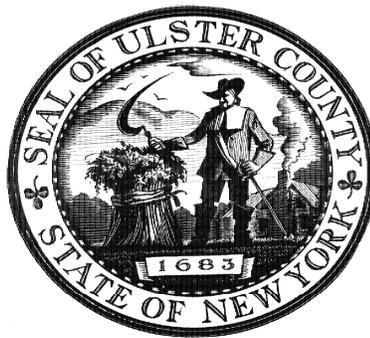


# ULSTER COUNTY COMPTROLLER'S OFFICE

Kingston, New York

## THE QUARTER IN REVIEW 1<sup>ST</sup> QUARTER 2013



April 30<sup>th</sup>, 2013

*The mission of the Ulster County Comptroller's Office is to serve as an independent agency of the people and to protect the public interest by monitoring County government and to assess and report on the degree to which its operation is economical, efficient and its financial condition sound.*

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## **I. INTRODUCTION**

This Quarterly Report (“Report”) is issued pursuant to Ulster County Charter (“Charter”) Section C-57(I) and illustrates the challenges faced by our Office after the adopted changes to the Charter in the last quarter of 2012. This change resulted in an important and challenging first quarter of 2013 for all administrative units of the County. The charter form of government itself remains a relatively new experience for Ulster’s institutions and residents. In our view, it has been a change which has benefited the County’s taxpayers’ through its balance of Executive and Legislative responsibilities and authority. Additionally, it aids in the development and understanding within the administrative units of the fiduciary obligations of the various County units to its constituencies, all of which are safeguarded by this Office’s independent audit functions.

Our Office is pleased to present this Report to the people of Ulster County and their representative government officials.

## **II. REDEFINING CHARTER GOVERNMENT**

### **A. Charter Changes:**

With respect to the County’s fiscal health and management, the most pertinent changes were the appropriate reorganization of the duties of the Comptroller’s Office and the Finance Department. As originally adopted, the Charter charged the Comptroller with the duties of chief accounting *and* auditing officer of the County. Our Office strongly recommended, in an effort to be in accordance with industry auditing standards, the auditor should not also be the accounting professional. Accordingly, the newly adopted Charter makes the Commissioner of Finance the Chief Accounting Officer and the Comptroller the Chief Auditing Officer of the County.

The new dichotomy of duties is, as noted, entirely appropriate, but it also required some changes in administrative protocol, and as the process has played out through the first quarter of 2013, it is apparent that further Charter and Administrative Code changes may be required.

### **B. The Forms & Methods of Accounting:**

Our Office took a proactive role in amending the forms and methods of claims processing necessitated by the Charter changes, pursuant to Charter Section C-57(E). These changes resulted in greater accountability and audit capabilities, especially important given the 50% reduction in claims audit staff in the 2013 Budget. We worked closely with the Executive’s Office and the Commissioner of Finance to revise the forms and the process, and continue to hone the process with the administrative units of County government, each of which faces their own unique challenges in the transition.

It is important that the forms and methods prescribed by this Office be built into a revised Standard Operating Procedure (“SOP”) by the Executive’s Office, a process which we have been advised is under way, and which we expect will be complete by the time of our second quarter report.

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### C. Further Changes in Charter, Policy & Procedure:

In our opinion, the revisions in the Charter have served to highlight other changes from which County government would benefit, such as the removal of the duty of the Comptroller's Office to perform the bank reconciliation function (Charter Section C-57(B)). The same distinction between accounting and auditing should govern this practice, as well: the entity doing the banking should reconcile the accounting records to the bank as they maintain the details supporting these recorded transactions. The Comptroller's highest and best function should always be to independently audit and inspect those bank reconciliations, not to prepare them. We recognize that a charter modification which would properly put this function in the province of the Finance Department may create staffing challenges. That issue should be addressed going forward by the Executive and the Legislature.

At our recommendation, the new Charter established an Audit Committee, whose function is to select the independent auditor for the County. The Committee began their work at the start of 2013. The importance of the independent audit cannot be understated, as it impacts the County's bond and credit ratings, and ensures accountability to the public we serve as to best practices.

We do note that some clarification of the process, either by charter amendment, policy or procedure adoption, would be prudent. In particular, it is unclear whether the appointment of the external auditor should be limited in time (i.e., one, two or three years). Additionally, the participation of past or present external auditors in the Audit Committee's request for proposal process should be expressly prohibited.

In general, the Charter changes continue to reflect the value of the charter form of government for Ulster County residents. It forms the backbone of a government which in practice is widely recognized as a model of fiscal and administrative leadership throughout the State, a fact for which Ulster County employees are to be congratulated, and of which its residents may be very proud.

## III. CLAIMS AUDIT AND ACCOUNTING OVERSIGHT

### A. The Claims Audit Process:

One of the most essential duties of the Comptroller's Office is the audit and certification of all claims and charges against the County. For the first quarter of 2013, our claims auditing team audited 6,559 claims consisting of over 14,000 individual transactions. These claims/transactions amounted to approximately \$58 million for all County administrative units. Additionally, this charge encompasses reviewing all employee reimbursements which included 439 reimbursements amounting to approximately \$54,000.

Some claims auditing issues were encountered which required continued attention. These issues are broken down in the tables below by vendor claims and employee reimbursements.

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**Vendor Claims:** **Table #1** summarizes the issues we identified during our review of approximately 6,500 claims and details the amount of audited claims along with a summary of our identified issues.

<b>Table #1 : Table of Issues with Vendor Claims For the 1st Quarter of 2013</b>		
Total Dollar Value of Claims	\$	57,942,210
Total No. of Vendor Claims		6,559
Total No. of Issues we identified		232
Percentage of Issues Compared to Claims		4%
<b>Summary of Issues Identified</b>	<b>No. of Issues</b>	<b>% of Issues to Total Issues</b>
Data Entry Issues at time of Invoicing	86	37%
Missing Documentation	58	25%
Other	34	15%
Contract/Bid Issues	28	12%
Missing Finance's required signature	26	11%

Although the data entry issues summarized above represent the largest percent of identified concerns, they are immaterial as they are less than 1% of the total transactions. More important issues included missing documentation and instances of errors involving contracts/bids.

In order to approve an invoice for payment all necessary documentation must be attached to a claim package. Without all necessary documentation, there exists the possibility of paying improper claims. Some of the missing documentation included: packing slips, internal checklists, and other internal forms which support the purchase. In all instances either our Office or the Finance Department followed up with the departments/agencies and obtained the missing documentation, an unnecessary and time consuming step which could easily be avoided.

In certain circumstances, purchases of goods are required to go through an official bidding process in order for the County to ensure the most cost effective price. Occasionally, these items are invoiced at an amount over the negotiated bid price. It is important for the departments/agencies to confirm that they are using these bid prices rather than the “retail price” so that the County is not overcharged. As with missing documentation, these bidding issues are corrected as part of our claims audit process. However, increased accuracy and efficiency at the departmental level would decrease the cost of administrative resources necessary to correct these errors.

As will be reiterated in Section VI(D) below, we also encourage the expansion of the bidding process to encompass high cost and/or long-term contracts or leases even where the law does not necessarily require it. In the present economy, consulting, service, and materials vendors are poised to compete aggressively for contracts. There is no reason the County should not avail itself of the benefits of competitive bidding wherever practicable.

**Employee Reimbursements:** Table #2 below summarizes the issues encountered with employee reimbursements where problems were uncovered on 6% of the submitted vouchers. The two most concerning were conference related matters and being provided insufficient information relating to addresses necessary for mileage reimbursement calculations.

<b>Table #2 : Table of Issues with Employee Reimbursement Claims For the 1st Quarter of 2013</b>		
Total Dollar Value of Reimbursements	\$	54,113
Total No. of Employee Reimbursements		439
Total No. of Issues we identified		28
Percentage of Issues Compared to Claims		6%
<b>Summary of Issues Identified</b>	<b>No. of Issues</b>	<b>% of Issues to Total Issues</b>
Conference/Notary Public Related Issues	7	25%
Insufficient Address Information	7	25%
Mileage Verification Wrong	6	21%
Other	3	11%
No Documentation of Payment	5	18%

As can be seen, 25% of the concerns were related to not receiving properly filled out *Conference Attendance Approval* and *Request for Authorization of Notary Public* forms. Both of these required forms must be completed, in their entirety, and signed off on by the County Executive’s Office for reimbursement prior to the employees’ attendance and acquisition.

The other issue of concern is that employees requesting mileage reimbursements are not documenting the complete address of the destination, as is required on the *Statement of Travel Expenses* as outlined in the SOP. This is important not only from a completeness standpoint, but is also essential in verifying the correct calculation of miles driven for proper reimbursement.

**B. Bank Account Reconciliations & Collateral:**

As previously mentioned, Article IX, § C-57 (B) tasks our Office with the bank reconciliation process for approximately 50 bank accounts affiliated with 9 independent financial institutions.

Initially, we must restate our strong recommendation that the bank reconciliation functions should be performed by the Finance Department under the auspices of its Commissioner’s obligation as the Chief Accounting Officer. This is the case as the Finance Department receives and reviews the source documentation necessary to do the proper reconciliation. We note, parenthetically, that many County Departments/Offices prepare their own reconciliations and provides them to our Office for this reason. This practice is appropriate and allows for timely review of these records by our Office. There is no reason why the Finance Department should not adopt this same practice.

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Our greatest concern with performing the bank reconciliations is that the books and records are typically not closed out and completed by the Finance Department until the third week of the following month, which prevents a timely preparation of bank reconciliations. Further, in many cases, the delay makes it difficult to discover the outstanding issues, if any, in a timely manner.

As of February 28, 2013 the combined cash position of the County in regards to the bank accounts we reconciled and reviewed are as follows:

<b>Table #3 Combined Bank Reconciliation as of February 28, 2013</b>	
Total Bank Balance as of February 28, 2013	\$ 109,387,850
Plus Deposits in Transit	1,725,625
Less: Outstanding Checks	(5,403,212)
Unreconciled Differences	1,763,566
Book Balance as of February 28, 2013	<u>\$ 107,473,829</u>

We note the reason for including February balances as opposed to March 31<sup>st</sup> balances is because as of April 29, 2013, the Finance Department had not provided all the necessary documentation rendering it difficult to perform an accurate and timely bank reconciliation for the month of March.

Another concern highlighted by Table #3 above is reflected in the “unreconciled differences” category. This amount includes several items which have been carried forward each month as a result of the Finance Department’s practice of not posting reconciling items, such as monthly interest accrued and deposits not recorded to their ledgers in a timely manner. It is important that outstanding items are reflected in the ledger promptly once discovered, so that the books reflect the most accurate balances.

As part of our bank reconciliation process, we verify that the County has sufficient pledges of collateral against its deposits. This is an important component to ensure the safety of investments and deposits of public funds. Confirming adequate security for deposits and investments with financial institutions is a priority for local governments. Sufficient collateral protects from suffering losses in the event that a financial institution may fail, which could result in an inability to recoup public funds. The Counties status in this regard as of February 28, 2013 confirms that all but one institution has acceptable pledges of collateral. The institution which has been routinely under-collateralized has been brought to the attention of the Commissioner of Finance.

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## IV. REPORTS ISSUED BY COMPTROLLER'S OFFICE

### A. Summary of Reports:

**1. *Report on Bank Accounts Held* – Release Date January 2, 2013** – This “snap-shot” report on the cash position of the County at October 31<sup>st</sup>, 2012, brought to light the following issues and made appropriate recommendations:

- Unauthorized bank accounts being opened
- Lack of a current investment policy
- Under collateralized bank accounts
- Retired and separated employees remaining as signatories

**2. *Confidential Funds Review* – Release Date January 22, 2013** – This follow-up report addressed the cash procedures of the Ulster County Sheriff's Office; specifically with regards to the cash handling of Ulster Regional Gang Enforcement Narcotics Team (URGENT). We conducted a cash count of \$27,321 that was in the URGENT safe and made appropriate recommendations:

- Custody and record keeping functions should be separated for effective internal controls
- Safeguarding the cash box which could contain upwards of \$3,000 at any given time
- Monthly or Quarterly reporting should be documented and forwarded to the Comptroller's Office
- Procedures should be modified to specifically detail the types of “emergency” transactions that are authorized to be expended through these funds

**3. *Relevy Report for Selected Towns* – Release Date February 25, 2013** – This report was originated by an inquiry from an Ulster County town assessor. The report identified four towns which did not properly relevy the taxes associated with properties transferred which prior to transfer were eligible for exemptions. Our report revealed that there was potentially as much as \$65,000 in taxes which should have been relevied. Instead, this shortfall, although minimal once applied, was passed on to all other taxpayers for their respective towns.

### B. Compliance Review:

Our Office will be delivering compliance letters to the administrative units to whom recommendations were made in the *Report on Bank Accounts Held* and *Confidential Funds Review* Reports, as well as all reports issued in 2012, to determine whether they have appropriately addressed the findings either by correction or by the adoption of a management action plan.

Going forward, our Office is also developing forms to be included with issued reports beginning by the end of the second quarter. These forms will require the administrative units, to whom recommendations are made, to respond within a prescribed time period with the affirmative steps they plan to adopt to address our concerns. Then, within a fixed period thereafter, our Office

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will conduct compliance review investigations to ensure that such steps have been taken, and that, where appropriate, policies or procedures have been duly adopted.

## V. COMPTROLLER'S SECOND QUARTER

In the second quarter, the Comptroller's Office has either released or intends to release the following reports:

- ***Making School Districts Whole*** – A “by the numbers” review which detailed the amount Ulster County is responsible to pay for uncollected school taxes to the School Districts with taxable parcels in the County. The report was issued April 9, 2013 and determined that Ulster paid out nearly \$23 million in March 2013.
- ***Ulster County 2013 Tax Lien Foreclosure Report*** – This report was released April 1, 2013 and addressed the properties up for auction that were faced with foreclosure due to 3 or more years of delinquent real estate tax payments. The report detailed the municipalities which had parcels in foreclosure with total outstanding tax liens for each locality.
- ***Take Home Vehicle Review*** – Reviewed the procedures and policies related to the use of take-home vehicles by various administrative units and Offices of the County. This report was released on April 4, 2013 and was subsequently picked up by *Government Fleet Magazine*, a nationally recognized industry publication.
- ***Procurement Card Review*** – Reviewed the policies and procedures related to the use of credit cards issued to certain officers or employees in order to make defined purchases which ultimately reduces the human resources and administrative efforts associated with certain purchases. This report was issued on April 11, 2013.
- ***Department of Social Services Child Care Block Grant Review*** – Focused on the important New York State grant utilized and administered by the Ulster County Department of Social Services, which provides subsidies for child care to qualified families.

The Comptroller's Office reserves the right to alter the Audit Plan for the second quarter in its discretion as the needs and priorities of the County change in relation to the discharge of our duties.

## VI. TRANSPARENCY & ACCESS

### A. Your Eyes on Ulster:

The Ulster County Comptroller's Office has endeavored to make the work of the Office and of County government as a whole, as transparent and accessible as possible. We have adopted the practice of posting all reports and opinions of the Office online, and are finalizing an overhaul of our web and social media presence, with appropriate links to relevant County government and

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finance information. Our goal is to ensure that Ulster County citizens have the greatest possible access to the state of the County's economic position at all times, as well as removing any veil over the operation of government and its ethical oversight.

#### B. Community Involvement:

Our Office continues to act as a resource for municipal government officials and taxpayers seeking answers to questions which arise in their communities, either researching and providing responses directly or directing them to the appropriate branch of County government. There is an unfettered open-door policy governing the Office's response to constituent concerns which we believe fosters trust in the County's operation.

Further, we support an active and extremely productive internship program which has benefitted the County and the interns themselves by tapping into the tremendous wealth of talent in the Hudson Valley's higher education institutions. Interns in our office participate in a meaningful way in our reports and investigations. We also sponsor an annual award program called "Recognizing Success," which seeks out and rewards Ulster County high school students who show exceptional entrepreneurial spirit and demonstrated economic or social leadership achievement. The program has served to make eminently clear the dynamic and hopeful future of Ulster County through the extraordinary gifts of its youth.

We have established a Comptroller's Advisory Committee comprised of local leaders in the financial industry and academia to allow for discourse at a high level with respect to the challenges faced in all sectors of Ulster County society. The Committee meets quarterly.

#### C. Financial Systems Upgrade:

We have also participated actively in the County's efforts to upgrade and update its financial systems software, so that the efficiency of claims processing, accounting, and auditing, as well as our investigations into particular programs, can be automated and systematic, with less opportunity for human error. The further goal of the upgrade is to ensure that the various data entry and financial systems of Ulster County government are integrated and can communicate in real time with one another. This process could be as important as any currently under way in Ulster County, and we will continue to provide the insight and direction which we view as vital to facilitating accountability.

#### D. Contract Process:

Our Office has interacted with the Executive's Office, the Purchasing Department, and the County Attorney's Office, regarding the processing of County contracts and contract renewals. In particular, we have recommended that the bidding process be expanded to include large or long-term contracts even where bidding laws do not necessarily require it, in order to ensure the best result for County taxpayers. Furthermore, we have recommended great caution in the extension of existing contracts where economies of scale may be achieved by combining the scope of the expiring contract with the scope of new or related contracts.

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Our Office will continue to seek new and improved efficiencies by our continual review of industry standards and best practices in all areas of governance, and we encourage individual and corporate taxpayers to provide us with their comments and insights as to the operation of our Office and Ulster County government in general.

## **VII. CONCLUSION**

The Ulster County Comptroller's Office remains committed to serving the interests of the People of Ulster County, who have entrusted us with the honor and duty of protecting the fiscal responsibility and integrity of its government. We will continue to promote and recommend policies and procedures which lead to transparency for the benefit of the public as well as the hard-working officers and employees who discharge their duties to the People every day under unique and challenging circumstances. As always, there is opportunity in adversity, and we are confident that in these difficult times, the People and government of Ulster County will continue their long history of meeting such challenges, and emerging as a dynamic model for success for New York State.