



County of Otsego

Accountability Over Trust and Agency Funds

Report of Examination

Period Covered:

January 1, 2012 — October 31, 2013

2014M-41



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

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 Board 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 Otsego County, entitled Accountability Over Trust and Agency Funds. 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*

Introduction

Background

Otsego County (County) is located in central New York State and had a population as of the 2010 census of 62,259. An elected 14-member Board of Representatives (Board) governs the County, one of whom also serves as the Board Chairman. While the Board Chairman serves as the County's chief executive officer, an elected County Treasurer (Treasurer) serves as the County's chief fiscal officer. The Treasurer's responsibilities include maintaining the County's central accounting system, providing timely and accurate financial reports and processing payroll. In addition, the Treasurer is responsible for monitoring all County funds, including moneys kept in trust and agency funds.

The County uses trust and agency funds to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. The County uses trust and agency funds primarily to account for payroll-related withholdings and disbursements. However, the County also accounts for other moneys, such as bid and bail deposits, within these types of funds.

Objective

The objective of our audit was to evaluate the accountability over selected trust and agency funds. Our audit addressed the following related question:

- Did the Treasurer identify the balances in selected trust and agency accounts to ensure the timely disbursement of moneys owed?

Scope and Methodology

We examined selected County trust and agency accounts for the period of January 1, 2012 through October 31, 2013. We extended our scope back to 1990 to obtain historical trust and agency account balances for trend analysis.

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 is included in Appendix B of this report.

Comments of Local Officials and Corrective Action

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 they planned to take corrective action.

The Board has 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 Board to make this plan available for public review in the Clerk of the Board's office.

Accountability Over Trust and Agency Funds

The Treasurer receives and acts as the custodian of all money either belonging to the County or in which the County has an interest. The Treasurer is responsible for maintaining a true account of all receipts and expenditures and the safeguarding of moneys held in a trustee capacity; i.e., as an agent for individuals, private organizations, other governmental units and other funds. The moneys held in a trustee capacity reside in the trust and agency fund. To ensure accountability over these funds, the Treasurer should perform periodic reconciliations of trust and agency fund assets to known liabilities. Once the Treasurer identifies known liabilities, trust and agency fund moneys should be disbursed in a timely manner.

The Treasurer's office did not identify the balances in selected trust and agency funds to ensure the timely disbursement of moneys owed. The Treasurer could not determine the source or purpose of moneys held in several trust and agency funds totaling more than \$75,000 as of October 31, 2013, as shown in Table 1.

Account Name	Balance as of October 31, 2013	Unidentified Balance
Bail Deposits	\$63,455	\$22,879
Self-Insurance	\$13,443	\$13,443
Guaranty and Bid Deposits	\$12,328	\$12,328
Child Support Collections	\$11,489	\$11,489
NYS Health Insurance	\$10,540	\$10,540
Dog Licenses	\$1,977	\$1,977
Infirmity Patients' Savings Fund	\$255,292	\$1,352
Coroner's Fund	\$1,299	\$1,299
Grand Total	\$369,823	\$75,307

Several factors resulted in these various trust and agency accounts accruing unidentified balances, including the loss of staff knowledgeable about the origins of past balances, destruction of physical records and deletion of data due to software upgrades. Much of the unidentified balances in the accounts existed before all current staff members had been hired or transferred into the Treasurer's office and other County departments. Accounting records dated prior to 2007 were destroyed in accordance with the County's records retention policy. Also, the County changed the computerized accounting system in 2006, which resulted in the loss of all previous electronic records.

Bail Deposits – Abandoned Property Law states that any unclaimed moneys paid into a court and held by a county treasurer for three

years are generally deemed abandoned property, which is required to be remitted to the State Comptroller. The County collects bail payments in the Treasurer's office and at the County jail, which then are deposited into the Treasurer's bail account. Upon an order from the County Court, the Treasurer's office disburses the bail receipts. The County Court order may require the Treasurer to return the entire bail receipt to the bond surety as exonerated bail, disburse the bail receipt after taking a 3 percent fee, or retain the entire bail receipt as forfeited bail.

We determined that an unidentified balance of \$22,879 existed in this account since at least 2005, when the Treasurer's office first started recording bail moneys outside of the accounting software. The Treasurer should consider any moneys unidentified in this account as abandoned property and should remit the moneys to the State Comptroller.

Self-Insurance – As part of employment benefits to employees, the County funds its own health insurance costs. However, the County uses an insurance company to administer the health insurance plan. County employees submit their claims to the insurance company which then pays the health care providers by writing checks against the self-insurance account. The Treasurer's office must examine the claims and amounts paid in each insurance company check, determine which operating funds are responsible for the amounts¹ and transfer the moneys from those operating funds to the self-insurance account.

We determined that an unidentified balance of \$13,443 existed in this account since 2011. During our audit, County officials determined that \$9,728 of this balance was due to numerous recording errors related to the insurance company voiding and initiating stop payment orders on checks. As a result, there were excessive funds in this account. The Treasurer's office plans to correct this problem by making adjusting journal entries. County officials also determined that the additional \$3,715 of the \$13,443 balance related to outstanding uncashed checks. After making a reasonable attempt to disburse these moneys, the Treasurer should remit them to the State Comptroller pursuant to Abandoned Property Law.

New York State Health Insurance – We determined that an unidentified balance of \$10,540 has existed in this account since at least 1990. County officials could not identify the source of the moneys. The County accountant told us that, before the County began funding

¹ Based on which departments the employees work for. For example, health insurance reimbursements for highway department employees would be paid from the highway fund.

its own health insurance costs, these moneys may have come from retirees paying for their share of health insurance premiums paid by the County on their behalf.

The County should use these moneys to offset its health insurance costs. The Treasurer should transfer these moneys into the self-insurance account and close this account.

Guaranty and Bid Deposits – Moneys in this account generally represent collections for plans or specifications for bids on County projects. Bid deposits can be refundable or non-refundable depending on how the County sets up the project. Moneys collected also can represent bid bonds, which return to the vendor upon completion of a project. The Purchasing Department generally oversees the bid process and remits these moneys to the Treasurer. Upon request of the Purchasing Department, the Treasurer’s office will refund the moneys to the vendor.

We determined that the County had an unidentified balance of \$12,328 in this account, which existed since at least 2006 when the County started using new accounting software. Although the Treasurer’s office does not have a detailed list that identifies who paid these moneys, we were able to determine the source of \$1,976 of these moneys, which we discussed with County officials.

The Treasurer should identify the source of these moneys and determine if these moneys belong to the County or should be returned to past bidders. The Treasurer should treat the unidentified moneys as general revenue and place them into the general fund, where these funds will remain subject to potential claims. Alternatively, the County can elect to remit the moneys to the State Comptroller pursuant to Abandoned Property Law.

Child Support Collections – According to Abandoned Property Law, moneys paid to a support bureau of a family court for the support of a child or spouse that remain in the custody of a county treasurer for three years are deemed to be abandoned property and must be remitted to the State Comptroller. The Otsego County Department of Social Services (DSS) administers and monitors child support cases. On a monthly basis, the DSS receives a wire transfer from the Office of Temporarily Disabled Adults for the combined total of child support payments that the County will issue for that month.

We determined that an unidentified balance of \$11,489 existed in this account. This balance existed before all current DSS staff members had been hired or transferred into the Department. Also, the DSS did not have any records that identified the source of these moneys.

The Treasurer should remit this unidentified balance to the State Comptroller.

Dog Licenses – After January 1, 2011, the responsibilities for dog licensing transferred from the counties and State to the cities, towns and villages. Before this date, cities, towns and villages were required to collect dog licensing fees, retain 53 percent of the fees and remit the remaining moneys to their respective counties (30 percent share) and the State (17 percent share). Also prior to January 1, 2011, this function was administered by the New York State Department of Agriculture and Markets.

According to Agriculture and Markets Law, the County can use any remaining funds in this account for dog control activities, including subsidizing dog spaying and neutering, providing education programs related to responsible dog ownership or preventing and investigating claims of cruelty to animals. Alternatively, the County can elect to give this money back to the municipalities based on the amounts the municipalities originally contributed.

We determined that the \$1,977 balance in this account represents the share the County had received over the years that it had not been required to use to compensate domestic animal owners, including livestock owners, in the case of a dog attack. The County should use these moneys or disburse the funds to the municipalities that originally remitted these moneys and close this account.

Infirmiry Patients Savings Fund – According to Abandoned Property Law, moneys held in a trust account that remain in the custody of a county for three years are deemed to be abandoned property and must be remitted to the State Comptroller. The County currently operates a nursing home facility, and residents of the facility can keep incidental spending moneys in this account. The residents can withdraw funds for commissary, grooming or other recreational expenditures.

We determined that an unidentified balance of \$1,352 existed in this account since at least 1999, before all current accounting office workers had been hired or transferred into this office. Also, the accounting office did not have any records that identified the source of these moneys.

It appears likely the statute of limitations has passed, and the Treasurer should treat the unidentified moneys as general revenue and place them into the general fund, where these funds will remain subject to potential valid claims. Alternatively, the County can elect to remit the moneys to the State Comptroller pursuant to Abandoned Property Law.

Coroner's Fund – We determined that an unidentified balance of \$1,299 existed in this account since at least 2004. County officials could not identify the original source of these moneys or the purpose of this account. In addition, County officials told us that this account may have been created for the Coroner to deposit moneys found on deceased people² who had no claimants.

The Treasurer should transfer these moneys into the general fund and close this account. Alternatively, the County can elect to remit the moneys to the State Comptroller pursuant to Abandoned Property Law.

Because these funds in all the accounts previously mentioned remain unidentified and continue to reside in several bank accounts, the County faces an increased likelihood that errors and irregularities could occur and remain undetected. The County's failure to identify and disburse these funds in a timely manner has resulted in its inability to use these moneys,³ which could otherwise help fund current or future operations.

Recommendations

1. The Treasurer should identify all moneys in trust and agency accounts by performing periodic reconciliations of assets to known liabilities.
2. The Treasurer should disburse trust and agency moneys in a timely manner and in accordance with applicable legal statutes.

² When a county coroner finds moneys on the body of a deceased person that are not required for investigative purposes, the coroner must remit the moneys to the county treasurer, whereupon the moneys become County property. Legal representatives of the deceased have six years to file a claim for the moneys.

³ Excluding the amounts that should be remitted to the State Comptroller

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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



May 29, 2014

[REDACTED]
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

[REDACTED]

This letter includes both a response and a Corrective Action Plan to the Report of Examination 2014M-041 regarding County of Otsego Trust and Agency Accounts. I agree with the audit findings. This was a welcome audit, primarily because it provided definitive solutions on a range of small but longstanding issues. Most of the issues relate to existing balances in accounts that predate current records, staff and accounting systems, which subsequently obscured their origins and made it a challenge to find definitive resolutions in line with potentially conflicting statutes. The examination undertaken by the Comptroller's Office and the legal research provided from this authoritative oversight body now allows my office to confidently treat these outstanding balances in accordance with clearly stated guidance that was otherwise not available.

Our Corrective Action Plan, which is pending review by the Administration Committee in June, follows the recommendations provided in the Report of Examination and all items will be implemented by the Treasurer. In general, the systems and processes in place now, including regularly performed reconciliations, minimize the likelihood of future issues arising. Furthermore, specifically addressing these legacy issues will alleviate the risks and additional steps required of those accounting processes. Those actions to address the legacy issues are the following:

Bail Deposits—The unidentified balance dating to pre-2005 will be remitted to the State Comptroller as abandoned property by September 2014.

Self-Insurance—Adjusting journal entries have already resolved those balance items associated with the insurance company's stop pay and voided checks. The funds associated with non-deposited checks sent to known parties will be re-issued one more time and any funds remaining 90 days after that will be remitted to the State Comptroller.

New York State Health Insurance—These funds will be utilized to offset health insurance costs in the calendar year 2014.

Guaranty and Bid Deposits—Based on a schedule provided by the Comptroller's Examination Team,

those funds identified as belonging to the County will be transferred to the General Fund Unassigned Fund Balance by September 2014. Those funds that are determined as belonging to past bidders who have not claimed those funds will be remitted to the Comptroller's Office by September 2014.

Child Support Collections—These funds will be remitted to the Comptroller's Office by September 2014.

Dog Licenses—The County will use these funds to support training for officers involved in the enforcement of animal abuse law in the calendar year 2014.

Infirmity Patients' Savings Fund—The County will treat these funds as general revenue as of September 2014, where they will remain subject to potential valid claims.

Coroners' Fund—The Treasurer will transfer these fund into the General Fund Unassigned Fund Balance and close this account by September 2014.

Regards,

Dan Crowell
Otsego County Treasurer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to determine if the Treasurer identified the balances in selected trust and agency funds to ensure the timely disbursement of moneys owed. To accomplish this objective, we performed the following audit procedures:

- We analyzed five-year annual financial data filed with the Office of the State Comptroller to evaluate trust and agency fund balance trends.
- We interviewed County officials to gain an understanding of the purpose, procedures and corresponding controls for each selected trust and agency fund.
- We reviewed the County's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.
- We interviewed officials regarding job responsibilities and audit logs, reviewed user permission reports and observed user access rights in the accounting system to ascertain if they were properly controlled and monitored.
- We evaluated the audit area for the risk of potential fraud, theft or professional misconduct.
- We reviewed selected trust and agency accounts and detailed supporting documentation, including reconciliations, bank statements and computerized financial reports to determine if the balances were identified and supported.
- When examining the Infirmary Patients' Savings Fund, we mailed out confirmations to ensure that a complete and accurate record of transactions was reported in each individual's account.
- We reviewed a sample of receipts and disbursements (if applicable) for each selected trust and agency account to ensure completeness, existence, accuracy and timeliness of the transactions.
- We reviewed selected trust and agency account general ledger activity for any unusual activities or entries.

We conducted this performance audit in accordance with 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 C

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