

St. Lawrence County Industrial Development Agency- Local Development Corporation

Disbursements

JANUARY 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

St. Lawrence County Industrial Development Agency - Local Development Corporation

Audit Objective

Determine whether the St. Lawrence County Industrial Development Agency – Local Development Corporation (LDC) officials ensured disbursements were properly authorized, supported and for valid purposes.

Key Findings

Although the tested disbursements were for valid purposes, LDC officials did not always ensure they were properly authorized and supported. Officials:

- Did not perform supervisory reviews of canceled check images and journal entries.
- Paid \$300,000 during our audit period (\$200,000 annually) to the St. Lawrence County Industrial Development Agency (IDA) without a written agreement detailing the services to be provided and the basis for the payment.
- Paid payroll processing fees totaling \$2,473 without review and approval of the related invoices.

Key Recommendations

- Review canceled check images and journal entries to provide additional oversight of the CFO's duties.
- Establish a written agreement with the IDA that specifies the services to be provided to the LDC, the specific economic development activities LDC officials intend to fund, and the associated cost for each.
- Review and approve invoices for payroll processing services prior to payment.

LDC officials generally agreed with our recommendations and indicated they planned to take corrective action.

Background

The LDC is a non-profit organization established in 1986 by the IDA. LDC officials administer the LDC's revolving loan fund and the programs and revolving loan funds of other entities to assist businesses by making low-interest loans for real estate acquisition, building construction and rehabilitation or machinery and equipment acquisition.

The St. Lawrence County (County) Legislature appoints seven members to the IDA board, who also serve as the LDC's Board. The Board is responsible for the LDC's general management and financial and operational affairs. The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are responsible for day-to-day operations.

The LDC funds its operations primarily with administrative revenues from other entities, and interest income from loan repayments.

2020 Quick Facts

| | |
|---------------------------|---------------|
| Non-Payroll Disbursements | \$1.1 million |
| Salaries and Wages | \$170,000 |
| Employees | 2 |

Audit Period

January 1, 2020 – June 30, 2021

Disbursements

The LDC's mission is to stimulate the growth of private sector employment in the County by providing financial assistance to new and expanding industries and to certain retail/market-driven facilities. LDC officials administer the Business Venture Fund, which offers low-interest loans to eligible manufacturing, industrial, commercial and warehousing operations, and the Microenterprise Program, which provides financing assistance to low-moderate income persons to start or expand their businesses.

In addition, the LDC administers the assets of the Greater Massena Economic Development Fund, the St. Lawrence River Valley Redevelopment Agency and the Town of Brasher Microenterprise Revolving Loan Fund.¹

The IDA's CEO and CFO also serve as CEO and CFO for the LDC. The CEO, CFO and the IDA's administrative coordinator perform the day-to-day administrative and record keeping functions for LDC disbursements. The only paid employees of the LDC are the CEO (part-time basis) and a project manager (full-time). The LDC contracts with a third-party vendor for payroll processing services.

When segregating duties is not possible due to limited staffing, active supervision and oversight become even more important to safeguard funds.

What Is an Effective System of Controls Over Disbursements?

The board and officials are responsible for establishing and implementing effective disbursement procedures to ensure money is disbursed only when properly authorized and that disbursements are adequately supported by appropriate documentation and for proper business purposes.

Duties should be segregated so that one individual does not control most or all phases of a disbursement transaction. When segregating duties is not possible due to limited staffing, active supervision and oversight become even more important to safeguard funds and help ensure all disbursements are proper.

When procuring services, it is prudent business practice to have a written contract to provide both parties with a clear understanding of the services to be provided and the time frames and payments for the services.

Officials Should Strengthen Controls Over the Disbursement Process

The CFO is responsible for a significant portion of the disbursement process and her duties include recording accounts payable, entering payroll and journal entries in the accounting records, generating and co-signing checks, conducting on-line banking transactions and preparing bank reconciliations.

¹ Our audit includes the LDC's disbursements and not those made on behalf of these other entities, which were outside the scope of our audit.

The CEO, administrative coordinator and Board members perform various oversight procedures of the CFO's work that include co-signing checks and reviewing and approving accounts payable claims and payrolls before payment. However, officials should improve this process by implementing routine reviews of canceled check images and journal entries recorded by the CFO.

The CFO told us that one Board member regularly reviews the monthly bank reconciliations she prepares. The Board member said that he ensures the bank statement balances reconcile to the accounting record cash balances and that he reviews the activity in the bank statements for appropriateness. However, no documentation was maintained of this review.

In addition, the Board member did not review the canceled check images for the primary checking account. While the CFO had the ability to review canceled checks on the bank's website, the check images were not included with the bank statements and reconciliations provided for the Board member's review.

Both the CFO and Board member told us they did not realize the canceled check images should be provided along with the bank statements. During our audit period, 95 checks totaling \$1.5 million were paid out of this account. An independent review of canceled check images enables officials to verify the checks have the required dual signatures and helps reduce the risk that inappropriate payments could be made without detection.

Further, officials did not perform any supervisory review of journal entries the CFO recorded. The CEO said that the LDC relies on its external auditors to review canceled checks and journal entries during their annual financial statement audit. However, to serve as a timely and effective control, these reviews should be performed as part of the LDC's regular oversight procedures.

Although our testing of bank reconciliations, canceled check images and journal entries disclosed no exceptions,² when routine reviews of canceled checks and journal entries are not performed, there is an increased risk that unauthorized or improper payments could be made without detection.

Officials Did Not Have a Written Contract with the IDA

We reviewed 25 non-payroll check disbursements, totaling almost \$1.1 million and all non-payroll electronic disbursements totaling \$25,905, to determine whether disbursements were adequately supported, for appropriate purposes and approved before payment. All the check payments and electronic disbursements

² Refer to Appendix B for information on our sampling methodology.

were for appropriate purposes and reviewed before payment. However, we identified three payments to the IDA totaling \$300,000 during our 18-month audit period that were inadequately supported.

The CFO told us the LDC pays \$200,000 annually to the IDA for accounting and administrative services and certain overhead expenses such as rent and utilities. However, LDC officials had no written agreement with the IDA detailing the services to be provided and the basis for payment. Although the same individuals serve on both the LDC and IDA boards, the members are responsible for ensuring that each entity receives the appropriate benefits for the services provided.

The CEO explained that the arrangement for the IDA payment was documented as a \$200,000 line item in the LDC's annual budget. He also told us that the \$200,000 annual payment to the IDA was not only for services the IDA provides to the LDC, but to generally support the IDA's economic development activities. However, without a written agreement stipulating the services to be provided to the LDC, the specific economic development activities LDC officials intended to fund, and the associated costs for each, the Board has limited assurance that the amounts paid to the IDA are justified and reasonable.

Officials Did Not Review and Approve Invoices for Payroll Services Before Payment

We also reviewed all payroll-related electronic withdrawals totaling \$8,921 from the April 2021 payroll bank statement to determine whether the amounts disbursed agreed to an approved payroll journal and invoices showing the payroll processing fees charged by the vendor. We reviewed the payroll journal to determine whether the amounts paid to employees agreed with Board approved pay rates and hours worked as documented in time records. We found no discrepancies in the payroll amounts, pay rates, or time worked.

However, invoices for the payroll services, which totaled \$128 in April 2021 and \$2,473 during our audit period, were electronically paid each pay date and were not reviewed and approved during the claims approval process. The CFO said she reviews the fees charged for reasonableness but did not process the service provider's fees as an accounts payable claim because she believed that these fees related more to payroll expenditures than accounts payable. She told us she would submit these invoices for review and approval along with other accounts payable claims going forward.

... [W]e identified three payments to the IDA totaling \$300,000 during our 18-month audit period that were inadequately supported.

... LDC officials had no written agreement with the IDA detailing the services to be provided and the basis for payment.

What Do We Recommend?

The Board and officials should:

1. Provide additional oversight of the CFO's duties by implementing routine reviews of journal entries and canceled check images along with the bank reconciliations. These reviews should be documented.
2. Establish a written agreement with the IDA that specifies the services to be provided to the LDC, the specific economic development activities LDC officials intend to fund, and the associated costs for each.
3. Ensure that invoices for payroll processing services are reviewed and approved prior to payment.

The CFO should:

4. Obtain canceled check images from the bank and include them as support with the bank reconciliations provided to the Board member for review.

Appendix A: Response From LDC Officials



ST. LAWRENCE COUNTY INDUSTRIAL DEVELOPMENT AGENCY LOCAL DEVELOPMENT CORPORATION

Ernest J. LaBaff Industrial Building ~ 19 Commerce Lane, Suite 1 ~ Canton, New York 13617
Phone: (315) 379-9806 / TDD: 711 ~ Fax: (315) 386-2573 ~ www.SLCIDA.com

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January 10, 2022

Ms. Rebecca Wilcox
Chief Examiner
Syracuse Regional Office
Office of the State Comptroller
Division of Local Government and School Accountability

Dear Ms. Wilcox:

Please accept this letter as our response to the draft *Disbursements* audit prepared by your office for the St. Lawrence County Industrial Development Agency Local Development Corporation.

First, we would like to acknowledge the professionalism of the members of your field staff as they conducted the audit. The ongoing Covid pandemic has brought challenges and impacts to the way we all do our work, and we appreciate the flexibility and responsiveness of your staff in what continue to be unique times for your office and ours.

We do not disagree with the recommendations in the draft audit and will provide a corrective action plan to address these recommendations.

If you have any further questions or recommendations for us, please contact me.

Sincerely,

Patrick J. Kelly
Chief Executive Officer

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Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed LDC and IDA officials to obtain an understanding of the procedures related to disbursements.
- We used our professional judgment to select a sample of 25 non-payroll check disbursements totaling \$1,093,715 from the 126 disbursements during our audit period totaling \$1.8 million. We reviewed our sample and all non-payroll electronic disbursements during the audit period totaling \$25,905, to determine whether these payments were reviewed and approved before payment, supported by adequate invoices and documentation, and were for legitimate business purposes. For the 25 check disbursements, we reviewed all disbursements paid to LDC officials, to the IDA, and those relating to an original loan issuance. We traced these 25 check disbursements to canceled check images to ensure the payment amounts agreed. We also selected a representative sample of general type expenditures (e.g., credit cards, accounting/legal services), and pass-through payments, which were made when the LDC received a single loan repayment for multiple loans and disbursed the money to the applicable loan funds.
- We used our professional judgment to select the April 2021 bank statement and traced all payroll-related electronic withdrawals totaling \$8,921 to approved payrolls and invoices showing fees charged by the payroll service provider. We also determined whether the payments totaling \$8,793 to LDC employees agreed with Board approved pay rates and hours worked as documented in time records. We selected this bank statement with no expectation of more or fewer exceptions.
- We selected a recent month in the audit period (May 2021) and reviewed all four bank reconciliations to determine whether the bank statements were properly reconciled to the cash balances in the accounting records. We selected this month with no expectation of more or fewer exceptions.
- We reviewed all journal entries generated during the audit period that reduced cash in the accounting records, totaling \$226,658, to determine whether they were for proper business purposes.
- We reviewed the continuity of the check number sequences in all bank statements during the audit period and determined the reasons for any gaps in check number sequences through discussions with officials and review of supporting documentation.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

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 provided to our office within 90 days. 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 the CAP available for public review.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas
www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems
www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management
www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans
www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders
www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller
www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers
www.osc.state.ny.us/local-government/publications

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics
www.osc.state.ny.us/local-government/academy

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