

THOMAS P. DINAPOLI  
STATE COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

January 4, 2008

Mr. Robert S. Juravich  
Executive Director  
Development Authority of the North Country  
Dulles State Office Building  
317 Washington Street  
Watertown, New York 13601

Re: Report 2007-F-39

Dear Mr. Juravich:

Pursuant to the State Comptroller's authority as set forth in Article X, Section V of the State Constitution, and Section 2714 of the Public Authorities Law, we have followed up on the actions taken by officials of the Development Authority of the North Country (Authority) to implement the recommendations contained in our audit report, *Board Governance, Procurement, and Disbursement Practices* (Report 2005-S-34).

**Background, Scope and Objective**

The Authority is a public benefit corporation which institutes comprehensive, coordinated programs of economic development activities in the counties surrounding the United States Army base at Fort Drum (Jefferson, Lewis, and St. Lawrence counties). The Authority's primary operations include: a solid waste management facility, a water/sewer facility, and a fiber-optic network referred to as the Open Access Telecom Network (Network). These operations are decentralized and have independent management.

Our initial audit report, which was issued on September 19, 2006, examined whether the Authority Board of Directors fulfilled its governance responsibility, and whether the Authority established an adequate system of internal controls over procurements and disbursements. We determined there were several weaknesses in the Authority's procurement and disbursement practices, and in its awarding and monitoring of contracts, that needed to be corrected by the Authority. Therefore, we concluded that the Board needed to improve its governance with respect to internal controls over procurement and disbursements. In addition, we found that the Authority's procurement Policy needed to be expanded and that it lacked comprehensive procedures for managers and staff to follow to implement the Policy.

The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of November 14, 2007, of the 12 recommendations contained in our initial report.

### **Summary Conclusions and Status of Audit Recommendations**

We determined Authority officials have made progress in implementing the recommendations contained in our initial report. Of the 12 recommendations, 10 have been implemented and 2 have been partially implemented.

### **Follow-up Observations**

#### **Recommendation 1**

To the Authority's Board:

*Work in conjunction with Authority executive management to improve the control environment at the Authority by taking the following actions:*

- *provide internal control training to Board members, management and staff to enhance the organization's control awareness;*
- *annually assess internal controls to verify that systems of internal control continue to operate as intended;*
- *require the public accounting firm selected to perform the Authority's annual financial statement audit to attest to and report on management's internal control assessment; and*
- *work with State, county, and local officials to ensure all Board members' terms/appointments are current.*

Status - Partially Implemented

Agency Action - The certified public accounting firm which performed the Authority's annual financial statement audit for the year ended March 31, 2007, also reviewed certain aspects of the Authority's internal control systems. The Authority issued a contract for an internal control assessment which began on November 28, 2007. The Authority has also worked with State, county, and local officials to update Board member terms. However, internal control training was not provided.

#### **Recommendation 2**

*Develop and communicate detailed procedures for implementing the procurement Policy.*

Status - Implemented

Agency Action - The Authority developed detailed procurement procedures. The procedures have been distributed to employees that procure goods and services. Each employee signed an

acknowledgment form confirming that they received a copy of the procurement Policy and procedures and that they reviewed them with their manager.

### **Recommendation 3**

*Establish effective controls over procurement to confirm that managers and staff comply with the Policy and procedures in obtaining goods and services.*

Status - Implemented

Agency Action - The Authority's Policy now includes a requirement that the Finance Director conduct procurement reviews to confirm that managers and staff comply with the Policy and procedures. We verified the reviews were conducted by the Finance Director since April 1, 2006.

### **Recommendation 4**

*Modify the procurement Policy to ensure the Authority obtains goods and services at reasonable prices from qualified vendors through an open and competitive process. Ensure that the modified Policy includes provisions that address:*

- *procurement opportunities that should be advertised;*
- *the need for an Authority official to witness and attest to the accuracy of bid tabs;*
- *the Authority's oversight of a contractor that administers any part of the Authority's procurement process;*
- *protocols that the Authority will follow to promote fair and open competition if a project's scope is changed after bids are opened;*
- *RFPs that result in limited competition; and*
- *the need to enhance opportunities for MWBEs to participate in Authority contracts.*

Status - Implemented

Agency Action - The Authority modified its procurement Policy to include the provisions detailed in our report.

### **Recommendation 5**

*Train employees who make purchases, on the Authority's procurement Policy and procedures.*

Status - Implemented

Agency Action - To train employees who make purchases, the Authority identified individuals who are responsible for procuring goods and services on their behalf and had the individuals and their manager review the Authority's procurement Policy together. Once the reviews were completed, each individual signed a statement acknowledging they reviewed the Policy and procedures with their manager and that they will comply with them. We confirmed that individuals procuring goods and services completed this review.

### **Recommendation 6**

*Improve controls over the use of purchase cards by individual employees by:*

- *revising the purchase card reconciliation process to ensure all transactions are properly reported, valid and recorded in the accounting system, and only approved charges are billed by the vendor;*
- *separating critical duties so that one employee cannot access all parts of the reconciliation process, or creating compensating controls to ensure transactions are appropriate;*
- *confirming that each employee with a purchase card still needs the card, and that card spending limits are reasonable for the employee's use;*
- *reinstating Merchant Category Code restrictions on the purchase cards; and*
- *forbidding the use of purchase cards by other than the authorized user.*

Status - Implemented

Agency Action - Based on our audit tests, we determined that the improvements detailed above were incorporated into the Authority's controls over the use of purchase cards and are working as intended.

### **Recommendation 7**

*Revise the procurement Policy to address the proper use of fuel cards, including employee accountability for receipts, management's review and approval of gas charges and reconciliation of fuel purchases to vendor charges. Convey this information to employees.*

Status - Implemented

Agency Action - The Authority revised its Policy to address the proper use of fuel cards, accountability for receipts, management's review and approval of fuel purchases, and fuel purchase reconciliations. A copy of the Policy was distributed to each employee who was issued a fuel card. Each employee was required to sign a statement indicating they had received the Policy, reviewed it, and will comply with it. We also reviewed employee fuel purchase reconciliations to confirm they were performed and examined the statements in which they acknowledged receipt of the Policy and their agreement to adhere to it.

### **Recommendation 8**

*Investigate instances of potential duplicate billing for fuel, and confirm that other unsupported gas charges are valid Authority expenses.*

Status - Implemented

Agency Action - The Authority instituted a procedure to identify duplicate billings and unsupported charges. We examined three billing statements to confirm they were reconciled, and

duplicate billings and unsupported charges were identified. We found the Authority had identified an unsupported fuel purchase and the employee who made the purchase was required to reimburse the Authority.

**Recommendation 9**

*Develop procedures to ensure that awarded contracts include clear contract specifications.*

Status - Implemented

Agency Action - The Authority's procurement policy now details procedures for writing a Request for Proposal (RFP). In addition, contracts now reference the RFP, which ensures the specifications noted in the RFP are incorporated into the contract. We reviewed a recent contract and found both the RFP and associated contract had clear and well-defined specifications.

**Recommendation 10**

*Verify contractors perform the work as contracted and if not, consult with legal counsel to recover money paid for services not provided.*

Status - Implemented

Agency Action - The Authority now requires contractors to submit monthly progress reports to the Contract Administrator, which are used to confirm contractors perform the contracted work.

**Recommendation 11**

*Develop an accounting system control requiring supervisory approval to issue a check.*

Status - Implemented

Agency Action - The Authority developed an Accounting System Policy which requires the Accounting Assistant to prepare an Accounts Payable Batch Control Report (Report). While the Policy is still a draft, the Authority has started to use the Report. The Report is distributed to a designated supervisor, who reviews it and approves the issuance of a check to each vendor identified in the Report. We reviewed three Reports and confirmed that supervisors are reviewing and approving them before checks are issued.

**Recommendation 12**

*Establish disbursement policy and related procedures and communicate them to managers and staff involved in the disbursement process. The procedures, at a minimum, should address:*

- *Separation of disbursement duties, to the extent feasible, that ensures no one person has access to the entire accounts payable system;*
- *Designation of staff authorized to sign checks to obtain and review documentation;*
- *Safeguarding of check stock;*

- *Documentation maintained to support all disbursements; and*
- *Designation of staff authorized to approve vouchers.*

Status - Partially Implemented

Agency Action - The Authority developed and communicated a disbursement policy and related procedures. The procedures ensure no one person has access to the entire accounts payable system and that disbursement documentation is maintained. We also found that the Authority has designated staff who are authorized to approve vouchers and sign checks, and we confirmed that the check stock is now stored in a locked cabinet. However, the Policy is still in draft and has not been approved by the Board.

Major contributors to this report were Randy Partridge and Don Cosgrove.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Authority for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Donald D. Geary  
Audit Manager

cc: Denise Gray