA

## **Compliance Audits**

Contract Compliance Review (County-wide)

Department of Social Services - TBA

Probation Department – TBA

Department of Health –TBA

## **Special Projects**

Board of Elections – Cost of Elections Impact Audit \*Required by Legislative Resolution

## **Follow Up Audits**

Hotel Motel Tax

Department of Social Services - Child Care

## **Non-Audit Activities**

Quarterly Reports

Annual Report

Administrative Duties

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*The Audit Plan is subject to change for such events where the Comptroller determines it is necessary to substitute, postpone or cancel a scheduled audit due to a change in priority, resource, and other risk considerations.*

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# 2014 Audits and Reviews

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The following is a summary of the Audits and Reviews produced by our office in 2014.

## **PURCHASING DEPARTMENT AUDIT**

Ulster County Comptroller Elliott Auerbach released a report examining the practices of the County's Purchasing Department ("Purchasing") with respect to its oversight and administration of the procurement of government goods and services. The Report focuses especially on the important practice of soliciting bids, issuing "Requests for Proposals" ("RFP"), and the determination of the vendors who are awarded bids.

The implementation of the County's new financial management software was a large impetus behind the review. Comptroller Auerbach noted that "the implementation of this new system by the administration was a massive and much-needed effort, and it has the potential to improve the efficiency and reduce the risks in the County's financial affairs. As all of us in County government learn the new system, we should be looking to marry its powerful capabilities with best practices wherever we can."

In this case, the report finds that Purchasing's adherence to County policy was satisfactory, but makes findings and recommendations for improvement of Purchasing's performance as well as for changes to existing policy.

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*"We will actively support the development of prudent procedure and policy changes working collegially with Purchasing, and provide the legislature with our comment on changes that had already been proposed. The mutual goal is good government. The response of Purchasing to our review has been a model of the audit and control process at its highest value, and we expect that relationship will continue," –Comptroller Auerbach on Purchasing's responsiveness to the audit process.*

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Director of Purchasing Marc Rider was active in identifying and seeking to address departmental issues noted during the audit process, and as our Office shared our findings with Mr. Rider, he sought to modify certain procedures and practices for the better even before our report was complete.

Revised procurement policies have already been proposed to the legislature which addresses many of the issues in the report.

## **HOTEL MOTEL AUDIT**

Ulster County Comptroller Elliott Auerbach has completed a second audit in four years of Ulster County's collection of the County's Hotel and Motel Occupancy ("Bed") Tax. The audit finds there is

a high incidence of miscalculation of the occupancy tax by operators, with 80% of returns audited not properly calculated. In addition, findings were made related to the calculation of penalties and interest associated with the tax and practices related to budgeting and accounting for the tax.

According to the Report, the findings stem from two concerns with the County law by which the tax is authorized: first, the language of the law is confusing and does not facilitate accurate calculation of the tax by operators, and, second, ambiguities in the method of budgeting and accounting for the tax by the County exist because the law was adopted pre-Charter and is thus outdated.

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*The occupancy tax requires hospitality businesses to collect taxes from consumers on behalf of the County. It is an obligation government imposes on business and, that government, in turn, has an obligation to keep that process as simple, direct and efficient as possible.*

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This audit, as did a similar 2010 audit, recommends the Ulster County Legislature modernize the law and make it relevant to all facets of the industry as it functions today. The report notes that, the law was written with the “old-time” resort industry in mind. The Legislature has an opportunity to provide a valuable service to the current industry by revamping the law and, in the process, improving collections.

Among the outdated aspects of the law are provisions for how the revenues of the tax are to be budgeted, requiring a minimum set aside of the tax revenue to be dedicated to the tourism industry in the County. In practice, these requirements seem obsolete under the post-Charter, Executive form of government, and the budgets proposed by the Executive and approved by the Legislature in the Charter era have consistently exceeded the minimum set-aside. “Nevertheless, the language of the law remains problematic from an accounting perspective until changed,” says Auerbach.

“The Report makes budgeting and accounting recommendations to the Executive and Finance Department, while urging action by the Legislature,” says Auerbach. “It represents a clear opportunity for our Office, the Executive, and the Legislature to work together to bridge a gap between intent and practice, to the benefit of taxpayers.”

## **HEALTH BENEFIT AUDIT**

Upon completion of a Health Benefit Dependent Eligibility Audit, Ulster County Comptroller Elliott Auerbach provided a call to action for the Legislature and Administration with recommendations to safeguard a multi-million dollar county expense.

The Report summarizes an audit by Auerbach’s Office which sought to verify the eligibility of employee dependents. All Ulster County employees are eligible for health care coverage. Employee dependents, however, are only eligible if they meet certain criteria.

**FINDINGS:**

- Ulster County spent \$24.7 Million on healthcare benefits in 2013
- Ulster County covers over 4000 enrollees
- Ulster County's cost per participant ranges from \$662-\$2,492 each
- Ulster County lacks adequate procedures to document dependent

**RECOMMENDATIONS:**

- An annual verification of dependent records
- An update of current records
- Legislative policy as to verification requirements and corresponding standards of operating procedures adopted by the Administration

**COUNTY SALARY COMPARISON**

The County Salary Comparison report summarized the salaries of specific positions of local County Government for nine New York State Counties in 2014. This was to allow for meaningful comparisons between regional organizations while taking into consideration that significant factors may limit the ability to make direct comparisons including differences in size, population, duties and responsibilities.

Collecting data related to twenty positions across nine counties, the report provides a general overview of Ulster County salaries in comparison to other County's. Upon our review we found that only four positions in Ulster County earn a salary that is above the County average based on the data we collected. The remaining sixteen positions were found to fall below County averages.

# 2014 Quarterly Report Recap

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Our Quarterly Reports focused on areas of taxpayer concern which are either regularly reviewed by our office or of particularly timely significance when reported. Following is a review of the 2014 Quarterly Reports.

## **1st Quarter in Review**

### *Ulster County Sales tax Revenue Analysis*

There certainly was no more important fiscal issue in the First Quarter of 2014 than the lapse in the Ulster County 1% sales tax. The lapse was occasioned by the failure of the State Legislature to extend the tax by special legislation by the end of November 2013. As a result of the Legislature's failure to extend the County's additional 1% sales tax rate, the County was required to take Executive action to account for the losses in tax revenue by reducing Fund Balance. Furthermore, 2014 tax revenue projections needed to reflect the additional loss in revenue and the future uncertainty of the Legislative action.

However on January 23, 2014 the State Legislature approved the 1% increase, to take effect as of February 1<sup>st</sup> of that year. While the effect of the sales tax lapse can be clearly seen in the analysis of revenues from December 2013 and January 2014 when the lapse was in effect, ancillary impacts will also carry into the budget for the remainder of 2014 and even into the 2015 budget projections as the County is affected by this loss of income. Coupled with a shorter shopping season and general decrease in consumer spending, the interference by the State Legislature will have a lasting effect on the County.

## **2nd Quarter in Review**

### *An Analysis of Ulster County Revenues*

In the second Quarter of 2014, our report focused on revenue indicators that could provide additional insight into the County's ability to have service level solvency – the ability to provide services at the level and quality required to maintain the health safety and welfare of the County. Key factors including flexibility, growth, elasticity, dependability, diversity, and administration help outline the County's ability to affect its financial standing, increase its operating capacity, adapt to changes in the economic landscape, generate necessary revenues, manage its budget, and ultimately support the community it governs.

To evaluate the County's financial condition, we analyzed several elements including revenue per capita, intergovernmental revenues, tax revenue, and revenue shortfalls and surpluses. A review of Ulster County's net operating revenue per capita showed a positive trend over the past five years. There are five major categories of intergovernmental revenue including public welfare, education, transportation, housing and health. These revenues can be a significant source of funds for many municipalities, and can create a risky dependency in the case of some municipalities. In Ulster

County, we notice a growing trend in Intergovernmental revenues when reviewing the same five year period. While these funds provide greater revenues for the County's expenditures, they also indicate a growing dependency on intergovernmental funds.

Our review also found an increase in tax revenue for Ulster County over the past five years. This can indicate greater self-sufficiency, as the County has a greater amount of revenue to finance its operations. However, we note that taxes must be balanced to prevent adverse effects resulting from high tax rates that affect the conditions of the market and quality of life for taxpayers.

Finally, by looking at the difference between projected and actual revenues we are able to assess the quality of financial planning and development of fiscal policy in Ulster County. We note that in five of the past six years, Ulster County has experienced shortfalls where actual revenues fall below the budgeted revenues. These variances should be investigated and budgeting practices should be amended to mitigate significant variances in future budgets.

### **3rd Quarter in Review**

#### *An Analysis of Ulster County Expenses*

In furtherance of our second quarter report on revenue indicators, the third quarter report focused on financial indicators specific to expenditures. Municipalities like Ulster County are charged with providing quality public services without incurring undue costs and debt. While many factors affect the efficiency of a government in providing services, expenditures can be used as a rough metric to measure a local government's service output.

To evaluate expenditure trends we have focused on the following factors: expenditures per capita, expenditures by function, fringe benefit costs, and actual expenditures vs. budgeted expenditures.

Our review of expenditures per capita reflected positive trend for Ulster County, as expenditures remain fairly constant over a five-year look-back period amidst inflation. While the general structure of expenditures has not changed significantly during the five year period under review, we note that several functional expenditures have had significant changes due to the consolidation of services, and sub-contracts to private sector agencies to provide some services previously provided by the County. An analysis of fringe benefit expenditures and salary costs show that while salary costs have dropped for the county, expenditures for fringe benefits have increased significantly. A large portion of this increase can be attributed to the sale of Golden Hill nursing facility which resulted in increased unemployment costs for the county, and reduced salary costs. Finally, a review of actual expenditures as compared to those budgeted reveals a deficiency in financial planning as expenditures have been over-budgeted in each of the five years analyzed.

## **4th Quarter in Review**

### *Fund Balance Policy and Best Budgeting Practices*

The focus of the 4<sup>th</sup> Quarter Report was an analysis of budgeting techniques and the appropriation of fund balance to support recurring County expenditures. Ulster County Legislature has stipulated that Fund Balance should be maintained at 5-10% of annual operating expenditures to be carried into the following fiscal year. The additional fund balance is available to be appropriated to finance subsequent year expenses and is therefore assigned to future uses. Our review of the fund balance in recent years indicates that Ulster County has a fund balance greater than the recommended amount, as designated by the Legislature. We therefore recommend that the County either address budgeting practices, or amend the fund balance policy to a higher level.

When considering the differences between the budget and actual results, we have found significant variances in recent budgets. Budgeting is an extremely important aspect of fiscal management as it sets the foundation for the County's operation in the coming year. Ulster County appears to employ an extremely conservative budgeting technique which may be misleading to taxpayers and present difficulties in the long-term. We therefore suggest that Ulster County consider adopting a comprehensive multi-year budget plan to account for long-term factors effecting the County's financial position.

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*To view complete reports, please visit  
[youreyesonulster.com](http://youreyesonulster.com).*

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## **Conclusion**

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We encourage County lawmakers, administrators, and taxpayers to contact our Office with questions on this Report or any of our duties and functions, as well as with concerns as to the operation of County government. It is our goal to be a resource to government and citizens, and an agent of better government and we welcome stakeholder input.



# Framework: Five Elements of Internal Control

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The Committee of Sponsoring Organizations of the Treadway Commission (COSO) has promulgated the Internal Control-Integrated Framework to establish guidelines for organizations to assess control systems within their operating environment. The COSO framework defines internal control as a process, effected by an entity's board of directors, management and other personnel designed to provide "reasonable assurance" that the objectives of the organization are achieved. The framework further defines these objectives as, effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations and safeguarding of assets. The framework is comprised of five interrelated components related to management's philosophy and operating style. The framework includes the following five components:

## ***Control Environment***

The control environment is often described as the "tone at the top" within any organization. The control environment can be thought of as the cornerstone of the COSO framework, as it represents the foundation of all supporting components by providing guideline, discipline and structure for internal controls. Examples of control environment factors include management's philosophy and operating style, integrity, ethical values, delegation of duties, and personnel development processes. The control environment represents the general tone of the organization and addresses how conscious employees are of controls.

## ***Risk Assessment***

The general purpose of a risk assessment is to identify those areas that could most significantly affect the achievement of an entity's objectives. You must first identify such objectives and then identify and consider relevant risks that may impede the achievement of those objectives.

## ***Control Activities***

Control activities refer to the policies and procedures designed to ensure that management directives are carried out and objectives and goals are achieved. Approvals, authorizations, segregation of duties, and performance reviews would be considered control activities that function within the control environment. The purpose of control activities is to limit the potential adverse effects of risks discovered during the risk assessment. Therefore, managers should primarily focus on developing control activities that mitigate the most significant risks identified.

## ***Information and Communication***

Information and communication support all other components of the COSO framework by communicating control activities throughout the organization and providing information in the form of reports or other prescribed forms. Because Management is ultimately responsible for mitigating risk, it is essential that information about known risks and control activities designed to

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address such risks are communicated to all levels within an organization. For internal controls to be effective, each employee must understand his/her respective role in the internal control system and how their role relates to other members of the organization.

### ***Monitoring***

Monitoring is an essential component of the Integrated Framework as it allows management to determine if policies and procedures are being used effectively. Monitoring can help to identify new risks, as well as determine whether identified deficiencies have been rectified in a timely manner.

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# Audit Categories

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## ***Operational (Performance) Audits***

Aimed at evaluating administrative efficiency and effectiveness against specific criteria set by management

### Objectives to consider:

Has the program achieved its stated objectives?

Does the program duplicate or conflict with other related programs?

Do the benefits achieved outweigh or justify the related costs of the program?

## ***Financial Audits\*\****

Review of accounting records to determine that transactions are being accounted for accurately and appropriately based on the applicable standards and to express an opinion as to the truth and fairness of the financial statements.

\*\* We note that the County's financial statements are audited annually by an outside firm at the direction of the County Legislature.

## ***Compliance Audits***

Determine if programs comply with applicable laws, regulations, and policies to which they are subject.

## ***Special Projects***

Special projects are typically undertaken to address a specific activity or area of concern. Special projects may address accounting, compliance, efficiency, or other matters as deemed necessary. Special project audits may be undertaken to specifically address other review areas identified during our normal course work that appear to have additional exposure to risk and require further investigation. Specific review requests would also be considered special projects. We have designated additional hours to special projects that may be developed or requested throughout the year.

## ***Follow-up Audits***

Follow-up audits are conducted to specifically address the status of corrective action taken by management in response to recommendations in a previous audit report.

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