



Chautauqua County

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

January 1, 2010 — October 4, 2011

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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

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

This audit's results and recommendations are resources for local government officials to use 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

EXECUTIVE SUMMARY

Chautauqua County (County), which has a population of approximately 140,000, is located in the extreme southwestern corner of New York State and includes two cities, 27 towns and 15 villages. The County is governed by a 25-member Legislature and provides various services including public safety, public health, social services and public works. For the fiscal year ending December 31, 2011, the County adopted a budget of approximately \$282 million.

The Director of Finance is responsible for the administration of the County's investment program and oversight of payment in lieu of tax (PILOT) payments. Included within the Department of Finance is the Division of Real Property Tax Services (RPTS). The Director of RPTS is responsible for the general oversight of RPTS.

The County operates a 216-bed public skilled nursing facility (Home) located in Dunkirk. The Home's budget is approved by the County Executive and the Legislature. The Home Administrator is responsible for the day-to-day management of the Home. The County has contracted with a consulting pharmacist to manage the Home's in-house pharmacy.

Scope and Objective

The objective of our audit was to examine the County's internal controls over certain investments, real property tax-related activities, and the County Home's pharmacist contract and drug inventories. For investments, the review period was January 1, 2000 through October 4, 2011. For real property tax, the review period was January 1, 2010 through October 4, 2011, with certain aspects extended back to February 28, 1998. For the County Home's pharmacist contract, the review period was January 1, 2007 through May 31, 2011, and, for the pharmacy inventory, the review period was December 31, 2010 through April 20, 2011.

Our audit addressed the following related questions:

- Are internal controls over the investment of County moneys in Industrial Development Agency (IDA) bonds appropriately designed and operating effectively to safeguard County assets?
- Are internal controls over real property tax collections appropriately designed and operating effectively to adequately safeguard County assets?

- Are internal controls over the billing and collection of payment in lieu of tax (PILOT) payments appropriately designed and operating effectively to adequately safeguard County assets?
- Are internal controls over the administration of the consulting pharmacist's contract and his maintenance of prescription drug inventories adequate to protect County assets?

Audit Results

We found the County failed in its obligation to protect taxpayers from losses related to imprudent investments in two Chautauqua County Industrial Development Agency (CCIDA) bonds totaling \$5.3 million for the construction of speculation buildings.¹ As a result of these imprudent investments, the County's general fund balance was reduced by \$1.8 million due to a default on payments and the subsequent acquisition of the mortgaged property. In addition, the County lost approximately \$500,000 in interest revenue due to a reduction in interest rates. The County also lost approximately \$94,000 in property tax revenue on the real property it acquired due to the default. Further, an additional \$1.8 million is at risk in the second bond because the primary tenant of the building has stopped making payments to the CCIDA.

The County does not have written policies and procedures governing the tax collection process and has no onsite training manual for users of the electronic tax collection system. In addition, five system users had administrative rights that were not necessary to perform their duties. Further, County officials could not provide a reasonable explanation for 31 missing receipts. In addition, County officials failed to reconcile the RPTS accounts receivable account in a timely manner, which resulted in an adjustment totaling \$290,992 to balance the general ledger control account to the RPTS detail as of December 31, 2010. Furthermore, officials could not provide us with certain cash receipt and adjustment records necessary to determine if all cash receipts have been recorded and deposited.

We identified a lack of management oversight regarding the billing and collection of PILOT payments. We compared seven bills against the terms of the agreement and found that five (71 percent) contained billing errors resulting in an under or over billing of project owners. As a result, we determined the County should have received an additional \$17,901² in payments.

County officials have not solicited requests for proposals for a consulting pharmacist since 2002 and did not monitor the terms and conditions of the consulting pharmacist contract. The County paid \$7,707 to the consulting pharmacist that did not appear to be in compliance with contract provisions. Further, internal controls over the County Home's prescription drug inventory are not operating effectively. Of the 30 controlled drugs we counted, five counts differed from the manual and computerized inventory records maintained by the pharmacist,³ and six counts differed from our computed balance. In addition, the County did not maintain and/or provide us with the necessary data

¹ Speculation building projects involve incentives to developers to build a facility which will later be leased to tenants. In some instances, the IDA and developer do not know who all the tenants of these facilities will be at the time of application.

² Of the total \$15,281 was in base payments and \$2,621 in late payment charges.

³ The DEA requires that records and inventories of controlled drugs be maintained separately from all other records. Therefore, in addition to maintaining a computerized inventory that includes all drugs on hand (controlled and non-controlled), the pharmacist maintains a manual inventory of controlled drugs.

to perform tests to determine whether the amount of non-controlled prescription drugs that were on the inventory was the amount that should have been on hand. In addition, pharmacy staff could not ensure the County received the appropriate credits and/or refunds for the unusable/expired drugs they returned to manufacturers or distributors.

Comments of Local Officials

The results of our audit and recommendations have been discussed with County officials and their comments, which appear in Appendix A, have been considered in preparing this report. County officials generally agreed with our recommendations and indicated that they have taken, or plan to initiate, corrective action. Appendix B includes our comments on issues raised in the County's response letter.

Introduction

Background

Chautauqua County (County), which has a population of approximately 140,000, is located in the extreme southwestern corner of New York State and includes two cities, 27 towns and 15 villages. The County is governed by a 25-member Legislature and provides various services including public safety, public health, social services and public works. For 2011, the County adopted a budget of approximately \$282 million.

The Director of Finance is responsible for the administration of the County's investment program. Investments for the 2010 fiscal year averaged approximately \$74 million. Not included were County investments in Chautauqua County Industrial Development Agency (IDA) bonds. Since 2000, the County has purchased three such IDA bonds totaling \$6 million.

Included in the Department of Finance is the Division of Real Property Tax Services (RPTS). The Director of RPTS is responsible for the general oversight of RPTS and its seven employees.⁴ RPTS provides a variety of services including the generation of tax bills and rolls,⁵ the collection of delinquent taxes, holding annual foreclosure auctions and providing financial information to the Finance Department. For the fiscal year ending December 31, 2010 the RPTS accounted for approximately \$79.7 million in tax-related receipts.⁶

The County relies on the Chautauqua County Industrial Development Agency (CCIDA) to bill project owners for annual Payment in Lieu of Tax (PILOT) payments. Payments are initially made to the CCIDA who, in turn, is responsible for the distribution of the payment to the individual taxing jurisdictions impacted by the agreement. The County's share of PILOT payments for the 2011 fiscal year was \$2.16 million.

The County operates a 216-bed public skilled nursing facility (Home) located in Dunkirk. The Home's budget is approved by the County Executive and the Legislature. During 2010, the Home incurred expenses of approximately \$20 million, with approximately \$916,000 attributable to the pharmacy. The Home Administrator is responsible for the Home's day-to-day management. The County has

⁴ Two of those employees work in the Tax Map Department.

⁵ The Department generates tax bills and rolls for all municipalities and school districts within the County, with the exception of the City of Jamestown.

⁶ Includes \$53.7 million of the County's share of the 2010 Town/County warrant collected by local tax collectors forwarded to the County, \$21.7 million in direct deposits, and \$4.3 million collected at the RPTS office

contracted with a consulting pharmacist to manage the Home's in-house pharmacy pursuant to an agreement dated January 8, 2007.

Objective

The objective of our audit was to examine the County's internal controls over certain investments, real property tax collections, payments in lieu of taxes, the pharmacy consultant contract, and the pharmacy inventory. Our audit addressed the following related questions:

- Are internal controls over the investment of County moneys in Industrial Development Agency bonds appropriately designed and operating effectively to safeguard County assets?
- Are internal controls over real property tax collections appropriately designed and operating effectively to adequately safeguard County assets?
- Are internal controls over the billing and collection of payment in lieu of tax (PILOT) payments appropriately designed and operating effectively to adequately safeguard County assets?
- Are internal controls over the administration of the consulting pharmacist's contract and his maintenance of prescription drug inventories adequate to protect County assets?

Scope and Methodology

Our review covered the period January 1, 2010 through October 4, 2011. For investments, we extended our review back to January 1, 2000, and for certain aspects of the real property tax scope area, we reviewed activity back to February 28, 1998. However, officials could not provide us with certain cash receipt and adjustment records necessary to complete our audit. Due to the missing financial information, we were unable to determine if all cash receipts have been recorded and deposited. For the pharmacist consultant contract, we extended our period from January 1, 2007 through May 31, 2011. We narrowed our scope for pharmacy inventory testing to the period December 31, 2010 through April 20, 2011. However, the pharmacy staff did not maintain and/or provide us with the necessary data to perform tests to determine whether the non-controlled prescription drug inventory was accurate.

Our audit disclosed areas in need of improvement concerning information technology controls. Because of the sensitivity of this information, certain vulnerabilities relating to passwords are not discussed in this report but have been communicated to County officials by separate letter so they could take appropriate corrective action.

**Comments of
Local Officials and
Corrective Action**

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.

The results of our audit and recommendations have been discussed with County officials and their comments, which appear in Appendix A, have been considered in preparing this report. County officials generally agreed with our recommendations and indicated that they have taken, or plan to initiate, corrective action. Appendix B includes our comments on issues raised in the County's response letter.

The County Executive and Legislature have the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the County Executive and Legislature to make this plan available for public review in the Clerk of the Legislature's office.

Investment in Industrial Development Agency Bonds

A sound program for protecting public funds requires prudent strategies, including procedures to ensure the safety of investments and deposits while maximizing earnings on any money that is not required for operations. Public officials should be familiar with both the nature of their deposit and investment authorizations, and with the type of safeguards that should be taken to prevent the loss of principal and interest.

The purchase of a bond as an investment is undertaken for the benefit of the investing local government as an opportunity to generate revenue from temporarily idle funds. During the period January 1, 2000 through October 4, 2011, the County Legislature authorized the purchase of three Chautauqua County Industrial Development Agency (CCIDA) bonds⁷ totaling 6 million. Two of these bonds, totaling 5.3 million, were for the construction of speculation (spec)⁸ buildings and the other (\$700,000) was for the financing, maintenance and development of an existing warehouse/distribution facility. The bond for the existing warehouse/distribution facility was repaid in full within a two-year period. Therefore, we focused our attention on the two bonds related to the spec buildings.

Unlike bonds and notes of local governments, IDA bonds are not backed by the full faith and credit of the issuer. Rather, IDA bonds are backed by a revenue stream, usually lease payments to the IDA from the business that occupies the IDA project.⁹ Therefore, the real "credit" is the entity that makes the lease payment. In addition, spec buildings carry inherent risk beyond more standard IDA projects because there are no committed tenants at the time of construction. As such, no committed lease revenues supported the IDA bonds.¹⁰

In 2005, the CCIDA found a buyer for one of the projects' buildings and entered into a memorandum of understanding (MOU) with the County authorizing a one-year lease agreement followed by the purchase of the building that would remain subject to the mortgage

⁷ The County's investment policy includes obligations of IDAs as a permitted investment.

⁸ Speculation building projects involve incentives to developers to build a facility which will later be leased to tenants. In some instances, the IDA and developer do not know who all the tenants of these facilities will be at the time of application.

⁹ General Municipal Law Section 864

¹⁰ The IDA may grant the bond holders the additional security of a mortgage interest in the leased property. The acceptance of the additional security could be incidental to the County's authority to invest in IDA bonds under General Municipal Law Section 872.

held by the County. The IDA made monthly installment payments of principal and interest to the County totaling \$1.04 million over the next three and a half years, followed by interest-only payments in 2010 and its eventual default in 2010 (it made the last payment in June 2010).

The original MOU provided that, in the event of the buyer's default, the County would convey the property back to the CCIDA and put a new bond in place. However, the County elected to retain title to the property,¹¹ and in 2010, wrote off \$1.8 million, the balance of principal still owed. The net effect was that the County's general fund balance for 2010 was reduced by \$1.8 million. The County also lost approximately \$94,500 in property taxes that were outstanding at the time the County took possession of the building. At the end of our fieldwork in October 2011, the County was leasing the building to itself for use by the Department of Social Services for \$8,000 per month.¹²

According to County officials, the primary tenant in the other spec building project is having financial difficulties and the project's current revenue stream is not sufficient to cover principal payments. Because this business is not making payments to the IDA, the IDA stopped making principal payments to the County in February 2010. Principal of \$1,824,924 is still owed to the County for this bond. County officials indicated that the CCIDA is working with the company to facilitate a sale so that the business can remain open and retain employees.

We also found that the Legislature granted the County Executive considerable discretion in negotiating the terms and conditions of the IDA bond purchases. As such, a former County Executive negotiated reductions in interest rates on the bonds without further legislative approval. The former County Executive reduced the interest rates for the two bonds from 5 percent to 3 percent in 2003, which appear to be in line with other County investment rates. However, other County investments, such as treasury notes, are inherently less risky. Riskier investments usually demand a higher interest rate to offset the risk. It appears that he reduced the rates in an effort to make the payments more affordable for the companies, who were having financial difficulties. This reduction equated to approximately \$345,000 in lost revenues through August 2011 for one of bonds and approximately \$159,000 in lost revenues for the other bond. Further, the County

¹¹ The County Attorney indicated that the County decided to take title to the building to house the Department of Social Services offices, which needed to be relocated due to a fire in February 2010.

¹² By doing so, the County is reimbursed approximately 65 percent of its lease payments through State aid.

lost an additional \$26,000 on this bond because, due to financial difficulties, the company did not make interest payments for a four-month period in 2005.

As a result of these investments, the County's general fund balance has already been reduced by \$1.8 million, and the County lost approximately \$500,000 in interest revenue and approximately \$94,000 in property tax revenue. Further, an additional \$1.8 million is at risk in the second building.

Recommendations

1. The Legislature should ensure that all investments of County funds are safeguarded and backed by reliable revenue streams.
2. The Legislature should review and approve any changes made to bond agreements, including alterations in security, repayment schedules, and interest rates.

Real Property Taxes

Included in the Department of Finance is the Division of Real Property Tax Services (RPTS). The Director of RPTS is responsible for the general oversight of RPTS and its seven employees.¹³ RPTS provides a variety of services including generating tax bills and rolls, collecting delinquent taxes, holding annual foreclosure auctions, and providing financial information to the Finance Department regarding the recording, receipting and reconciliation of tax payments. RPTS utilizes an electronic tax collection, reporting and property disposition system to perform these services. The RPTS Director must maintain complete, accurate and timely records to properly account for all RPTS activities. Although much of the RPTS process is guided by Real Property Tax Law, the County should adopt policies and procedures to guide RPTS staff in their daily functions. This would include an operating manual for the electronic collecting and reporting system.

County officials did not provide RPTS with written policies and procedures¹⁴ regarding internal controls over daily tax collection activities, and there was no user manual for the electronic collection system to help safeguard the County's tax assets from loss. Five individuals had unlimited administrative access to the collection system even though this level of access was not necessary or appropriate given their responsibilities; incompatible duties between collection and recording were not segregated; and adequate audit logs were not generated. Also, 11 of 13 voided receipts and all 14 missing receipts we tested lacked supporting documentation, an audit trail, and/or management authorization necessary to determine their validity. Due to this missing financial information, County officials could not ensure that all cash received was appropriately recorded and subsequently deposited into County bank accounts. Further, we found that an adjustment of over \$290,000 was made to the Finance Department's general ledger taxes receivable control accounts in 2011 so that they would agree with RPTS' detail taxes receivable accounts.

Electronic Collection and Reporting System

The extent to which the County uses computer processing in significant accounting applications, as well as the complexity of that processing, determines the specific risks that information technology (IT) poses to the County. The County should adopt policies and procedures to address the inherent risks in such a system, including the segregation of incompatible duties, ability to access data, ability to change data,

¹³ Two of those employees work in the Tax Map department.

¹⁴ With the exception of foreclosures, which were the only documented procedures

and procedures for accurately processing data. In addition, the RPTS Director should maintain a user manual for the software system RPTS uses, and control and monitor access to the system and activity within it to reduce the risk of misuse and/or manipulation of data.

Policies and Procedures – In 2008, the County upgraded its existing electronic RPTS collection and reporting system, which resulted in one system used throughout the County for cash collections.¹⁵ Primary users of the County collection and reporting modules¹⁶ include the RPTS Director, Deputy Director, four clerks and the former RPTS Director who was hired back as a consultant. In addition, the software vendor and another former RPTS Director had access to the system.

We found that, with the exception of the foreclosure process, County officials did not provide RPTS with any written policies and procedures regarding daily activities, and there was no user manual for the electronic collection system. The lack of detailed guidelines increases the risk that employees could make mistakes without detection or correction.

User Access/Rights – Access to computer functions should be restricted to only those that are required by individual employee job duties, and user rights should be granted to individuals so that a proper segregation of duties is maintained. A system administrator should be separate from the RPTS business functions to reduce the risk that transactions could be changed or deleted and used to hide the misappropriation of County funds.

We found that access to computer functions was not restricted to those required by individual employees' job duties. Five individuals¹⁷ had administrative rights to the system: the Director, the Deputy Director, the software vendor, and two former RPTS Directors.¹⁸ As administrators of the system, they are allowed full access to all modules, which increases the risk that they can modify or delete data from the system without management oversight.

¹⁵ Currently, 25 of the 65 municipalities and school districts are utilizing the system.

¹⁶ Available modules include tax collections, delinquent tax collections, foreclosures, bankruptcies, property disposition, general collections, reporting, public tax inquiry and a transactional audit module.

¹⁷ We also found user accounts listed as administrator and "village." The software vendor stated that the administrator account should have been removed from the system, and he could not identify what the "village" account was used for.

¹⁸ One is currently acting as a consultant with the RPTS department and has full access through a laptop computer located in her home.

The RPTS Deputy Director also is responsible for adding and deleting users from the RPTS system and establishing user rights. These abilities increase the risk that the Deputy Director, who is involved in the business functions of the RPTS, can create fictitious accounts, and change or delete transactions to hide the misappropriation of County funds. Further, the RPTS Deputy Director's lack of segregation of incompatible duties allows her to collect, record, and adjust receipts without oversight. In fact, during fieldwork it came to our attention that the cash deposit for the annual RPTS auction was \$1,000 less than the amount on the daily collection report. The RPTS Director stated that this was a result of human error and the County did not attempt to investigate the loss any further, and ultimately wrote off the missing \$1,000 to the gain/loss account.

During our review of the collection data for that day, we found that the deposit was \$2,000 less than the general ledger cash report (which is integrated with the tax collection system). The RPTS Deputy Director, when balancing the daily collection report to the deposit, found processing errors, accessed the RPTS software database, and adjusted at least two receipts: increasing one by \$1,000 and voiding another that was originally issued for \$1,000. By doing so, it created further errors in the system which required the assistance of the software vendor to correct.¹⁹ Although the two were explained as unrelated incidents, it shows that an individual could effectively manipulate receipts after they were issued, which puts County receipts at risk of being lost or stolen.

Audit Logs – A computerized financial system should provide a means of determining who is accessing the system and what transactions are being processed. Audit logs (commonly known as “audit trails”) maintain a record of activity by system or application process. The audit log should provide information such as the identity of the person who has accessed the system, the time and date of the access, what activity occurred, and the time and date of sign-off. Ideally, management would review this audit log to monitor the activity of users who access the computerized financial system. This tool provides a mechanism for individual accountability, reconstructing events and monitoring for problems.

While the County's system generated an audit log, this audit log contained no information regarding what type of activity occurred, the time and date of sign off, or the reason for the change, as required by the bid specifications for the system. Management's inability to produce and review adequate audit logs is a significant internal control weakness that limits its ability to monitor adjustments and increases

¹⁹ The voided receipt was not deleted from the payment table that updates the general ledger cash account.

the risk that unauthorized activity could occur and go undetected. This is especially important due to the lack of segregation of incompatible duties and the administrative rights given to individuals who use the system.

Because the County has not established policies and procedures over RPTS' activities, and internal controls within the system were weak, we performed various tests²⁰ over a variety of processes including billing, collecting/receipts, foreclosures, and bankruptcies to verify that receipts were properly recorded and deposited. We found deficiencies with collections, adjustments, and reconciliations, as discussed in more detail in the following sections.

Collections/Receipts

To ensure that all receipts are properly accounted for, it is essential that officials maintain detailed records of all transactions. When a receipt contains an error and needs to be voided, documentation of the reason and authorization for the change should be maintained on file to substantiate the change. Further, to ensure proper accountability, a receipt should not simply be changed after it is issued; it should be voided and reissued. Finally, records must not be deleted and the audit trail destroyed; such action increases the risk that funds could be misappropriated without detection or correction.

All employees in the RPTS office, including the Director and the Deputy Director, have the capability of collecting and recording receipts in the system. However, the four account clerks are primarily responsible for the daily collections. Although all users can void certain receipts, the Deputy Director is responsible for voiding receipts that require adjustments in the system, including informing the Finance Department of any adjustments needed in the general ledger due to voided receipts. We selected a non-biased judgmental sample of 13 voided and 14 missing receipts and identified the following:

Voided Receipts – For the period January 1, 2010 through June 21, 2011, there were 87 voided tax receipts noted on system reports. We selected 13 of those receipts²¹ and found only two had original receipts on file totaling \$10,971. None of the 13 receipts had documentation on file indicating the reason they were voided. We could not determine the amount of the remaining 11 voided receipts because the system²² changes the amount of the receipt to zero when voided. In addition, if the dollar amount was changed, but not voided, the receipt in the system would reflect only the currently recorded amount. Furthermore, the system does not provide a report of receipts

²⁰ For detailed information on the types of testing, refer to Appendix C.

²¹ See Appendix C for details on our sample selection.

²² The system records data changes immediately and, therefore, a user cannot obtain information for a previous point in time.

that were changed after issuance. Due to this missing financial information, we could not determine the frequency or test the validity of manipulated receipts.

Missing Receipts – For the period January 1, 2010 through July 15, 2011, there were 31 missing receipts, or gaps in the receipt sequence. We selected 14 of those receipts²³ for further review; RPTS officials could not provide us with any documentation regarding the reason for any of the missing receipts. The Deputy Director told us that receipt numbers that were assigned to transactions that were started but not completed would just “disappear in the system,” thus causing a gap in sequence. The Deputy Director also told us that, when a receipt was voided in the system, the daily detail report would show a zero balance and, therefore, a system administrator (Director or Deputy Director) could remove it from the system, causing a gap in sequence, to “clean up the daily detail report.” However, this action could be a red flag that officials were trying not to draw attention to voided receipts.

We performed system tests and concluded that receipts that were entered and voided were not reflected on the end of the day balancing report. Transactions that had a full payment with zero amount paid or were not completed were reflected on the end of the day balancing report with zero balances. None of the receipts tested were reflected on the daily detail report. Therefore, the Deputy Director’s explanation for the gap in sequence was not plausible because the receipts would not have needed to be deleted to “clean up the daily detail report.”

The Deputy Director also stated that she did not believe she would be allowed to delete a receipt number if an amount had been entered into the system (and not voided).²⁴ However, we determined that the system allowed such receipts to be deleted, and the receipts would not be reflected on the end of the day balancing report or daily detail report, which would create a gap in sequence number.

We also selected three days of deposits totaling \$135,341²⁵ to determine if receipts paid by check were deposited intact.²⁶ We found no exceptions. However, original receipts and documentation

²³ See Appendix C for details on our sample selection.

²⁴ The software vendor indicated that the system assigns a receipt number immediately and, therefore, if the transaction is not completed, it would show a gap in the system. He also indicated that he believes a receipt could not be deleted from the system if an amount had been entered. However, he was not aware of anyone going into the system and deleting receipt numbers with zero amounts to “clean up the reports.”

²⁵ See Appendix C for detailed information on sample selection.

²⁶ Intact means in the same amount and form (cash or check) as received.

of the reason for the voided transactions and missing receipts were necessary to determine validity and complete our audit. Due to this missing financial information, we were unable to adequately establish whether all cash received was appropriately recorded and subsequently deposited in County bank accounts.

Adjustments

Making adjustments to the financial records is sometimes necessary to ensure that the records are accurate and reflect actual activity. However, it is imperative that an individual separate from the transactions review adjustments so that any errors or irregularities can be detected and corrected. Further, it is important that all adjustments be made in a consistent manner and adequately documented to determine their purpose.

The Director and Deputy Director are capable of making adjustments within the system without any oversight.²⁷ According to reports produced by the system, there were 1,171 system adjustments, totaling \$1.9 million,²⁸ made during the period January 1, 2010 through July 16, 2011. We selected a biased judgmental sample of 20 adjustments totaling \$29,989²⁹ to determine the reason for the adjustment and found a minor discrepancy, which we discussed with County officials. When individuals can make adjustments to the accounting records without oversight, the risk is increased that moneys could be misappropriated without detection or correction.

Reconciliation

Amounts recorded in the general ledger should be routinely reconciled against the amounts recorded and reported in the electronic tax collection system. Any discrepancies should be investigated and resolved in a timely manner.

The RPTS Director is responsible for reconciling the amounts recorded on the general ledger against amounts recorded and reported in the electronic tax collection system. The RPTS Director is responsible for providing the Finance Director with various information processed and recorded through the electronic tax collection system including, but not limited to, the total amount of taxes owed (at the beginning

²⁷ For those adjustments that impact general ledger accounts, the Deputy Director is responsible for forwarding that information to the Finance Department. The Deputy Director stated she will typically copy the RPTS Director on any correspondence regarding adjustments.

²⁸ RPTS officials indicated that some of these changes were due to errors made during the “uploading” of unpaid taxes in 2010. We attempted to extract these amounts from the totals but were provided no further information on the amount of the uploading error adjustments. In addition, we found that one parcel, or account, could have one adjustment that impacted several revenue accounts; each revenue account affected would be included individually in the total number of adjustments.

²⁹ See Appendix C for details on our sample selection.

of the collection year), payments made against those receivables, outstanding taxes at year end, and any adjustments to those accounts.³⁰

For the fiscal years 2008 and 2009, the County's external auditors indicated that they had found differences between the tax receivable subsidiary ledger maintained by the RPTS Department and total taxes receivable in the general ledger maintained by the Finance Department; a material misstatement (as a result of audit procedures) totaling \$803,838 (which effectively reduced real property tax revenues by this amount); and a recommendation that the reconciliation process should be conducted on a timely basis. Management indicated that with the implementation of the new collection system in January 2010, the information needed to reconcile accounts would be provided on a timelier basis.

County officials indicated that unsuccessful attempts were made to reconcile the accounts during the 2010 fiscal year. When ultimately reconciled as of December 31, 2010, an adjusting entry in the amount of \$290,992 was recorded to balance the general ledger taxes receivable overdue account against the amount reported as outstanding in the tax collection system. The Deputy Director of Finance indicated that he made this entry to "true up" the accounts to have a starting point to move forward with the reconciliation process in 2011. However, neither he nor the RPTS Director were able to determine the reasons for the differences in the records. In addition, at the time we completed our fieldwork in October 2011, officials had not reconciled the accounts.

The lack of segregation of incompatible duties within RPTS to collect, record and deposit receipts, the Deputy Director's access to all functions of the system, her ability to void or delete transactions without support and management approval, and the subsequent adjustment of the general ledger by the Finance Department to agree with RPTS' records severely increases the risk that errors and irregularities involving tax receipts can occur within RPTS and not be detected in the normal course of business. These weaknesses in controls, coupled with the write-off of over \$1 million in receivables, create an alarming lack of oversight of County resources.

Recommendations

3. The RPTS Director should establish and monitor policies and procedures over the administration of user accounts, including restricting users' access levels to those required to perform their respective jobs and to promote adequate segregation of duties. He

³⁰ Adjustments made in the system are manually corrected in the general ledger. Currently, the RPTS Director or Deputy Director notifies the Deputy Director of Finance of any needed adjustments.

also should detail how authority is to be documented to add and remove users from the system and change their access rights.

4. The RPTS Director should have someone outside of RPTS, such as an IT Department official, be the administrator of user accounts within RPTS. Administrative account access within RPTS should be limited.
5. The RPTS Director should ensure that the system produces audit logs with adequate information to enable management to monitor user activity.
6. The RPTS Director, or designee, should review, authorize, and retain all voided receipts.
7. The RPTS Director should not allow a receipt to simply be changed after it is issued; it should be voided and a new receipt issued.
8. The RPTS Director, or designee, should review receipt logs and investigate any gaps in the receipt sequence. He should not allow the deletion of receipts and should require timely explanatory documentation when a receipt amount is recorded as zero.
9. The RPTS Director should approve all adjustments and retain appropriate supporting documentation.
10. The Director of Finance should reconcile general ledger taxes receivable accounts and RPTS' detail taxes receivable accounts in a timely manner, and investigate and resolve all differences identified.

Payments in Lieu of Taxes

Industrial Development Agencies (IDAs) are tax-exempt public authorities that often execute written agreements requiring Payments In Lieu Of Taxes (PILOTs) from benefited project owners to municipalities and school districts. The affected property is temporarily listed under the IDA's name on the tax roll as tax-exempt. Parties enter into a written agreement that requires project owners to make PILOTs to local government entities. These payments are generally equal to, or less than, the amount the taxing entities would have received had the property remained on the tax rolls. Statute requires that IDAs establish guidelines and procedures that govern PILOT agreements, but does not require them to prepare the actual billing which indicates what project owners owe. The Chautauqua County IDA (CCIDA) bills, collects and distributes PILOTs to affected taxing jurisdictions (ATJ) impacted by the agreements.³¹ PILOT agreements must contain, among other things, the amount due annually to each ATJ, or a formula by which the amount due can be calculated.

The Finance Director is responsible for the general oversight of PILOTs due to the County. Annually, he receives information from the CCIDA regarding the PILOTs. Payments are received in the Real Property Tax Department and recorded in the electronic tax collection system. The County's share of the PILOTs for the 2011 fiscal year was \$2.16 million.³²

Although all IDA properties listed on the 2011 County tax roll had PILOT agreements associated with them, we found that the County had no process in place to ensure that it was receiving the appropriate share of the PILOTs. The Finance Director does not receive a copy of the bills and does not perform any review to ensure that the bills prepared by the CCIDA agree with the terms of the PILOT agreements. We selected³³ seven of the 20 PILOT agreements for review and compared them to the bills, totaling \$93,282, prepared by the CCIDA. Of those bills five (71 percent) contained errors resulting in the under- or over-billing of project owners. As a result of those errors, we found that the County should have received an additional \$17,901³⁴ in payments.

³¹ According to County officials, the CCIDA took over the billing process approximately seven to eight years ago.

³² One agreement represents \$1.9 million of the total 2011 PILOT billings.

³³ Biased judgmental sample including agreements reviewed during planning, those with noted risks, and those with larger bill amounts

³⁴ Of the total amount, \$15,281 was in base payments and \$2,621 was in late payment charges.

Billing Errors – We found the incorrect assessed value was used in two of the billing calculations, which resulted in under-billings totaling \$15,408. For one of the bills, the CCIDA incorrectly used a reduced assessed value that was to take effect for the 2012 tax bills.³⁵ As a result, the property owner was under-billed \$10,445. For the other bill, the CCIDA used an incorrect assessment and an incorrect tax rate, resulting in an under-billing of \$4,963 for 2011. Because the assessment has been the same since 2005, the first year of the PILOT, and the tax rate is frozen over the life of the PILOT, if the CCIDA continues to use the incorrect values in its calculation, the County will lose approximately \$55,000 in revenues over the life of this PILOT.

Penalties and Interest – Project owners are typically required to pay interest and penalties if payments are not made in a timely manner. Our testing found that two payments were not made by the due date stated in the agreement. However, there was no indication that the CCIDA billed the project owner for penalties or interest, which resulted in an under-payment to the County totaling \$2,621.

The lack of monitoring and/or review of bills may have contributed to the errors that occurred and were not detected in a timely manner. Although we realize the County relies on the CCIDA to properly prepare the bills, the Director of Finance is responsible for the general oversight of the PILOTs and should verify that the bills were calculated correctly.

Recommendations

11. The Director of Finance should request the IDA to prepare amended bills for project owners that were billed incorrectly.
12. The Director of Finance should establish monitoring procedures to ensure that bills are properly calculated. This should include the comparison of CCIDA PILOT billing calculations to the terms of the agreement.
13. The Real Property Tax Director should confirm that payments are received in a timely manner and, if not, should notify the CCIDA that interest and penalties also may be due.

³⁵ Final assessment rolls as of July 1, 2010 were to be used in the calculation of the 2011 Town/County tax bills.

Pharmacy

The County Home maintains an in-house pharmacy for its residents and contracts with a consulting pharmacist to manage it. To ensure that the County is receiving quality services, it is important that County officials periodically solicit competition for consulting pharmacist services, enter into written contracts for the services, and monitor the services provided. The County's pharmaceutical policy addresses duties of the consulting pharmacist and pharmacist technician to maintain and monitor supplies and drugs in the pharmacy inventory.

County officials have not solicited proposals for a consulting pharmacist since 2002 and did not monitor the terms and conditions of the consulting pharmacist contract. The County paid \$7,707 to the consulting pharmacist that did not appear to be in compliance with contract provisions. Further, internal controls over the County Home's prescription drug inventory are not operating effectively to safeguard these County assets. Of the 30 drugs we counted, five counts differed from the pharmacist's inventory records, and six counts differed from our computed balance. In addition, the County did not maintain and/or provide us with the necessary data to perform tests to determine whether the amount of non-controlled prescription drugs that were on the inventory was the amount that should have been on hand. Further, pharmacy staff could not ensure that the County received the appropriate credits and/or refunds for the unusable/expired drugs they returned to manufacturers or distributors.

Consulting Pharmacist Contract

General Municipal Law requires the Legislature to adopt a written procurement policy governing the procurement of goods and services that are not subject to competitive bidding requirements. This policy should indicate when County officials must obtain quotations or request proposals, describe the procedures for determining which method will be used, and provide for adequate documentation of the actions taken. The County should retain documentation evidencing the advertisement and response to the request for proposals (RFP). A written contract for professional services helps ensure that the County and the individual or firm providing the services have a clearly defined and mutually agreed upon basis for compensation and should indicate the contract period, as well as the rights and responsibilities of both parties to the agreement. Moreover, properly itemized invoices detailing the date services were rendered, the hours worked, hourly rates, and specific work performed help to ensure that the rates and services are in accordance with contract provisions.

The County most recently solicited proposals for an in-house consulting pharmacist over nine years ago, on August 18, 2002. County officials indicated that they received only one proposal, but did not retain documentation to indicate which other vendors were sent RFPs. The initial five-year contract was extended, with the current end date of May 31, 2011, as of the end of our fieldwork in May 2011. This same pharmacist has contracted with the County for over 25 years.

County officials did not properly monitor the terms and conditions of the consulting pharmacist contract. Specifically,

- The consulting pharmacist is required to work a minimum of 20 hours. Although the pharmacy is scheduled to be open Monday through Friday from 11:30 am to 3:30 pm, the County does not have a time clock or other means to track the hours the pharmacist is on duty. As such, the County did not have any documentation of the actual days and hours worked.
- A pharmacy technician was to work on an as-needed basis, not to exceed 20 hours per week through July 31, 2010 and not to exceed 50 hours per week from August 1 through March 31, 2011, to comply with Medicare Part D requirements.³⁶ The contractor's invoices for the two pharmacy technicians are not itemized to indicate the duties performed or the dates and hours worked. While on-site, we observed the technicians performing duties other than billing for Medicare. However, the County pays the contractor the maximum amount allowed in the contract without knowing whether the hours were worked only to fulfill the Medicare billing requirements, as indicated in the contract.
- For the second and third years of the contract, the amount paid for consulting pharmacist services was to increase by an amount equal to the percentage change in the Consumer Price Index (CPI). However, the County also increased the amount paid for the pharmacist by the CPI during the fourth year of the contract, and paid an additional \$3,825 due to the increased rate.
- The contract does not allow for a CPI increase to the hourly rate paid to the technicians. However, over the life of the contract, the County increased the hourly rate paid for the technicians by the same CPI used for the pharmacist

³⁶ The County Home Administrator indicated that the greater amount of hours was necessary to have all Medicare prescriptions properly billed in a timely manner.

and, therefore, overpaid for the pharmacy technicians by \$3,882. During the nine years this contract was in place, the only documentation for the technicians' rate increase was an amendment to the contract authorized by the County Executive, dated September 1, 2010, which increased their hourly rate to \$22 as of August 1, 2010.

Because of County officials' inadequate monitoring of this contract, the County paid \$7,707 to the consulting pharmacist that did not appear to be in compliance with contract provisions.

Drug Inventories

The County Home pharmacy is required to follow the United States Drug Enforcement Administration's (DEA) Office of Diversion Control Manual (Manual) for controlled drugs.³⁷ The pharmacist maintains both a manual and computerized inventory of controlled drugs. The computerized inventory also includes over-the-counter drugs, prescription drugs and other supplies. It is the pharmacist's responsibility to monitor all incoming merchandise and record the items in inventory. The pharmacist fills the doctors' orders and records the items dispensed in the inventory records. The pharmacist also must monitor the disposition of discontinued and expired drugs. While requirements for maintaining non-controlled drug inventories are not as stringent, it is important that they are adequately monitored to ensure that they are properly accounted for. Further, all unneeded drugs should be properly disposed of and documented to ensure that they are not misappropriated.

Controlled Drugs – The Manual stipulates that every pharmacy must maintain complete, accurate and up-to-date records documenting each controlled drug purchased, received, distributed, dispensed or otherwise disposed of, including breakages or spillages. Required records also include a perpetual inventory to track the movement of each controlled substance.

In addition, drugs purchased, dispensed, returned from the floor and unusable/expired that are returned to vendors should be entered into the computerized inventory system in a timely manner to ensure that the system agrees with the County Home Narcotic Stock Record (manual inventory) at all times. Any discrepancies should be investigated, and the outcome of the investigation documented and signed by two in-charge parties (one of which should be a pharmacist).

³⁷ The DEA requires that records and inventories of controlled drugs be maintained separately from all other records. Therefore, in addition to maintaining a computerized inventory that includes all drugs on hand (controlled and non-controlled), the pharmacist maintains a manual inventory of controlled drugs.

The pharmacist must continually adjust the inventory records when receiving and disbursing drugs. To determine if activity was properly posted to the inventory records, and that all changes were adequately documented, we computed activity, including purchases and returns to inventory, drugs dispensed, and returns to vendors, from January 3, 2011 to April 20, 2011. We found that the pharmacist's inventory records did not agree with our computed balances for six of the 30 controlled drugs tested, as outlined in Table 1 below.

Of the 58 controlled drugs in the inventory records, we witnessed the performance of a physical count of 30 drugs on April 20, 2011 and compared it to the inventory records maintained by the pharmacist and pharmacist technician. We found that the pharmacist's inventories did not agree with the physical inventory for five of the 30 controlled drugs tested, as detailed in Table 1 below. Further, the physical count did not agree with our calculations for 10 of the drugs tested. This occurred because pharmacy staff periodically adjusted inventory records to the actual count without documenting the reason for the difference.

Table 1: Differences in Controlled Drugs Inventories				
Drug Name	Pharmacist's Inventory	Our Computed Balance	Physical Count	Reason for Difference
Clonazepam 1.0 mg	20	21	20	Inventory was reduced to agree with a physical count on 1/19/11.
Fentanyl 25 mg patch	19	19	20	Per Pharmacist, wrong amount was logged as dispensed.
Hydrocodone w/APAP Sol	444	444	330	Per Pharmacist, this may have been an undocumented spillage during May 2010, even though it was included in the 1/3/11 inventory count.
Hydrocodone/APAP 5/500 mg	370	361	370	Inventory was increased to agree with a physical count on 2/24/11.
Methylphenidate 5 mg	100	100	0	Presumably returned to vendor on 3/10/10, even though it was included in the 1/3/11 inventory count.
Morphine ER 30 mg	273	243	248	Dispensing not recorded and mathematical error.
Oxycontin 20 mg	324	124	324	Presumably purchased in December 2010 but not included on 1/3/11 inventory count.
Oxycontin 40 mg	211	183	211	No explanation
Phenobarbital 30 mg	1,573	1,573	1,673.5	No explanation
Provigil 200 mg	86	104	86	Math error of 10 on the manual record and the year-end physical count was off by eight, accounting for the shortage of 18. However, the eight that were short at year-end should have been investigated and correctly input at the beginning of the fiscal year but were not.

The pharmacist did not provide adequate reasons for the overages, and his reasons for the shortages included an undocumented spillage, an unrecorded dispensing, and an arithmetic error.

Due to the strict regulations imposed by the Federal and State governments, it is imperative that an accurate inventory of controlled drugs be maintained and monitored at all times. Because neither the

manual nor the computerized inventory records were accurate and up to date, the risk is increased that these controlled substances could be lost or misappropriated.

Non-Controlled Drugs – Non-controlled drugs do not require the same level of controls and recordkeeping as controlled drugs. However, to ensure that all drugs are accounted for, it is important that periodic physical counts be performed and any differences be reconciled and corrected. Further, it is important that no one person be responsible for controlling inventory stock, performing inventory counts, and maintaining and adjusting inventory records. These incompatible duties increase the risk that drugs could be lost or misappropriated without detection or correction.

The pharmaceutical policy does not address who should be present when physical counts are performed, when it is appropriate to make inventory adjustments, who can adjust inventory records, or who should approve the adjustments. The non-controlled drugs were maintained on shelves in an open area in the pharmacy that was accessible to the pharmacy technicians when the pharmacy was closed.³⁸ Further, the pharmacy technicians are entirely responsible for maintaining inventory of non-controlled drugs; they control the inventory stock, perform the physical count, and maintain and adjust inventory records with no apparent oversight.

The County could not provide us with supporting documentation with which to determine if the amount of non-controlled drugs in inventory was what should have been on hand. For example, although the computerized inventory system displays the drug dosages that were ordered by the physicians and the drugs that were dispensed by the pharmacy, pharmacy staff do not routinely print inventory reports or maintain source documents for the drugs dispensed or returned to a vendor. Without this information, we could not verify the accuracy of the inventory.

In addition, we found that the computerized inventory, dated December 31, 2010, varied from a physical count taken by pharmacy staff on that date by 93,620 tablets. At that date, the inventory was adjusted to the physical count amounts with no documentation indicating the reasons for the variances. Allowing the same individual to control inventory stock, perform the physical count, and maintain and adjust inventory records increases the risk that errors or irregularities can occur and not be detected in the normal course of business.

³⁸ A master key is kept under separate lock by the maintenance supervisor in case there is an emergency.

Discontinued/Expired Drugs – The consulting pharmacist contract and pharmaceutical policy require that the pharmacist monitor the disposition of drugs brought into the facility, drugs of deceased residents, and discontinued, deteriorated or expired drugs. In addition, the facility shall establish policies and procedures, according to State and Federal laws, addressing the return of unusable drugs to the vendor or manufacturer for credit, refund or disposal. To dispose of unusable drugs, the pharmacy uses a private company known as a reverse distributor. Reverse distributors are responsible for destroying drugs with no associated dollar value and returning others to the manufacturer or distributor for a credit or refund.

We found that there were no written policies and procedures outlining the return process. The pharmacy does not prepare a list of the drugs that were shipped to the reverse distributor. Instead, it relied on the reverse distributor to itemize the quantity and types of drugs that were received at their respective facilities. Due to the lack of detailed records, the County cannot ensure, and we could not test, the appropriateness of the credits received or how the returns impacted drug inventories.

Recommendations

14. County officials should routinely solicit proposals for consulting pharmacy services to help ensure the prudent and economical use of public moneys.
15. County officials should require contractors to provide an itemization of dates and times worked by the pharmacists and the pharmacy technicians. The pharmacy technicians' documentation should also indicate the hours attributable to Medicare requirements.
16. County officials should verify that charges on invoices are in compliance with contract provisions prior to approving them for payment.
17. County officials should require the consulting pharmacist to implement and maintain an accurate, up-to-date, perpetual inventory record for all prescription drugs.
18. County officials should periodically observe the performance of physical counts, compare them to the perpetual inventory, investigate differences, and document the outcome of the investigation.
19. County officials should review the documentation for any breakage or spillage of controlled drugs with the consulting pharmacist to ensure compliance with Federal guidelines.

20. County officials should require that the consulting pharmacist prepare a list of unusable drugs that differentiates between those that are discarded versus those that are sent to the reverse distributor. County officials should reconcile this list with the amount of credits and/or refunds received from manufacturers for returned drugs and the documentation received from the reverse distributor.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



**CHAUTAUQUA COUNTY
OFFICE OF THE COUNTY EXECUTIVE**

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GREGORY J. EDWARDS
County Executive

May 10, 2012

Robert E. Meller
Chief Examiner of Local Government and School Accountability
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Re: Office of the State Comptroller (OSC) Draft Report of Examination:
County of Chautauqua – Internal Controls Over Selected Financial Activities

Dear Mr. Meller:

Set forth below is the County of Chautauqua's written response to the above-referenced OSC draft Report of Examination. The response is broken down into the four topics that are the subject of the report:

I. Investments in Industrial Development Agency Bonds

The Executive Summary of the draft OSC Report of Examination states the following regarding the County's 2000 and 2001 purchase of CCIDA bonds relating to the Chadwick Bay and Stoneman Park spec buildings:

We found the County failed in its obligation to protect taxpayers from losses related to imprudent investments in two Chautauqua County Industrial Development Agency (CCIDA) bonds totaling \$5.3 million for the construction of speculation buildings. As a result of these imprudent investments, the County's general fund balance was reduced by \$1.8 million due to a default on payments and the subsequent acquisition of the mortgaged property. The County also lost approximately \$500,000 in interest revenue due to a reduction in interest rates. In addition, the County lost approximately \$94,000 in property tax revenue on the real property it acquired due to the default. Further, an additional \$1.8 million is at risk in the second bond because the primary tenant of the building stopped making payments to the CCIDA.

Respectfully, it is the position of the County that the draft OSC Report does not give even close to a complete picture of the background and impacts of the spec building bonds. There have also been further activities regarding the bonds since the completion of the OSC fieldwork that must be described to give a true depiction of the current status of the bond transactions.

See
Note 1
Page 46

Prior to the Chautauqua County Legislature's decision to approve purchase of the spec building bonds, the County's Department of Planning and Economic Development in the Fall of 1999 had presented a "Business & Industrial Parks Infrastructure Development Plan" to the County Legislature. At the time, County officials realized that prospective businesses considering expansion or relocation demanded "shovel-ready" and "turnkey" sites for development, and would not wait for site development to occur. It was also believed that the County's newer industrial parks would be best marketed with the initial placement of a substantial anchor building to attract businesses as tenants with room for expansion within the building or onto neighboring sites within the industrial park. The "spec building" approach had met with success in other areas of New York State and the nation.

Referencing the 1999 Business & Industrial Parks Infrastructure Development Plan, the County Legislature adopted resolutions in 2000 and 2001 approving purchase of CCIDA bonds for the construction of spec buildings in the Chadwick Bay and Stoneman Industrial Parks. Legislators were advised that the bonds would be secured only by the rents and first position mortgages on the buildings, but the potential development of the industrial parks was deemed to outweigh the risks by taking into account that the \$5.3 million in bonds would be a relatively small portion of the County's investment portfolio of approximately \$100 million at the time.

See
Note 1
Page 46

It should be noted that while the County's investment decisions are normally delegated to the Director of Finance under the parameters of the County Legislature's investment policy, the County Legislature in this case chose to individually approve the purchase of the spec building bonds due to the additional risk and the unusual nature of the investment as part of an economic development initiative. The Legislature was acting as a policy maker with its "eyes open."

See
Note 1
Page 46

Notwithstanding the 2008 financial crisis and resulting deep recession, the economic and job development spurred by the spec buildings in the industrial parks has met the expectations of the 2000 and 2001 County Legislature, but is not reflected at all in the OSC draft Report. Set forth below are timelines showing the development in the Chadwick Bay and Stoneman Industrial Parks:

See
Note 1
Page 46

Chadwick Bay Industrial Park

January 2002 – Spec Building construction underway

April 2002 – Nestle Purina Pet Care purchases 55.2 acre parcel for an expansion – currently assessed at \$140,000 and used as trailer staging lot

July 2002 – Grafco Industries purchases 9.6 acre parcel with 120,000 sq ft building – currently assessed at \$1,678,800 with estimate of 50 FTE employees at plant

August 2002 – George Wheeler purchases 13.9 acres to construct a 120,000 sq ft trucking company warehouse – currently assessed at \$1,678,600 with 6 FTE employees.

October 2002 – Spec Building completed

September 2003 – Global Environmental International purchases 2.4 acre parcel to construct an 8,600 sq ft facility – currently assessed at \$430,700 with 28 FTE employees

March 2006 – Stericycle, Inc. purchases 2.7 acre parcel for a 14,500 sq ft building expansion – the new construction is currently assessed at \$525,000

July 2009 – Nestle Purina Pet Care purchases 8.8 acre parcel for future expansion

November 2011 – Ascion, LLC leases 17,700 sq ft of space in the Spec Building and hires 10 FTE employees

March 2012 – DKM leases 9,000 sq ft of space in the spec building with estimated 3 FTE employees

Stoneman Industrial Park

August 2002 – Spec Building complete

August 2002 – Initial tenant in Spec Building is International Ordnance (storage)

October 2003 - Classic Brass moves into a portion of the Spec Building and Southern Tier Brewing moves into another portion – 100% occupancy

August 2003 – Allen Fire Protection purchases 1.2 acre parcel and builds a 6,000 sq foot building – currently assessed at \$191,000 with estimated 4 FTE employees

October 2003 – Quality Manufacturing Systems purchases 1.7 acre parcel and builds a 12,800 sq ft building – currently assessed at \$241,000 with estimated 7 FTE employees

June 2009 – Southern Tier Brewing purchases 12.2 acre parcel and builds a 20,000 sq ft building for a new brewery

November 2009 – Southern Tier Brewing vacates space in spec building to occupy their new brewery

March 2010 – Regal Services leases old Southern Tier Brewing space on "as needed" basis

August 2010 – Southern Tier Brewing leases former space in Spec Building and constructs another addition of 7,500 sq feet on its own building in the park

April 2012 – Stoneman Spec Building is 100% occupied with estimated 34 employees for Classic Brass

April 2012 – Southern Tier Brewing has spent an estimated \$2,000,000 in new construction to date, and has begun further building expansions estimated at \$1,300,000 – when complete, it is estimated that Southern Tier Brewing will have 42,500 sq ft in the park with estimated employment rising from 36 to 43 employees

Summarizing the above timelines, over \$8 million in new construction has been generated in the industrial parks after construction of the \$5.3 million spec buildings for a combined total of \$13.3 million, with an estimated 185 employees housed in the collective facilities. The construction of the facilities alone temporarily produced or sustained employment for the construction companies that built the buildings. In the case of Southern Tier Brewing, a business in its infancy began in the Stoneman Spec Building and has grown continuously within the Stoneman Industrial Park into a craft beer powerhouse firm distributing in more than half of the United States, as well as parts of Australia, Denmark, Japan, Philippines, Singapore, Ontario, British Columbia, and the United Kingdom. All in all, the spec buildings have catalyzed business development exactly in the manner hoped for by the County Legislature over a decade ago.

Turning to the current status of the bonds themselves, in the case of the Stoneman bond, CCIDA was forced to make three semi-annual interest-only payments due to the financial problems of Classic Brass not surprisingly arising out of the massive slowdown in the construction industry caused by the 2008 recession. As of February 2012, however, CCIDA was able to resume full payments on the principal amount due. From the County's perspective, the sustaining of existing jobs is as important as the new development the spec buildings have spurred.

In the case of the Chadwick Bay bond, the County has successfully relocated its Department of Social Services back to downtown Dunkirk after temporarily housing the department in the spec building after a fire destroyed the DSS offices. As a result, the County has exercised its right under the 2005 MOU to convey the property back to CCIDA and reinstitute the bond arrangement. The approximately \$1.8 million bond is now back on the books of the County as a receivable, and the \$1.8 million will be restored to the general fund balance. As reflected above, two new business tenants have occupied the majority of space in the Chadwick Bay spec building to support renewed repayment of the bond.

See
Note 2
Page 46

With regard to both the Chadwick and Stoneman bonds, they are still secured by first position mortgages on the premises. The remaining principal balance represents under 70% of the original construction cost. While no one foresaw the collapse in demand for commercial property after the perfect storm created by the national financial crisis, the County is still in a reasonable position to recover the full amount of principal along with ongoing interest payments in line with other investments – without even taking into account the substantial economic activity spurred by the spec buildings described above.

The draft OSC Report's reference to "lost interest revenues" due to the previous County Executive's reduction of the interest rate is a misnomer given that the interest rates were in line with other investments at the time of the investment and at the time of the amendment. Ultimately, investment in the spec building bonds was undertaken by the County Legislature equally as an economic development tool besides as a source of interest revenue. Most capital projects funded by the County, such as roads, bridges, and sewer projects, provide no direct return on investment and no chance of actual repayment of principal and interest. The spec building projects must be viewed with a broader perspective than contained in the current draft OSC Report.

Regarding the draft OSC recommendations, the County's position is that it was prudent to take a relatively small portion of the investment portfolio and invest it in the spec building projects in order to spur economic development activity in the County's industrial parks. The County Legislature made a judgment to proceed in such manner and it is expected that when the bonds are finally retired or closed out, the benefits to the County will have significantly outweighed the risks. As for County Legislature approval of any changes in bond agreements, the County is in concurrence that future IDA bond purchase resolutions should provide that the County Legislature review and approve any substantial changes in the bond terms, such as security, repayment schedules, and interest rates.

II. Real Property Taxes

The Real Property Tax Office (Office) is in general agreement with the findings of the Audit and its responses to the findings were taken seriously with a proactive approach to the recommendations made in the report.

The Office had implemented a new software system in 2010 in conjunction with a 20 % staff reduction. The new system allowed for the elimination of the Office Programmer/Analyst with a reassignment of duties between the Director and Assistant Director. A change in Director in 2011 placed added pressure to redefine those duties.

The Office does have a manual for defining the tasks for the office and the assignment of those tasks to the staff members. Due to the issues raised in the audit, the software manual has been through several revisions as upgrades and enhancements to the software have been performed with more procedures automated. It is anticipated the software manual will be complete by the end of 2012.

See
Note 3
Page 46

Administrative access to the software has been reduced to three individuals- those being the Director, Assistant Director and the software vendor. The previous two directors' access was part of the transition process to the new director and assistant director as part of a consulting agreement. System enhancements were made for application access and transactional logs to record all actions for activity within the system by all users. These logs provide the transparency required to ensure the integrity of the system.

The Office is continuing to look into past adjustments for receivables to determine the proper accounting for journaling those amounts. These adjustments occurred over an extended period of time and older records are still being examined to resolve this issue.

Further steps have also been added to the correction of receipts. The complex nature of Real Property Tax Law operations led to the creation of a Correction of Receipts Module. This module allows for correction of receipts when a simple error occurs in the processing of a tax receipt such as misspelled name or address or simple error like a wrong number keyed into the receipt. The only authorized persons to correct receipts are the Director and the Assistant Director. If the Assistant Director makes a mistake on a receipt- the Director makes the corrections. Correcting the receipt at the time the error occurs is a quicker process for taxpayers making payment and reduces administrative time which would be required later for corrections. Because there is a transactional report available, this makes the process more transparent.

All voided receipts are kept on file and initialed by the Director or Assistant Director for verification of the problem and the remedial action. The software has also been enhanced to generate a report for all receipts. It is not possible to delete a receipt from the system since this enhancement was added.

Actions have been undertaken by the RPTAX Office for better reporting and journaling of tax accounts. The transition from the old system in the Office to the new system has improved the capability for the Office to better transmit these changes to the Finance Department.

There has been substantial progress made to reconcile accounts between the RPTAX Office and Finance Department. The new software has been enhanced to allow reports to be generated on a regular basis in line with the requirements requested by County's external auditors and in line with the State Comptroller recommendations.

The recommendation made to segregate more of the duties in the Office is being evaluated in light of recent budget cuts and staff reductions. Many of the Assistant Director duties were merged with the previous duties of the Programmer/Analyst and those tasks are under further review. The Assistant Director is also the designated backup for all the staff positions in the Tax Office. Steps have been taken to reduce the frequency the Assistant Director is receipting for taxes. As further enhancements and automation of software and procedures are introduced- it is our goal to redesign the functions and duties of the Director and Assistant Director to ensure adequate segregation of duties are put in place.

See
Note 4
Page 46

The Office took steps to restrict access to processes in the systems which are not necessary for unauthorized users. The Office procedures have been reviewed and the appropriate actions taken to ensure users in the system are performing tasks within their scope of their assigned duties.

The system has been enhanced to assign passwords for users on a random basis so no one has knowledge of other person's passwords.

As previously stated, new enhancements were added to allow better management reports with the ability to produce audit logs. These reports and logs allow the Director to review them on a regular basis.

III. Payments in Lieu of Taxes

The Chautauqua County Department of Finance and Real Property Tax Office are in general agreement with the findings of the Audit and our responses to the findings were taken seriously with a positive approach to the recommendations made in the report.

The County of Chautauqua Industrial Development Agency (CCIDA) has agreed to review the findings with regard to the under- or over-billing of the noted PILOT agreements and will take measures to ensure payments are reconciled to the language and intent of the agreements including amendments. However, it is requested that OSC provide a full and complete copy of all of its calculations for each specific alleged billing error and each alleged failure to bill penalties and interest so that CCIDA's staff and attorneys can review and specifically respond to each of OSC's calculations and interpretations of the PILOT agreements. With regard to one of the assessed value items, CCIDA has indicated that there is a court ruling that impacts the assessed value to be utilized. CCIDA has agreed to continue to review past agreements and discern whether recovery can be made if billed incorrectly.

New procedures will be implemented by the Director of Finance and Director of Real Property Tax Services to confirm on an ongoing basis that the County agrees with CCIDA's calculations of each year's PILOT distributions. The Director of Real Property Tax Services will also make sure all payments are received timely and collect interest and penalties if due.

IV. Pharmacy

In the following table, excerpts of OSC's draft Report of Examination regarding the County Home pharmacy are reproduced in the left column with highlighted references to the County's responses that appear in the right column:

Excerpts from OSC Draft Report – County Home Pharmacy	County Home Responses
<p><u>Audit Results</u> County officials have not solicited requests for proposals for a consulting pharmacist since 2002 and did not monitor the terms and conditions of the consulting pharmacist contract. (See Response # 1) The County paid \$7,707 to the consulting pharmacist that did not appear to be in compliance with contract provisions. (See Response #2) Further, internal controls over the County Home's prescription drug inventory are not operating effectively. Of the 30 controlled drugs we counted, five counts differed from the manual and computerized inventory records maintained</p>	<p>#1 The previous publicly posted RFP solicitations resulted in no other responses other than that of the current pharmacy service provider. While other pharmacy companies are interested in exclusive vendor agreements,</p>

by the pharmacist, and six counts differed from our computed balance. In addition, the County did not maintain and/or provide us with the necessary data to perform tests to determine whether the amount of non-controlled prescription drugs that were on the inventory was the amount that should have been on hand. In addition, pharmacy staff could not ensure the County received the appropriate credits and/or refunds for the unusable/expired drugs they returned to manufacturers or distributors. (See Response #3)

Consulting Pharmacist Contract

General Municipal Law (GML) requires the Legislature to adopt a written procurement policy governing the procurement of goods and services that are not subject to competitive bidding requirements. This policy should indicate when County officials must obtain quotations or request proposals, describe the procedures for determining which method will be used, and provide for adequate documentation of the actions taken. The County should retain documentation evidencing the advertisement and response to the request for proposals (RFP). A written contract for professional services helps ensure that the County and the individual or firm providing the services have a clearly defined and mutually agreed upon basis for compensation and should indicate the contract period, as well as the rights and responsibilities of both parties to the agreement. Moreover, properly itemized invoices detailing the date services were rendered, the hours worked, hourly rates, and specific work performed help to ensure that the rates and services are in accordance with contract provisions.

The County most recently solicited RFPs for an in-house consulting pharmacist over nine years ago, on August 18, 2002. County officials indicated that they received only one proposal, but did not retain documentation to indicate what other vendors were sent proposal information. The initial five-year contract was extended, with the current end date of May 31, 2011, as of the end of our fieldwork in May 2011. This same pharmacist has contracted with the County for over 25 years. (See Response # 4)

County officials did not properly monitor the terms and conditions of the consulting pharmacist contract. Specifically,

- The consulting pharmacist is required to work a minimum of 20 hours. Although the pharmacy is scheduled to be open Monday through Friday from 11:30 am to 3:30 pm, the County does not have a time clock or other means to track the hours the pharmacist is on duty. As such, the County did not have any documentation of the actual days and hours worked. (See Response # 5)
- A pharmacy technician was to work on an as-needed basis, not to exceed 20 hours per week through July 31, 2010 and not to exceed 50 hours per week from August 1 through March 31, 2011, to comply with Medicare Part D requirements. The contractor's invoices for the two pharmacy technicians are not itemized to indicate the duties performed or the dates and hours worked. While on-site, we observed the technicians performing duties other than billing for Medicare. However, the

there has been no interest from them in providing pharmacy management services of the Home's in-house pharmacy. Also see Response # 4.

#2

The identified overpayment relates to separate issues discussed in responses # 7 and 8.

#3

The inventory and related internal controls are addressed in response #9.

#4

The previous publicly posted RFP solicitations issued over the last approximately 20 years resulted in no responses other than that of the current pharmacy service provider. While other pharmacy companies are interested in exclusive vendor agreements, there has been no interest from them in providing pharmacy management services of the Home's in-house pharmacy. Each of the pharmacy contracts and extensions were reviewed by the County Law and Purchasing Departments for compliance with county policy and municipal law. Each of the contracts and renewals were determined to be compliant and were approved for execution.

The justification presented and accepted for contract renewals related to the high level of satisfaction with the performance of the pharmacy contractor and the benefits to the Home's and Pharmacy's operations from the pharmacy service continuity. The significant advantage offered by

County pays the contractor the maximum amount allowed in the contract without knowing whether the hours were worked only to fulfill the Medicare billing requirements, as indicated in the contract.

The County Home Administrator indicated that the greater amount of hours was necessary to have all Medicare prescriptions properly billed in a timely manner. (See Response #6)

- For the second and third years of the contract, the amount paid for consulting pharmacist services was to increase by an amount equal to the percentage change in the Consumer Price Index (CPI). However, the County also increased the amount paid for the pharmacist by the CPI during the fourth year of the contract, and paid an additional \$3,825 due to the increased rate. (See Response # 7)

- The contract does not allow for a CPI increase to the hourly rate paid to the technicians. However, over the life of the contract, the County increased the hourly rate paid for the technicians by the same CPI used for the pharmacist and therefore, overpaid for the pharmacy technicians by \$3,882. During the nine years this contract was in place, the only documentation for the technicians' rate increase was an amendment to the contract authorized by the County Executive, dated September 1, 2010, which increased their hourly rate to \$22 as of August 1, 2010. Because of County officials' inadequate monitoring of this contract, the County paid \$7,707 to the consulting pharmacist that did not appear to be in compliance with contract provisions. (See Response #8)

Drug Inventories (See Response #9)

The County Home pharmacy is required to follow the United States Drug Enforcement Administration's (DEA) Office of Diversion Control Manual (Manual) for controlled drugs. [FOOTNOTED: The DEA requires that records and inventories of controlled drugs be maintained separately from all other records. Therefore, in addition to maintaining a computerized inventory that includes all drugs on hand (controlled and non-controlled), the pharmacist maintains a manual inventory of controlled drugs.] The computerized inventory also includes over-the-counter drugs, prescription drugs and other supplies. It is the pharmacist's responsibility to monitor all incoming merchandise and record the items in inventory. The pharmacist fills the doctors' orders and records the items dispensed in the inventory records. The pharmacist also must monitor the disposition of discontinued and expired drugs. While requirements for maintaining non-controlled drug inventories are not as stringent, it is important that they are adequately monitored to ensure that they are properly accounted for. Further, all unneeded drugs should be properly disposed of and documented to ensure that they are not misappropriated.

Controlled Drugs – The Manual stipulates that every pharmacy must maintain complete, accurate and up-to-date records documenting each controlled drug purchased, received, distributed, dispensed or otherwise disposed of, including

that continuity includes enhanced quality of care from providers familiar with the facility, its residents and staff by minimizing the disruption to operations caused by systemic changes in work processes.

#5

The correction of the issue related to tracking the contractor's pharmacists' and technicians' time was made with new requirements addressed in the current agreement initiated in 2011.

#6

The thirty additional technician hours per week provided through the pharmacy service contract were required to manage the increased pharmacy workload related to the retirement of a forty hour per week county employee whose position was not refilled. Although the primary justification for the added hours was related to the then newly implemented Medicare Part D pharmacy benefits and its expansive billing requirements, the intent of the additional hours was not to exclude any duties other than those related to Medicare billing. The language of the agreement may not have adequately identified the purpose of the increased technician hours, though it was clearly to provide adequate support to replace all the functions of the retired county pharmacy technician needed for the efficient continued operation of the facility's pharmacy. The contract adjustment resulted in a cost

breakages or spillages. Required records also include a perpetual inventory to track the movement of each controlled substance. In addition, drugs purchased, dispensed, returned from the floor and unusable/expired that are returned to vendors should be entered into the computerized inventory system in a timely manner to ensure that the system agrees with the County Home Narcotic Stock Record (manual inventory) at all times. Any discrepancies should be investigated, and the outcome of the investigation documented and signed by two in-charge parties (one of which should be a pharmacist).

The pharmacist must continually adjust the inventory records when receiving and disbursing drugs. To determine if activity was properly posted to the inventory records, and that all changes were adequately documented, we computed activity, including purchases and returns to inventory, drugs dispensed, and returns to vendors, from January 3 to April 20, 2011. We found that the pharmacist's inventory records did not agree with our computed balances for six of the 30 controlled drugs tested, as outlined in Table 1 below.

Of the 58 controlled drugs in the inventory records, we witnessed the performance of a physical count of 30 drugs on April 20, 2011 and compared it to the inventory records maintained by the pharmacist and pharmacist technician. We found that the pharmacist's inventories did not agree with the physical inventory for five of the 30 controlled drugs tested, as detailed in Table 1 below. Further, the physical count did not agree with our calculations for 10 of the drugs tested. This occurred because pharmacy staff periodically adjusted inventory records to the actual count without documenting the reason for the difference.

Name	Pharmacist's Inventory	Our Computed Balance	Physical Count	Reason for Difference
Clonazepam 1.0 mg	20	21	20	Inventory was reduced to agree with a physical count on 1/19/11.
Fentanyl 25 mg patch	19	19	20	Per Pharmacist, wrong amount was logged as dispensed.
Hydrocodone w/APAP Sol	444	444	330	Per Pharmacist, this may have been an undocumented spillage during May 2010, even though it was included in the 1/3/11 inventory count.
Hydrocodone/APAP	370	361	370	Inventory was increased to agree with a physical count

savings to the county with fewer weekly overall pharmacy technician hours, and the specific duties performed by the technicians were clearly in support of the overall operation of the pharmacy, including the Medicare D billing requirements. The itemization of those specific duties, as a result, were not considered relevant or of importance.

#7
Review of the contract finds the intended contractual adjustments agreed to in negotiation of the agreement were not all included in the contract. It appears the language detailing the adjustment for the fourth year was inadvertently omitted in the prepared agreement and the omission had gone undetected. Negotiation of the agreement included the intent to provide a CPI adjustment in the fourth year.

#8
Similar to the comment above, the intent of the negotiating parties was to make the CPI rate adjustments applicable to all the payment rates in the agreement. The Agreement was not adequately detailed to reflect that intent, and the omission went undetected.

#9
The consulting pharmacist has been advised of the issues identified related to inventory variations within the pharmacy system. The primary reason he cites for these variations is limitations in the current

5/500 mg				on 2/24/11.
Methylphenidate 5 mg	100	100	0	Presumably returned to vendor on 3/10/10, even though it was included in the 1/3/11 inventory count.
Morphine ER 30 mg	273	243	248	Dispensing not recorded and mathematical error.
Oxycontin 20 mg	324	124	324	Presumably purchased in December 2010 but not included on 1/3/11 inventory count.
Oxycontin 40 mg	211	183	211	No explanation
Phenobarbital 30 mg	1,573	1,573	1,673.5	No explanation
Provigil 200 mg	86	104	86	Math error of 10 on the manual record and the year-end physical count was off by eight, accounting for the shortage of 18. However, the eight that were short at year-end should have been investigated and correctly input at the beginning of the fiscal year but were not.

pharmacy operating software. The version of the software currently in use requires medications to be entered into the pharmacy system by NDC number and deducted from the inventory using this number, but cannot recognize for inventory and billing the multiple NDC numbers for different manufacturers of the same generic medication that are concurrently stocked. This results in inaccuracies in the amounts recorded in the pharmacy's software for those stocked medications with different manufacturers and NDC numbers. The software company has been contacted to obtain the software modifications needed to link different manufacturers' NDC numbers for inventory purposes to maintain an accurate inventory. The software update will be implemented as soon as the software company is able, which should resolve the bulk of the inventory issues. In addition, the facility shall develop an action plan to assure the proper development and performance of the various processes, policies and procedures, and contractual modifications as are referenced in Responses # 11, 12, 13, 14, 15, & 16.

The pharmacist did not provide adequate reasons for the overages, and his reasons for the shortages included an undocumented spillage, an unrecorded dispensing, and an arithmetic error.

Due to the strict regulations imposed by the Federal and State governments, it is imperative that an accurate inventory of controlled drugs be maintained and monitored at all times. Because neither the manual nor the computerized inventory records were accurate and up to date, the risk is increased that these controlled substances could be lost or misappropriated.

Non-Controlled Drugs – Non-controlled drugs do not require the same level of controls and recordkeeping as controlled drugs. However, to ensure that all drugs are accounted for, it is important that periodic physical counts be performed and any differences be reconciled and corrected. Further, it is important that no one person be responsible for controlling inventory stock, performing inventory counts, and maintaining and adjusting inventory records. These incompatible duties increase the risk that drugs could be lost or misappropriated without detection or correction.

Responses to Recommendations:
The County Home shall develop a Corrective Action Plan to assure procedures and management controls are in place to assure the following:

#10

The pharmaceutical policy does not address who should be present when physical counts are performed, when it is appropriate to make inventory adjustments, who can adjust inventory records, or who should approve the adjustments. The non-controlled drugs were maintained on shelves in an open area in the pharmacy that was accessible to the pharmacy technicians when the pharmacy was closed.³⁹ Further, the pharmacy technicians are entirely responsible for maintaining inventory of non-controlled drugs; they control the inventory stock, perform the physical count, and maintain and adjust inventory records with no apparent oversight.

The County could not provide us with supporting documentation with which to determine if the amount of non-controlled drugs in inventory was what should have been on hand. For example, although the computerized inventory system displays the drug dosages that were ordered by the physicians and the drugs that were dispensed by the pharmacy, pharmacy staff do not routinely print inventory reports or maintain source documents for the drugs dispensed or returned to a vendor. Without this information, we could not verify the accuracy of the inventory.

In addition, we found that the computerized inventory dated December 31, 2010, varied from a physical count taken by pharmacy staff on that date by 93,560 tablets.

At that date, the inventory was adjusted to the physical count amounts with no documentation indicating the reasons for the variances. Allowing the same individual to control inventory stock, perform the physical count, and maintain and adjust inventory records increases the risk that errors or irregularities can occur and not be detected in the normal course of business.

Discontinued/Expired Drugs – The consulting pharmacist contract and pharmaceutical policy require that the pharmacist monitor the disposition of drugs brought into the facility, drugs of deceased residents, and discontinued, deteriorated or expired drugs. In addition, the facility shall establish policies and procedures, according to State and Federal laws, addressing the return of unusable drugs to the vendor or manufacturer for credit, refund or disposal. To dispose of unusable drugs, the pharmacy uses a private company known as a reverse distributor. Reverse distributors are responsible for destroying drugs with no associated dollar value and returning others to the manufacturer or distributor for a credit or refund.

We found that there were no written policies and procedures outlining the return process. The pharmacy does not prepare a list of the drugs that were shipped to the reverse distributor. (See Response # 16)

Instead, it relied on the reverse distributor to itemize the quantity and types of drugs that were received at their respective facilities. Due to the lack of detailed records, the County cannot ensure, and we could not test, the appropriateness of the credits received or how the returns impacted drug inventories.

The County Home shall issue another RFP for pharmacy management and consulting services near the conclusion of the term of the current contract extension, and will thereafter routinely solicit requests for proposals for consulting pharmacy services to help ensure the prudent and economical use of public moneys.

#11

The pharmacy contract will be modified to assure the duties of the pharmacy technicians are more fully recognized and to clarify that the duties are more expansive than the limited description cited. County officials shall continue to require the pharmacy service contractor to provide an itemization of dates and times worked by the pharmacists and the pharmacy technicians, consistent with the terms of the modified agreement.

#12

Prior to approval for payment processing, the A/P Clerk shall verify the hours charged on invoices are in compliance with contract provisions and the pharmacy time logs reflect hours equivalent to or greater than the hours charged. The correction of the issue related to tracking the contractor's pharmacists' and technicians' time was made with new requirements addressed in the current agreement initiated in 2011.

#13

Upon modification of the pharmacy software previously

Recommendations

- 14. County officials should routinely solicit requests for proposals for consulting pharmacy services to help ensure the prudent and economical use of public moneys. (See Response # 10)
- 15. County officials should require contractors to provide an itemization of dates and times worked by the pharmacists and the pharmacy technicians. The pharmacy technicians' documentation should also indicate the hours attributable to Medicare requirements. (See Responses # 11 & 12)
- 16. County officials should verify that charges on invoices are in compliance with contract provisions prior to approving them for payment. (See Responses #11 & 12)
- 17. County officials should require the consulting pharmacist to implement and maintain an accurate, up-to-date, perpetual inventory record for all prescription drugs. (See Responses # 13, 14, 15, & 16)
- 18. County officials should periodically observe the performance of physical counts, compare them to the perpetual inventory, investigate differences, and document the outcome of the investigation. (See Response #14)
- 19. County officials should review the documentation for any breakage or spillage of controlled drugs with the consulting pharmacist to ensure compliance with Federal guidelines. (See Response #15)
- 20. County officials should require that the consulting pharmacist prepare a list of unusable drugs that differentiates between those that are discarded versus those that are sent to the reverse distributor. County officials should reconcile this list with the amount of credits and/or refunds received from manufacturers for returned drugs, and the documentation received from the reverse distributor. (See Response # 16)

addressed, the contracted pharmacist shall be required to implement and maintain an accurate, up-to-date, perpetual inventory record for all prescription drugs.

#14

A procedure shall be established to assure the performance of an observation and audit by a County Home staff member of the physical inventory counts with comparison to the perpetual inventory. The procedure will require investigation of all differences and the documentation the outcomes of investigations. Procedures will also be modified to better assure verification and reconciliation of the drug deliveries with the entry of additions to the inventory records and that the drugs and amounts ordered by the pharmacy are received for the proper processing of payments of vendor invoices.

#15

Policy shall be developed to assure a designated facility representative reviews the documentation related to any breakage or spillage of controlled drugs with the consulting pharmacist to ensure compliance with Federal guidelines.

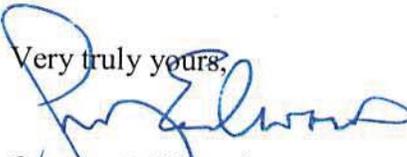
#16

A policy shall be developed to outline the process for return drugs. Moreover, policies shall be developed and implemented to assure the consulting pharmacist prepares a list of unusable drugs that differentiates



between those that are discarded versus those that are sent to the reverse distributor. A verification auditing process by a facility designee shall be implemented to review the documentation received from the reverse distributor and to assure reconciliation of the list with the amount of credits and/or refunds received from manufacturers for designated returned drugs.

County officials look forward to working further with OSC regarding the matters of concern raised in the draft OSC Report. We appreciate the time and dedication OSC staff have exhibited in the preparation of the draft report. Please do not hesitate to contact me to discuss the County's responses further.

Very truly yours,

Gregory J. Edwards
County Executive

APPENDIX B

OSC COMMENTS ON THE COUNTY'S RESPONSE

Note 1

We do not dispute the impact economic development can have on the region. IDAs are authorized to issue obligations to finance IDA-sponsored projects to attract new businesses. Debt issued for this purpose is IDA debt and may be secured by a mortgage or lien on the property. The project is generally mortgaged or leased to a business for a term equal to the term of the IDA's bond issue. The annual payments from the business are set at an amount sufficient to pay the annual principal and interest on the IDA bonds. The risk is that payments from the business do not cover the required annual IDA debt payments. The actions of County officials transferred the risk from the IDA to the County and its taxpayers.

Note 2

The deed for the conveyance of the Chadwick Bay Spec Building back to the IDA was dated February 2012. This building had a mortgage dated November 2000, which was modified in November 2005, with the final payment due in October 2020. The new debt schedule indicated that the principal balance would be paid over 30 years starting in August 2013. Although a step in the right direction, the reinstatement of a bond arrangement and related receivable and current collections of principal and interest do not eliminate the inherent risk or secure future recovery of the entire monetary investment of County funds in the IDA bonds for spec buildings.

Note 3

During our fieldwork, County officials did not provide us the manual referenced in their response letter.

Note 4

To properly segregate duties and enhance internal controls, the Assistant Director of Real Property Tax Services should not be handling cash receipts.

Note 5

We did not have concerns with the controlled drugs as they relate to NDC numbers for different manufacturers. Our concerns were that the pharmacist's inventory records did not agree with our computed balances for six of the 30 controlled drugs tested. We also found that the pharmacist's inventories did not agree with the physical inventory for five of the 30 controlled drugs tested. This occurred because pharmacy staff periodically adjusted inventory records to the actual count without documenting the reason for the difference.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard County assets. During the initial assessment, we interviewed County officials to gain an understanding of department operations, performed limited tests of transactions, and reviewed pertinent documents, such as County policies and financial records and reports. We also conducted an assessment of general controls over the County's computerized and technical environment. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on our evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected certain investments, the Real Property Tax Department, and the County Home's pharmacy for further review. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following steps:

Investments

- We held discussions with the Director of Finance and County Attorney regarding circumstances related to the purchase of CCIDA bonds.
- We reviewed the Legislative Journal of Proceedings back to January 2000 for authorizing resolutions.
- We obtained and reviewed copies of the County's 2000, 2009 and 2010 investment policies.
- We obtained and reviewed copies of CCIDA bond resolutions and repayment schedules.
- We obtained and reviewed an investment balance and earnings history report for the years 1998 through August 2011.
- Our sample for audit testing included all CCIDA bonds purchased between January 2000 and October 2011. We compared bond borrowing terms against the County's investment policy regarding authorizations, liquidity, safeguarding of principal and rate of return.
- We reviewed various sections of the General Municipal Law including the following:
 - Section 872 – Bonds and notes as legal investment
 - Section 864 – Bonds of the agency
 - Section 11 – Temporary investments
 - Section 39 – Investment policies for local governments

Real Property Tax

- We interviewed the RPTS Director, Deputy Director and four account clerks regarding various Departmental processes and procedures including the billing, collection, enforcement and reconciliation of property taxes. We also met with the prior RPTS Director regarding certain Departmental activities.

- We obtained a void receipt log for the period January 1, 2010 through June 21, 2011 from both the prior RPTS Director and the RPTS software vendor. We compared the information on these reports and investigated differences. We then selected a non-biased judgmental sample of five (from each year) starting with the first receipt listed on each year's report to verify whether the receipt was on file and if there was supporting documentation indicating the reason for the void.
- We obtained a log of all receipts processed for the period January 1, 2010 through July 16, 2011 and scanned for gaps in the receipt sequence. Once identified, we selected a non-biased judgmental sample of 14 (starting with the month a gap first appeared and then selecting one for every two months in the year) to determine if supporting documentation was on file for the gap. We further requested the Deputy Director of Finance to conduct certain tests to determine if the system performed processes in the expected manner.
- To review manual adjustments, we requested a listing of all payments posted during the period January 1, 2010 through July 16, 2011 that did not have a receipt number (per officials, this would indicate a manual adjustment). From the list, we selected a biased judgmental sample which included, but was not limited to, adjustments made without a notation attached, adjustments that were listed as being made on non-holiday dates, and those with no and old charge dates to determine if adequate documentation was on file to support the adjustment.
- Our review of the reconciliation process included the identification and analysis of discrepancies between the December 31, 2010 RPTS unpaid balance reports and general ledger reports.
- We selected three municipalities to determine if amounts recorded in the electronic system agreed with tax warrants and unpaid tax listings.
- We contacted the RPTS software vendor to gain an understanding of the electronic tax collection system and requested various reports.
- We reviewed the 2008 County request for proposals for an electronic real property tax collection system.
- We assessed the reliability of computer-processed data used in our testing.
- Over the course of the audit, we reviewed various reports created in the electronic collection system including the following:
 - User Access Lists
 - Transaction Logs
 - End of Day Balancing Report
 - End of Day Account Summary Report
 - End of Day Account Detail Report
 - Liability (table) Reports
- We reviewed various financial documents including general journal and ledger reports.

- We reviewed applicable sections of Real Property Tax Law.
- We requested bank compositions for three judgmentally selected deposits and compared deposited checks against daily collection reports to verify that reported collection information agreed with actual checks deposited. To select our sample, we compared two voided check report listings (from two separate sources) and selected dates (one each from 2010 and 2011) that had discrepancies in the reports (listed on one report but not on the other). Our third selection was based on a date with high amounts of activity and included a deposit with checks, cash and credit card payments but no voids. We verified only those checks received at the County office building.

Payment In Lieu Of Taxes

- We interviewed the Director of Finance, RPTS Tax Director and Deputy Director to gain an understanding of policies and procedures surrounding the PILOT billing and collection process.
- We held discussions with the CCIDA Chief Financial Officer, who provided us with the PILOT agreements and billings for 2011.
- We selected a sample of billings and compared calculations against the terms of the PILOT agreement. We included those properties which we reviewed during our planning stages and selected additional samples judgmentally based on the materiality of the billing amount. However, we specifically excluded one of the billings (representing approximately 88 percent of the total billings) for selection because it had a fixed payment amount.
- We reviewed payments to determine if they were billed and collected in a timely manner.

Pharmacy Consultant Contract

- We interviewed appropriate County officials and employees regarding procurement policies and procedures. These discussions allowed us to analyze the County's internal control structure governing the procurement processes for professional services.
- We reviewed procedures for the procurement of professional services and the provisions of the existing consulting pharmacist agreement.
- We reviewed documentation related to bids, quotes and request for proposals for the consulting pharmacist to determine if the lowest responsible vendor was selected and if the bidding process was performed in an objective manner.
- We interviewed County personnel responsible for compliance with the provisions of the contract, and reviewed the County consulting pharmacist contract, invoices submitted for payment by the pharmacist, published consumer price indices and required insurance certificates.

Pharmacy Inventory

- We reviewed applicable County pharmacy policies and procedures, laws, rules and regulations.

- We obtained the Drug Inventory Lists for December 31, 2010 and January 3, 2011, which constituted the year-end physical count. We scheduled out all drugs included on the lists by drug name, amount on-hand by dollar amount and quantity, and calculated dollar amount and quantity differences for each drug.
- We interviewed the pharmacist to assign drugs to the following categories: controlled drugs, regular prescription drugs and over-the-counter drugs.
- We tested 30 of the controlled drugs by selecting every other drug on the list. If the drug was no longer used, we selected the next available drug on the list to test. We also witnessed the performance of a physical count of 30 controlled substances, and compared that count with the pharmacy's manual inventory records, computerized inventory records and a recalculated balance.
- We recalculated the April 20, 2011 controlled prescription drug inventory balance, starting with the inventory list from January 3, 2011 and adjusting for all controlled drugs purchased from invoices, drugs dispensed and returned to the floor, and those returned to the manufacturer because they were expired, discontinued or no longer used.
- We compared the recalculated balance with a physical count of the selected controlled prescription drugs we observed on April 20, 2011. We summarized the discrepancies and discussed how and why the variances occurred with the pharmacist.
- We sorted the non-controlled prescription drugs on the list by the largest acquired cost per unit and variance, then selected the first 15 to test. We then sorted by largest dollar variance and took the first eight highest positive and first eight highest negative variances to test, for a total sample size of 31 out of 118.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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