



# County of Otsego County Treasurer's Financial Operations

## Report of Examination

Period Covered:

January 1, 2005 — July 17, 2006

2007M-60



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**

June 2007

Dear Local 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 is mandated to oversee the fiscal affairs of local governments statewide, as well as their compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished through our audits, which identify opportunities for improving operations and Board of Representatives governance. Audits can also identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the County of Otsego, entitled County Treasurer's Financial Operations. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials 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 County Treasurer (Treasurer) serves as the chief fiscal officer and is responsible for the financial operations of the central treasury. This includes maintaining the County's central accounting system, providing reports of financial activities on a timely basis, monitoring and enforcing the budget, processing payroll and investing idle moneys. During the 2006 fiscal year, the treasury had a staff of 12 and handled virtually all financial transactions associated with the County's \$87 million budget.

Oversight of the financial activities of the County should be a priority of both the Board of Representatives (Board) and the Treasurer. The Board is responsible for providing general managerial oversight of County Treasury operations, and the Treasurer is responsible for providing managerial oversight over her office operations to ensure that accurate and timely accounting records are maintained and accurate financial reports are prepared and distributed in a timely manner. The Treasurer is also responsible for processing payroll for approximately 800 County employees and ensuring that the County is maximizing interest revenues.

### **Scope and Objective**

The objective of this audit was to determine if County officials were properly managing financial operations to safeguard County assets. Our audit addressed the following related questions for the period January 1, 2005 through July 17, 2006:

- Has the Board provided adequate oversight of the Treasurer's operations?
- Do inefficiencies exist in the Treasurer's office and has the Treasurer provided adequate oversight over office related practices and procedures, which affect the ability to provide timely and complete financial information?
- Has the Treasurer maintained accurate and timely accounting records in order to provide the Board and department heads with financial reports to help them manage County operations?
- Has the Treasurer invested idle funds in such a manner that allows for maximization of earning potential?
- Have County officials established adequate internal controls over the payroll and personal services functions and are those controls operating effectively?

## **Audit Results**

The Board did not provide adequate oversight over the Treasurer's operations and did not provide the necessary resources and technologies to help staff perform their duties until the middle of 2006, when a new computer system was acquired. In addition, the Treasurer did not develop written policies and procedures to manage operations efficiently and effectively.

These conditions, coupled with high staff turnover, perpetuated practices that were duplicative and time consuming. Consequently, accounting records and financial reports were not current and several departments expended their own resources to maintain records for management purposes.

The Board has adopted an investment policy. However, the policy was not comprehensive, nor was it periodically updated. In addition, interest revenue was not maximized. We estimated that for a six month period in 2006, approximately \$85,000 in additional interest revenue could have been earned by investing idle funds at the highest available rates.

Finally, payroll job functions were not properly segregated, payroll processing required significant manual data entry, and payroll and personnel system user access rights were not sufficiently restricted. As a result, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected. We also identified a former employee who was underpaid by approximately \$1,200 for a vacation buyout.

## **Comments of Local Officials**

The results of our audit and our recommendations have been discussed with local officials and their comments have been considered in preparing this report. We received separate responses from the Chairman of the Board of Representatives and the County Treasurer which appear in Appendix A. Although County officials generally agreed with our recommendations and indicated they planned to initiate corrective action, the Board does not agree with at least part of our audit findings and recommendations. Appendix B includes our comments on the issues raised in the Board's response letter.

# Introduction

## Background

Otsego County is located in central New York State and according to the 2000 Federal Census has a population of 62,231. The County is governed by the Board of Representatives (Board), which comprises 14 elected representatives, one of whom also serves as its Chairman. The Board is responsible for the general oversight of the County's financial affairs and for safeguarding its resources, among other managerial responsibilities. Forty-six departments provide County services, including general governmental support, road maintenance, improvements and snow removal, public health and safety, social services and a skilled-nursing facility. The County primarily funds these services from real property and sales taxes, State and Federal aid and various departmental revenues. During the 2006 fiscal year, the treasury had a staff of 12 and handled virtually all financial transactions associated with the County's \$87 million budget.

The County Treasurer (Treasurer) serves as the chief fiscal officer and is responsible for the day-to-day financial operations of the central treasury. This includes providing oversight of individuals whose duties include maintaining the County's central accounting system, providing reports of financial activities on a timely basis, monitoring and enforcing budget authorizations, processing payroll for approximately 800 County employees and ensuring that the County is maximizing interest revenues.

## Objective

The objective of this audit was to determine if County officials were properly managing financial operations to safeguard County assets. Our audit addressed the following related questions:

- Has the Board provided adequate oversight of the Treasurer's operations?
- Do inefficiencies exist in the Treasurer's office and has the Treasurer provided adequate oversight over office related practices and procedures, which affect the ability of staff to provide timely and complete financial information?
- Has the Treasurer maintained accurate and timely accounting records in order to provide the Board and department heads with financial reports to help them manage County operations?
- Has the Treasurer invested idle funds in such a manner that allows for maximization of earning potential?
- Have County officials established adequate internal controls

over the payroll and personal services functions and are those controls operating effectively?

**Scope and  
Methodology**

During this audit, we examined the financial records of the Otsego County's Treasurer's Office for the period January 1, 2005 to July 17, 2006.

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 our recommendations have been discussed with local officials and their comments have been considered in preparing this report. We received separate responses from the Chairman of the Board of Representatives and the County Treasurer which appear in Appendix A. Although County officials generally agreed with our recommendations and indicated they planned to initiate corrective action, the Board does not agree with at least part of our audit findings and recommendations. Appendix B includes our comments on the issues raised in the Board's response letter.

The Board of Representatives has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within ninety days. For guidance in preparing your plan of action, you may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the County Clerk's office.

## Accounting and Reporting

The Treasurer is responsible for maintaining timely, complete, and accurate financial records. These records are essential to provide necessary information for preparing budgets and reports so that management can make informed financial decisions and monitor financial operations. The Treasurer must provide supervision and direction to staff through both one-on-one managing and by developing and instituting written procedures to help ensure that staff will complete their job tasks efficiently. The Board should monitor the work of the Treasurer to ensure that timely records are maintained and financial reports are distributed on at least a monthly basis. The Board should also provide necessary resources and technologies to help eliminate or at least reduce inefficient and time-consuming practices. It is imperative that accurate up-to-date information be available for informed decision-making and external reporting purposes.

The Board did not provide adequate oversight over the Treasurer's operations and has not requested periodic financial reports or other financial information from the Treasurer. The Board also did not provide the necessary resources and technologies to help staff perform their duties efficiently until the middle of 2006, when a new computer system was acquired. The Treasurer has not maintained basic accounting records on a current basis. Financial reports are based on outdated information. They are, therefore, not an accurate representation of current operations and are less useful for decision-making purposes. In addition, the Treasurer did not develop written policies and procedures to guide staff, or provide adequate supervision for staff, as evidenced by the continuing inefficiencies and deficiencies present in the Treasurer's office.

### Operations

Adequate computer technology and effective staff supervision facilitate the production of accurate and timely records and reports for management's use. The Treasurer and her staff were using inefficient, outdated technology and the Treasurer was not effectively supervising her staff. For example, the Treasurer did not develop written policies and procedures to manage operations efficiently and effectively. These conditions coupled with high staff turnover, perpetuated practices that were duplicative, time consuming, and allowed to become the accepted norm. The following practices and procedures have prevented staff from producing adequate financial records and reports:

Software Interface — The Treasurer's office used computer software purchased from an outside vendor to maintain the general ledger

and produce financial statement information; whereas, County personnel-developed computer software was used to record receipts, disbursements, budgets, and process payroll. However, these systems did not interface.<sup>1</sup> As a result, staff members could not easily record or retrieve financial information.

Single User — The purchased computer software does not allow for more than one active user at any time. Consequently, only one staff member is able to input general ledger adjustments. Other staff members often have to wait for this individual to complete posting, which inhibits the ability of the entire office to produce reports that are accurate, complete and timely, and often holds up the flow of information.

System Backup — The software vendor (located approximately 75 miles from the County Office Building) maintains the server that runs the purchased computer software and financial database. County officials told us that the software vendor periodically makes a backup of the data. A representative from the software vendor verified this assertion. However, when we asked County officials and the vendor's representative to provide evidence of any backups or any report confirming that any backups were made, they told us that none was available. Given that the software and hardware are approximately 20 years old, the County is vulnerable to the loss of essential information if the computer system malfunctions and adequate backups are not available.

Cash Receipts — The Treasurer and her staff maintain several manual records in an attempt to overcome the delays caused by the outdated computer system. For example, several staff members manually record cash receipts in a detailed cash receipts journal. At the end of the month, one staff member manually balances the entries and records the totals in the journal. Another staff member will again balance the cash receipts journal using an electronic spreadsheet, and input the information to update the general ledger. This is a time-wasting and duplicative practice. As of July 2006, staff members had not balanced the manual cash receipt record since January of 2006.

Cash Disbursements — Cash disbursements are recorded using both computer software programs. The County personnel-developed software program is used for preparing purchase orders, abstracts of audited claims, and for printing related checks. However, because

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<sup>1</sup> An interface is a boundary across which two independent systems meet and act on or communicate with each other. In computer technology, there are several types of interfaces: A software interface refers to the languages and codes that the applications use to communicate with each other and with the hardware.

there is no interface between the programs, a staff member must manually enter all of this information into the purchased software program to update the general ledger. As of September 2006, the cash disbursements information had not been entered into the purchased system since December of 2005.

Deposits — The Treasurer’s staff does not deposit moneys timely. Although there is a Board policy that requires deposits to be made daily or at least weekly, the Treasurer and the Board have not enforced it. We tested 101 deposits, totaling \$10,573,441. We found that 11 of the deposits, totaling \$356,196, were not deposited within five days. In addition, we found that it took staff five or more days to deposit two State aid payments, totaling \$568,412, not included in the above totals.

Bank Reconciliations — The bank accounts have not been reconciled to the County’s books since December of 2005. One staff member has sole responsibility for this. She maintains manual records of all cash receipts and disbursements for the Treasurer’s 34 bank accounts. She told us that it takes about half a month to reconcile the balances this way. This process requires duplication of effort and does not effectively detect errors because the County’s cash records are not current.

The Board has not provided adequate oversight for the Treasurer’s operations. Although the Board was aware that the accounting records and related reports were deficient, they only recently addressed one area of the Treasurer’s operations, with the purchase of a new accounting program. This program will eventually replace the two outdated systems and provide for system backup.

## **Records and Reports**

Timely, complete and accurate financial records and reports are essential to make informed decisions about daily operations. Without such information, County assets are at risk because decisions may be based upon faulty information. The Treasurer did not maintain timely, complete, or accurate accounting records. Therefore, she could not provide accurate financial information to County officials. As a result, individual departments maintained their own records and generated their own reports for their respective Board oversight committees. We identified the following consequences of inaccurate and untimely records:

Budget Management — The Treasurer was unable to effectively monitor the budget and prevent over expenditures. The Chairs of the Board Committees responsible for departmental oversight, rather than the Treasurer, routinely initiated budget transfers. Although

officials did not over expend the 2005 budget in total, several individual appropriations, totaling just over \$2 million, were over expended. Seventy-one budget transfers were made in March of 2006 to cover the 2005 over expended accounts. Again, in July of 2006, budget transfers totaling \$490,000 were made to cover over expended accounts for the 2006 fiscal year. The budget is intended to be the financial plan for county operations. Controls should prevent budgetary accounts from being over-expended. When balances in budgetary accounts are not sufficient, the Board should review the year to date financial activity and amend the budget. Making budget transfers after the fact, particularly months after the fiscal year is over, defeats the purpose of adopting and monitoring the budget.

Financial Reports — The Treasurer did not file accurate annual financial reports with either the Board or the State Comptroller in a timely manner. The report for the 2005 fiscal year was filed with the State Comptroller on June 19, 2006, and with the Board at about the same time. This was more than a month and a half after the statutory deadline of April 30, which included a two-month extension granted by the State Comptroller. The annual financial reports were filed at least two months late each year for the last five years. Further, we compared balances in the 2005 report to the County’s independently audited financial statements and found a difference of \$404,100 in the general fund accounts payable and reserve for encumbrances accounts. We also found a \$360,889 difference in the county road fund accounts payable and reserve for encumbrances accounts. All these accounts had zero balances in the general ledger. These discrepancies occurred because the Treasurer did not adjust the accounting records or the annual financial report to reflect the external auditors’ adjustments to account balances.

Department Resources — Because the Treasurer’s records were not timely, various departments had to keep their own records for use in managing day to day operations. We surveyed staff in four departments to determine the amount of time spent maintaining required financial records. The amount of time ranged from one to four months per year, per department, for a full-time equivalent person. Although one of the departments would still need staff to maintain financial records to prepare reports for outside agencies, the other three departments could either eliminate or significantly reduce the time required if the Treasurer’s records were current.

Journal Entries — No journal entries for 2006 were recorded until July of 2006. Further, many entries were unsupported or non-descriptive. For example, several journal entries had descriptions such as “correction” or “reversal,” without further explanation. The Treasurer was unable to provide an explanation for the vague and

unsupported entries and indicated that she was not aware that the journal entries were not recorded until July of 2006. We also found there was a lack of segregation of duties, because the same person prepared, reviewed, and approved journal entries, increasing the risk that that errors and irregularities could occur and remain undetected and uncorrected.

Cash Balance—As of the completion of our fieldwork, the Treasurer’s staff has not reconciled bank balances to the accounting records since December of 2005. The December 2005 attempted bank reconciliation disclosed a general ledger cash balance that was approximately \$10,700 greater than the corresponding bank balance. This was due to an uncorrected error on a cash transfer made on December 31, 2005. The transfer was incorrectly recorded as a January 2006 transaction.

The Board has not provided adequate oversight over the Treasurer’s operations and has not requested periodic financial reports from the Treasurer. Therefore, it is difficult for Board members to be fully informed about the financial condition of the County. A County Representative told us that the Board trusts the Treasurer to perform her responsibilities. This approach is not appropriate. A good system of internal controls relies upon independent checks and balances among various employees, to ensure that work is complete, accurate and timely.

## **Recommendations**

1. The Board should monitor the Treasurer’s accounting system conversion process to ensure that the accounting system, financial recording, and financial reporting deficiencies are corrected as expeditiously as possible.
2. The Treasurer should establish a plan to provide needed direction to and supervision for, office staff, to help ensure that accounting records and reports are complete, accurate and up-to-date. Training on the new accounting system should be provided as appropriate.
3. The Treasurer should provide the Board and department heads with accurate and timely financial information including budgetary analyses, after verifying that the accounting records are up-to-date and cash balances are reconciled.
4. The Board should provide appropriate oversight over the Treasurer’s operations to ensure that financial information is timely and useful.
5. The Treasurer should provide for an adequate segregation of duties so that no one person prepares, reviews and approves journal entries.

## Investment Management Program

The Board in conjunction with the Treasurer is responsible for the development and management of a sound investment program. Such a program is based on the County's adopted investment policy, and the use of timely and accurate information to make investment decisions. A sound investment program should seek to maximize the return on investments by investing the maximum amount of money in accounts paying the highest interest rates offered. Elements of an investment program should include a) adopting a comprehensive investment policy; b) soliciting interest rate quotes from competing banks; c) investing moneys in those offering the highest rates commensurate with acceptable risk levels d) preparing cash flow projections to estimate available funds; and e) eliminating or at least limiting the number of non-interest bearing accounts. The Board should periodically monitor the program to ensure that investment goals are met.

The Board and Treasurer were not effectively managing investments. The Treasurer had not sought to maximize interest revenue, minimize the number of non-interest bearing bank accounts, prepare cash flow projections, or invest idle moneys.

### Bank Accounts

The Treasurer should ensure that County moneys are initially deposited into interest bearing accounts, when permissible, and that idle moneys are invested. Cash flow statements should be prepared and analyzed to determine the moneys available for investment. We found that the County had deposits in 85 bank accounts in four banks. Of these 85 bank accounts, 46 were interest bearing, 35 were non-interest bearing, and four were certificates of deposit. We found the County was not maximizing interest revenue.

Interest Bearing Accounts — We judgmentally selected a sample of 10 of the 46 interest bearing accounts for the period January 2006 through June 2006. The interest rates for this six-month period varied greatly from bank-to-bank, as follows:

Bank	Checking Accounts		Money Market Checking Accounts		Money Market Savings Accounts	
	High	Low	High	Low	High	Low
A	N/A	N/A	1.14%	0.81%	4.51%	3.90%
B	4.33%	4.00%	2.75%	2.50%	N/A	N/A
C	1.50%	0.84%	N/A	N/A	N/A	N/A
<b>Average *</b>	4.09%	1.22%	2.59%	0.81%	4.24%	4.01%
* Weighted average. Rates changed month-to-month.						

Based on our analysis, the County could have earned about \$76,000 in additional interest revenue in the six-month period, had County staff consolidated all moneys and deposited them into the highest interest earning checking and savings accounts available.

Non-Interest Bearing Accounts — The County had 35 non-interest bearing accounts. Twenty of the accounts could legally earn interest. Fifteen could not due to the nature of the moneys on deposit. From January 2006 through June 2006, the average month-end balance for the 20 accounts combined ranged from about \$364,000 to \$549,000. The average for the six-month period was \$478,000. Based upon the highest checking account interest rate of 4.09 percent, we calculated that the County could have earned approximately \$9,800 in additional interest revenue had all moneys been on deposit in interest bearing checking accounts, at the highest rate available.

Certificates of Deposit — During 2005, the County had approximately \$271,000 invested in a short-term certificate of deposit. This investment was repeatedly rolled over and eventually matured in September of 2005. We found that officials did not reinvest these moneys or any other moneys at that time. In fact, they did not invest any moneys in certificates of deposit for another nine months. However, due to the poor condition of the accounting records, and the lack of cash flow statements, it was not practicable for us to determine the total amount of money that could have been invested and interest revenue that could have been earned.

## **Investment Policy**

An investment policy establishes policies and procedures to safeguard County moneys in accordance with statutory requirements.<sup>2</sup> Once adopted, County officials should annually review and update this policy as necessary. County officials should monitor and review investment transactions to ensure that staff members adhere to the policy. Our review disclosed the following:

Policy Requirements — The existing policy is inadequate. The County policy does not a) require the Treasurer to establish written procedures and guidelines to provide accountability over investment duties; b) require that adequate records of existing and new investments and the rates quoted from banks be kept on file; c) require that cash flow projections be prepared to determine the amount of moneys available for investment; d) provide direction to ensure officials act with good judgment and prudence when investing County moneys; and e) require the Treasurer to diversify investments by financial institutions, investment instrument, or maturity dates.

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<sup>2</sup> General Municipal Law, Section 39

Periodic Review — The policy states that the Administration Committee (which is comprised of members of the Board) will, at least annually, review the new and existing investments and discuss any possible investment changes they believe are necessary with the Treasurer. There was no evidence that the Committee performed this review or any other oversight function. In fact, the investment policy has not been reviewed or updated since it was originally adopted in 1986 to take advantage of investment opportunities authorized since that time.

The lack of a comprehensive and periodically updated investment policy and the lack of Board oversight have contributed to the failure to maximize interest revenue.

## Recommendations

6. The Treasurer should limit the use of non-interest bearing bank accounts and seek the highest interest rates commensurate with acceptable risk levels when investing moneys.
7. The Treasurer's Office staff should prepare an annual cash flow projection and update the projection monthly to project available funds for investment purposes.
8. The Board should review and update the Investment Policy and include provisions such as the development of detailed written investment procedures and guidelines.
9. The Board's Administration Committee should, at least annually, review existing, new, and potential investments, and discuss investment opportunities with the Treasurer.

# Payroll

The Board, Treasurer and Personnel Department have the responsibility to assess risk associated with payroll and institute appropriate internal controls to mitigate these risks. This includes routinely evaluating the system to make sure it is operating properly and effectively; ensuring that employees are paid wages and salaries, and provided benefits to which they are entitled; and segregating duties to ensure that the work performed by one individual is verified in the normal course of another employee's regular duties.

The Board and Treasurer did not assess the control risks inherent in the payroll function or institute internal controls to mitigate those risks.

## Segregation of Duties

An important component of any internal control system is the proper segregation of duties to ensure that no one person controls all phases of an operation. For payroll, different staff should be responsible for calculating individual earnings and withholdings, approving the payroll, and distributing paychecks. This enables the work of one employee to be verified in the normal course of another employee's regular duties.

The payroll coordinator performed all aspects of the payroll process. This included maintaining manual and computerized employee personnel files; entering payroll changes (including new hires, terminations and pay rates) into the computer system; collecting time sheets; entering hours worked; calculating retirement and separation payouts; maintaining leave records; preparing paychecks; and distributing paychecks. As a result, no other staff members had experience with, or could perform, these payroll procedures. Staff members told us that when the payroll coordinator was out of the office, they had to call her on a regular basis for assistance. Further, the Treasurer did not ensure that the work of the payroll coordinator was adequately supervised or reviewed. However, during our audit the Treasurer did start cross training a second employee in the payroll coordinator's job functions.

## Computerized Payroll System

An effective payroll system includes controls over access rights, restrictions of user access to sensitive information, limits on manual data entry through the automatic calculation of payroll and separation payments, and the automatic accumulation of payroll information.

The County's payroll system requires significant manual data entry, increasing the risk that errors could occur and not be detected and

corrected in a timely manner. The Payroll Coordinator told us that because she is afraid of making a mistake when entering information, she spends about an hour a week manually re-calculating paychecks (about 800 checks every two weeks). Nevertheless, she also told us that she still does not detect and correct all errors.

We tested about 8 percent of payroll transactions and identified some minor errors.

We did find that Personnel Department staff did not maintain personnel files for all County employees. Personnel information for six Board of Elections employees was instead on file in that department. Further, the information at the Board of Elections was incomplete. It did not include Federal “Employee’s Withholding Allowance Certificates” (form W-4) or “Employment Eligibility Verifications” (form I-9).

We also identified the following payroll software system deficiencies:

User Access — Five employees had full access rights to the payroll system including the two Deputy County Treasurers, the payroll coordinator, the account clerk typist (while being cross trained), and the principal account clerk typist. Each had the ability to add, delete, or change payroll files. In addition, the payroll coordinator had full access to the separate personnel computer system and could therefore add or change information in that system as well. With current access rights, users could intentionally or unintentionally modify or destroy data.

Separation Payments — The payroll software does not calculate the vacation payouts for retiring employees. The payroll coordinator must do these manually. Due to the risk of errors caused by manual calculations, we verified the accuracy of 10 retirement payout calculations for the period January 1, 2005 to July 17, 2006. We found one former employee that was under paid by \$1,212.09. The employee should have been paid for 288 hours of vacation but was instead only paid for 236 hours.

## Recommendations

10. The Treasurer should provide for an adequate segregation of duties so that no one person controls all aspects of the payroll process.
11. The Board should consider installing better payroll software that would create a more efficient payroll process to eliminate duplication of effort and the use of manual records.

12. The Board should require that Personnel Office staff maintain complete personnel files for all County employees.
13. The Treasurer should limit computer system access so that no one employee can manipulate data in the payroll system, print checks and distribute checks to employees.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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



COUNTY OFFICE BUILDING -- 197 MAIN STREET -- COOPERSTOWN, NEW YORK 13326-1129  
 BOARD OF REPRESENTATIVES PHONE: (807) 547-4202 FAX: (607) 547-4260

June 11, 2007

Local Government Services and Economic Development  
 Office of the State Comptroller  
 44 Hawley Street, Room 1702  
 Binghamton, NY 13901

RE: Report of Examination  
 County Treasurer's Financial Operations  
 January 1, 2005 - July 17, 2006  
 2007M-60

Dear [REDACTED]

In response to the Office of the State Comptroller's preliminary Report 2007M-60, the Otsego County Board of Representatives is in general agreement with most of the state's findings. The Board disagrees with the findings of inadequate oversight by the County Board of the Treasurer's operations.

Prior to the January 1, 2006, oversight of the County Treasurer's operations was generally in the hands of the Board Chairman. Since January 1, 2006, the Otsego County Board of Representatives, through its Administration Committee, has provided significant oversight to the County Treasurer's operations through the following procedures:

- 1) The Administration Committee has regularly requested reports from the County Treasurer through e-mails and personal contact.
- 2) County policies, including the County's Investment Policy, have been reviewed and updated where necessary.
- 3) Financial consultants have regularly been meeting with the Administration Committee.
- 4) All the members of the Otsego County Board of Representatives have received a copy of the Office of the State Comptroller's Local Government Management Guide: "Fiscal Oversight Responsibilities."

See Note 1  
 Page 34

See Note 2  
 Page 34

Thank you for the opportunity to respond to preliminary Report of Examination 2007M-60.

Sincerely,

Donald L. Lindberg, Chairman  
 Board of Representatives  
 Otsego County, New York



BOX 265 197 MAIN STREET COOPERSTOWN, NEW YORK 13326-0265  
OFFICE OF THE COUNTY TREASURER TELEPHONE: (607) 547-4235 FAX: (607) 547-7579

June 4, 2007

State of New York  
Office of the State Comptroller  
Binghamton Regional Office  
44 Hawley Street, Room 1702  
Binghamton, NY 13901

RE: County Treasurer's Financial Operations  
Report of Examination  
Period Covered: January 1, 2005-July 17, 2006  
2007M-60

Dear [REDACTED]:

On behalf of my Deputies and staff, I extend my appreciation to you and your staff for responding to my repeated requests for guidance and assistance and staff training since the beginning of my four year term of office, January 1, 2006. Although, I worked as a senior staff member for 15 years prior to taking office, I was not fully aware of the true state of affairs in the County Treasurer's Office. Without the aid of your regional office staff, I believe the Office of County Treasurer would not have successfully achieved the necessary changes to move forward and correct the errors of the past administration.

Enclosed is my response to your findings during your examination of the County Treasurer's Office during the period of January 1, 2005-July 17, 2006. I have also enclosed copies of the Treasurer's Office updates that have been provided to the Board of Representatives and departments on a regular basis.

I look forward to a continued open and positive relationship with your office and staff during the remainder of my term.

Very truly yours,

  
Myrna A. Thayne  
Otsego County Treasurer

Enc.



BOX 265 197 MAIN STREET COOPERSTOWN, NEW YORK 13326-0265  
OFFICE OF THE COUNTY TREASURER TELEPHONE: (607) 547-4235 FAX: (607) 547-7579

June 4, 2007

### **Background Statement:**

The time period of this audit covers the full year, 2005, prior to my taking office as County Treasurer, effective January 1, 2006 through the first six months of my 4-year elected term and concluding in the 7<sup>th</sup> month, July, 2006. Due to many staff turnovers in the office at the same time, I also initially appointed one new Deputy Treasurer and 3 months later, a second Deputy Treasurer was appointed from within.

### **Perception of the state of affairs in the office:**

Upon taking office, it was our immediate requirement to close the books for the fiscal year 2005. In performing this immediate task, it was apparent that there were some financial issues of the past needing further investigation to resolve. Additionally, it was apparent that the office was overly antiquated in both areas of process and computer technology. We began looking at this area as well.

### **2006 contact with the NYS Comptroller's Office:**

In January of 2006 I contacted the NYS Comptroller's Office, after researching areas of concern, and requested guidance and assistance. In March 2006, upon conclusion of their first visit, there was agreement that issues needing investigation and clarification existed. Thus, a decision was made by the NYS Comptroller's Office to conduct a mini course on municipal accounting and to perform an audit of the department, which had not been done since the beginning of my predecessor's first term in office, on or about 1995.

### **General Audit Response Additions:**

1. I am requesting the addition of Health Plan Administrator/Privacy Officer and Budget Officer to Treasurer's duties as written in the Executive Summary Audit Results. Otsego County is self-insured; all health insurance financial and administrative processes take place within the Treasurer's Office. The duties of Budget Officer have traditionally been assigned to the County Treasurer.

2. Within the Accounting and Reporting/Operations section, I would like to have added that the "purchased" general ledger software package of old also had a limitation of being a Single Budget Year system. As such, we could not open the new budget year for ledger entry until the prior year was formally closed and we did not perform that function, the vendor did. Additionally, only a single budget year of information was kept online, leaving review of prior/past year information to what was on the printed year-end reports.

### **General Response Statement:**

I would like to point out that our decision to abandon the old unsupported financial software and implement a new integrated multi-user financial software system, posed quite a large challenge for a reduced staff count and new management. However, we implemented the general software, Budget Module and Accounts Payable Module over a 4-month period. Microsoft projected it to be a 1-year project. Since then we have implemented the Purchasing Module and rolled it out to the department heads with full training and support. We have planned the implementation of the Payroll Module for this 2007-year, with a go live date of January 1, 2008. I mention this as a demonstration of the aggressive nature that we have sought out problems and their resolutions since my taking office, January 2006.

In addition, I continue to work towards upgrading all positions, with the Board's approval. When I budgeted for 2007 personal services, the Board was made aware of my intentions and my goals. With the complex accounting requirements, skilled personnel in municipal accounting and an addition of a staff accountant is paramount to addressing these audit findings and moving forward with necessary corrections.

In response to this resultant audit report of my department, I am in agreement with its findings and recommendations. I will however, respond to the findings and recommendations separately and distinctly below.

### **Accounting and Reporting Operations**

#### **Cash Receipts:**

**"As of July 2006, staff members had not balanced the manual cash receipt record since January of 2006."**

Response:

The closeout for 2005 was not completed until May 2006. During that time period, we experienced staff turnover in the Receivables area, as well as Health Insurance, and Bookkeeping. As a result, balancing accounts from May to July was a catch up effort by inexperienced staff. In addition, over the past years, it was normal practice to play catch up at year end because of the cumbersome manual accounting system used without making any changes for expansion of duties or requirements as growth occurred over time. This has been corrected. We now have more qualified and experienced staff and via our new General Ledger software system, all receivables are entered into this online system and balanced daily.

**Cash Disbursements:**

**"As of September 2006, the cash disbursements information had not been entered into the purchased system since December of 2005."**

Response:

The decision was made during the first half of 2006 to purchase new financial software; Board approval was needed and that took some time. The project for this new software started mid-year 2006. Through September 2006 the software was being installed, accounts being setup, 2005 year-end data loaded electronically, and all 2006 transaction data loaded manually. This was completed during October/November 2006. Cash disbursements today are being entered daily into the new system.

**Deposits:**

**"We found that 11 of the deposits, totaling \$356,196, were not deposited within five days. In addition, we found that it took staff five or more days to deposit two State aid payments totaling \$568,412, not included in the above totals."**

Response:

In the days of old, this was a common occurrence, especially with the State aid payments. In the past some accounts receivable duties were performed by those in bookkeeping, i.e. grants, State and Federal aid, and department receipts; such is not the case in my administration. Since the beginning of my administration, segregation of duties have been implemented and we walked our deposits to the bank daily or twice a day if needed, until such time as we worked with a local bank to obtain a check scanning system.

Since that time, we scan our checks electronically directly to the bank such that our monies are arriving sooner and thus accruing interest sooner. In addition, we have made arrangements with the Office of State Comptroller to electronically deposit as many State aid funds as possible, thus eliminating the receipt and handling of paper checks. The cash and any checks that will not technically scan are still walked to the bank daily. We have grown to the use of two check scanners and have three desktop setups to utilize the scanners. We continue to add accounts to our online capabilities.

**Bank Reconciliations:**

**"The bank accounts have not been reconciled to the County's books since December of 2005."**

**Response:**

Due to the limitations of the old purchased software system, only one person could enter data and only one calendar year could be open at a time. The 2005-year was not closed until May 2006, which was the norm for the past administration. This issue combined with staff turnover, prevented the ability to balance accounts to the General Ledger. Additionally, it was decided during the first six months of 2006 to eliminate the old financial software and replace it. The replacement software has been put in place for Budget, General Ledger, Accounts Payable and Purchasing. Balancing of the accounts to the General Ledger were completed on time for closing the 2006 books and should be 100% complete and current for 2007 by mid-end of June 2007. Our plan going forward beyond that is to be 100% balanced and current by the end of the following month, every month.

**Records and Reports:**

**Budget Management:**

**"The Treasurer was unable to effectively monitor the budget and prevent over expenditures."**

**Response:**

Due to the nature of past practices used at the committee level, the nature of prior processing practices and software limitations, this was a nearly impossible deficiency to overcome. With the implementation of our new financial software and processing practices, this is being addressed. The enhanced reporting capabilities of our new software enable us to produce more meaningful scheduled reporting. Our revamped processing enables reporting on more current and accurate data. Users are now being limited to expenditures of monies already encumbered, thus minimizing/eliminating over expenditures.

In addition, departments need to budget more accurately and realistically and with the Board's assent to that end, budget transfers and/or modifications should be minimal. Though this happens today, we are still working through learning curve issues, which will continue to enhance our monitoring as we move forward.

**Financial Reports:**

**"The Treasurer did not file accurate annual financial reports with either the Board or the State Comptroller in a timely manner. The report for the 2005 fiscal year was filed with the State Comptroller on June 19, 2006, and with the Board at about the same time."**

**Response:**

Untimely filing of the AUD was most common with the prior administration in the Treasurer's Office. Year-end reports, other than the AUD, that I was personally responsible for as a staff member prior to taking office as Treasurer, were filed on time. One staff member in the bookkeeping function and that person retired without training those remaining completed the AUD. This particular filing was my first filing. It was accomplished with inexperienced staff and in the midst of attempting to repair newly discovered mistakes from prior years. This year, my second AUD filing, was filed on April 30, 2007 representing the first time an AUD from this office had been filed on time in some 10+ years. Other year-end reports were filed timely. This example of timeliness in filing is our standard policy and will be followed in all subsequent years.

**Department Resources:**

**"Because the Treasurer's records were not timely, various departments had to keep their own records for use in managing day to day operations."**

**Response:**

Due to the limitations of the prior financial software, records could not be timely nor could they be very detailed at a department level. The prior system was not an inquiry system, but rather it was mostly a data input system. Only batch reporting of customized reports were possible. The new financial software purchased mid-year 2006 is both a data entry system with online inquiry and reporting capabilities. Additionally, data retrieved via inquiry can be exported to MS Excel for further massaging. We are in the process of training personnel and setting up reports desired.

**Journal Entries:**

**"No journal entries for 2006 were recorded until July of 2006."**

**Response:**

As previously stated, no journal entries could be made to the prior financial software for 2006 until 2005 was formally closed, which did not take place until sometime during May 2006. In addition, all journal entries were done by hand and then entered into Mercer by data entry via a single user. Being a single budget year system, it is/was the only alternative. During the period of closing out 2005, it was decided to abandon the old software due to lack of interface, reporting, inquiry, and application support and in general just plain antiquated. The vendor would no longer support it. A search commenced for a replacement and once selection was completed, it was decided to discontinue entering data into the prior system, as we would not be able to transfer that data to the new system. As such, journal entries for 2006 were further delayed; however, it was felt to be the correct path given the circumstances. Today journal entries are entered to the new software daily and it is our goal to achieve a balanced journal on a monthly basis.

**Cash Balance:**

**"As of the completion of our fieldwork, the Treasurer's staff has not reconciled bank balances to the accounting records since December of 2005."**

**Response:**

Again, due to the nature of processing requirements within the limitation of our prior financial software package, this reconciliation could not take place any earlier. This was the norm for the first six months of every year in the past. With the capabilities of our new software and the training of qualified new staff, this is being addressed and is one of our highest priorities.

**Accounting and Reporting Recommendation Responses:**

1. N/A. This recommendation is directed to the Board of Representatives.
2. A supervision plan will be developed based on staff usage/functions with the new financial software. To date we are still building our staff count to full capacity, while simultaneously working with the NYS Department of Civil Service and our Personnel Officer to upgrade and reclassify positions and requirements such that we can attract candidates with a higher level skill set and education. A basics level training was provided as part of the installation packaged contract. Appropriate staff has attended that training.

- Further training needs is being assessed and will be coordinated. Both advanced formal training and self-paced computer based training are targeted for further analysis.
3. We have provided new budgetary report to both the Administration committee and department heads as of the fall of 2006, in order to assist with the 2007 budget process. Other reports are canned within the new software system and yet others are being identified that may need customized set-up. The Board has received revenue and expenditure reports and trial balance sheet as of April 2007 with a comparison to April 2006. Monthly reports will continue. In addition more in depth budget analysis will be provided this year. As previously written, all accounting records will be up to date by the end of June 2007, barring any unforeseen circumstances.
  4. N/A This recommendation is directed to the Board of Representatives.
  5. This has already been targeted and addressed informally. It is planned for further refinement once we are a full staff. As previously stated, the prior software was a non-robust data entry single user ledger system. With the implementation of the new integrated software financial package, we meet new challenges. Of a high priority is meeting the increased expertise levels demanded of the new software. Being an inquiry system, it dictates that users have higher accounting and computer literacy levels in order to better understand what tasks they are performing, perform appropriate inquiries to the system and identify and resolve irregularities. This is being pursued.

## **Investment Management Program:**

### **Summary Response:**

Upon taking office on January 1, 2006, it was identified that there were no monies being invested nor had there been for some time. Being one of our priorities, we started to analyze what money was available to be invested. Without balanced books and no cash flow analysis, it was decided to be conservative with our initial investment amounts, but get started, nonetheless. We initially started, June 1, 2006 with three \$1 million certificates of deposit of 3 months, 6 months and 1-year duration. Our strategy being, with varied durations, we could better accommodate unforeseen financial needs with a constant maturity of an investment. We continue this strategy today but have increased our investment principal, as of June 1, 2007 from \$3 million to \$9 million again with varied maturity dates. With each million invested returning approximately \$13,000 per quarter, this equates to an estimated \$468,000 interest income. A cash flow projection report is planned but not complete. It is our intention to work with the vendor and utilize our new software for this purpose. Non-interest bearing accounts have been on our list of items for further investigation, however, given priorities since taking office, has not been addressed; it remains on our list and will be addressed in the very near future.

**Bank Accounts/Interest Bearing Accounts:**

During this audit period, we took the opportunity to work with the State Comptroller's Office staff to develop and validate a plan. A high level plan was decided, whereby our operational accounts would be consolidated into an already established online banking environment with one of our financial institutions. This was initiated and completed around September 2006, whereby we moved 2 accounts totaling \$875,000+ from one financial institution to another, realizing an interest percentage gain from 2% to 3.25% and 2.5% to 3.75% respectively. We moved one other account totaling \$640,000+ with similar Money Market rate increase results. We created a competitive environment among our local financial institutions, resulting in a .99% increase rate for another account, (4% to 4.99%) totaling \$2.3 million principal, whereby the 4.99% is now our guaranteed minimum for any account with this institution, regardless of the on deposit balance.

**Bank Accounts/Non-Interest Bearing Accounts:**

As previously written, this is noted and on our list for investigation. Given that the State Comptroller's audit staff has identified 35 non-interest bearing accounts, (20 or so of which could be made interest bearing), I would like to request we be provided this identified list in order to minimize our investigation efforts.

**Bank Accounts/Certificates of Deposit:**

We currently have a CD investment principal of \$9 million, as of June 1, 2007, with varied maturity dates. With each million invested returning approximately \$13,000 per quarter, this equates to an estimated \$468,000 in interest income per annum.

**Investment Policy:****Policy Requirements:**

- a) I agree and will comply.
- b) I agree and will comply going forward
- c) I agree and will comply as soon as possible; it is a priority for us.
- d) I agree and will provide direction.
- e) We are diversifying investments by financial institution and maturity date, while keeping highest competitive rates in mind.

## **Investment Policy:**

### **Periodic Review:**

The Treasurer's Office performed a high level review of the policy and found two items for change: 1) Approved area banks and 2) Maximum on deposit at any single bank. As a result, we drafted a replacement Investment Policy whereby we removed one bank that moved out of the area and replaced it with another bank in the area. We additionally increased the maximum on deposit amounts from \$10 million to \$50 million each, in order to accommodate our now \$90+/- million dollar budget.

### **Investment Policy Recommendation Responses:**

6. Securing highest interest rates on our accounts is already addressed and is continually evaluated. As previously written, non-interest bearing accounts need investigation.
7. A cash flow analysis report is targeted for development and in the process of discussion with our new software vendor.
8. N/A This recommendation is addressed to the Board of Representatives. The Treasurer's Office will work with the Board as appropriate.
9. Investment tracking of current and past investments is being done via spreadsheet and can be produced/delivered to the Board upon their request; as I have already done for certain board members. It is the plan of the Treasurer's Office to bring in our financial partners and other financial institutions for presentation of alternative investment opportunities. We have developed strong relationships with our current partners enabling regular communication and information exchange. We strive to expand our relationship building to other financial institutions providing other opportunities.

## **Payroll:**

### **Segregation of Duties:**

It has been my intention since taking office on January 1, 2006, to minimize or eliminate single points of failure. We have a partner policy in the office, whereby each staff member is assigned a partner. Partners are responsible for cross training each other in order to function as back up for each other. The Payroll Coordinator position has been a challenge, given that the partner position of Banking was vacated shortly after taking Office and has since had 3 different staff. One Deputy filled in initially when time permitted, followed by a full time staff who is now the Payroll Coordinator following the transfer of our original coordinator and now another full time staff since October 30, 2006. As such, Banking has been the primary focus of the Payroll Coordinator partner, leaving the Payroll Coordinator to perform all associated duties as in the past. This is now being addressed, whereby one Deputy will assume responsibility for coordinating segregation of duties and additionally coordinating backup and shifting duties when the Payroll Coordinator is out of the office.

The implementation of the Payroll module to our new financial software, planned for this year, will enable this segregation of duties to be more streamlined, by allowing multi-user access to the system.

### **Computerized Payroll System:**

Our current payroll system is an RPG application system running on an AS400 mainframe. The design of the system is not amenable to granularity of files access rights. I'm not sure that I agree with our prior Payroll coordinator's assessment, requiring her to manually recalculate paychecks but that was the case no less. Department heads submit signed payroll confirmation report of hours, etc, which are then manually entered into the system by the Payroll Coordinator. If our staff, a department head, or employee detects errors, we have a supplemental payroll system process to correct the problem the following day. Manual entry is entirely done within the Treasurer's Office. Our new system, when implemented, will distribute the data entry out to the department heads or their designee. This should assist with issues surrounding segregation of duties, minimizing the data entry efforts of the Treasurer's Office staff and eliminate double logging of the same information, minimizing the risk for error.

### **Computerized Payroll System:**

#### **User Access:**

In order to produce payroll and cover for the time when the former Payroll Coordinator was out of the office, (which was an excessive amount prior to her transfer to another department), various staff in the office had full access to Payroll. Both Deputies worked together to put out 2 payrolls in the absence of the Payroll Coordinator, thus needing access. Our Principal Account Clerk Typist had full access, as she was responsible for the JTPA payroll, a separate and distinct payroll but utilizing the same payroll system application software. (My predecessor initiated this process.) Our current Payroll Coordinator was our Banking account clerk who had access, as she was being cross-trained in Payroll. As previously written, the RPG application does not lend itself to fine granularity of access rights.

Our new Payroll software module planned for a go-live date of January 1, 2008 will allow for greater segregation of duties and access rights.

## **Computerized Payroll System:**

### **Separation Payments:**

As highlighted throughout this audit response, our new Payroll module will enable us to better handle separation payments. The error made for the employee noted in this audit was corrected. A check was made out to this employee for 52 hours in the amount of \$1,212.10 for the pay period ending September 23, 2006.

### **Payroll Recommendation Responses:**

10. As written above, segregation of duties is a priority for us. Segregation has been completed in some areas, however, some like Payroll are still a challenge but being addressed.
11. Our new integrated software is in place with the Payroll module slated for a go-live date of January 1, 2008.
12. N/A. This recommendation is addressed to the Board of Representatives.
13. This has been completed in part. Printing of checks is now distributed throughout the office for various functions requiring checks to be printed or typed. Payroll checks are still requested for printing by the Payroll Coordinator but will be addressed with the new software capabilities. Distribution of payroll checks is already segregated within the office. Checks are bundled for pickup from remote areas with only certain designated persons able to pick up. They must show County ID and sign for the checks upon pickup. Other checks are hand delivered within the main County Office Building. Persons other than the Payroll Coordinator handle both of these tasks. Manipulation of data access rights is still as mentioned, as we have no choice given the limitation of the existing system. Under the circumstances, we believe it would be riskier to limit access and therefore the ability to lend assistance or cover the position and minimize cross-training opportunities than to leave it for now. This issue will be fully addressed with the implementation of the new software.

Respectfully submitted



Myrna A. Thayne  
Otsego County Treasurer

## APPENDIX B

### OSC COMMENTS ON THE COUNTY'S RESPONSE

#### Note 1

Although we asked County officials for details on these requests, we did not receive the detailed information. Additionally, at our exit conference, Board members told us that there was no record of the requests made to the Treasurer, because the requests were not appropriately documented in the minutes of the proceedings of the Administration Committee.

#### Note 2

The Chairman of the Board of Representatives told us that procedures 2, 3 and 4 included in his response letter occurred after our audit period. Specifically, the Board updated the County's investment policy in October 2006 and started meeting with financial consultants in April 2007. Board members received and reviewed the Office of the State Comptroller's *Local Government Management Guide, Fiscal Oversight Responsibilities*, in May 2007.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

We reviewed the financial operations of the Treasurer's Office for the period January 1, 2005 to July 17, 2006. To achieve our objectives, our tests generally included reviews of accounting records; reports, payrolls, and investment records; interviews of County officials and employees; reviews of the processes and procedures for payroll, cash receipts, cash disbursements, and investments; and an evaluation of the Information Technology environment and controls to verify the reliability of electronic data. More specific information for each scope area is as follows:

For accounting and reporting, we tested cash receipt book entries and state aid payments for 2005 and 2006 to verify accounting and deposit timeliness. We traced from source documents (checks and vouchers) to bank statements matching amounts paid and payee information to verify disbursement accuracy. We compared judgmentally selected ledger accounts to the annual update document (AUD) and the independent auditor's report to verify accuracy and timeliness. We reviewed the independent auditor's management letter and adjusting journal entries for 2005, reviewed the Treasurer's journal entries for 2005 and 2006, interviewed County representatives, surveyed employees, and compared the 2005 budget with the results of operations to determine the effect of untimely accounting records on operations. We also compared the 2005 and 2006 budgeted to actual staff levels in the Treasurer's Office, tracked employee turnover, interviewed Treasurer's staff regarding job duties, reviewed office policies and procedures, and inquired about supervision to determine the cause of untimely account records and reports.

For the investment management program, we inquired about County investments and the role of the Treasurer's office in investing idle funds. We compared the County's most recent investment policy with the State Comptroller's model policy to assess adequacy, identified 2005 and 2006 County investments, and inquired as to how investment opportunities were explored. We also verified that collateral coverage was sufficient and reviewed 2005 and 2006 bank statements to determine account types, financial institutions, and interest earned.

For payroll, we evaluated internal controls and examined records to verify that pay rates were in accordance with Contracts and/or Board resolutions. We traced hours worked and leave usage per employee records to payrolls. We also footed, cross-footed, and recalculated gross pay for payrolls ending December 3, 2005 and May 20, 2006 (122 employees) and reviewed payroll reports, leave sheets, and individual leave requests to determine if leave was available and properly accounted for.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those municipal operations within our audit scope. Further, those standards require that we understand the municipality's management controls and those laws, rules and regulations that are relevant to the municipality's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

## APPENDIX D

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