

Cortland County

Claims Audit and Check Printing

MARCH 2019



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

Contents

- Report Highlights 1**

- Claims Audit and Check Printing 2**
 - How Do County Officials Ensure That Disbursements Are for Proper County Purposes? 2

 - County Officials Did Not Ensure Disbursements Were for Proper Purposes. 2

 - What Do We Recommend? 4

- Appendix A – Response From County Officials 5**

- Appendix B – Audit Methodology and Standards 6**

- Appendix C – Resources and Services. 8**

Report Highlights

Cortland County

Audit Objective

Determine whether County officials ensured disbursements were for proper County purposes.

Key Findings

- The Legislature has not audited claims since 2015.
- The Finance Office clerks have access rights in the financial software to enter disbursements and apply the Treasurer's signature to checks at the time of printing, without direct supervision.
- The Treasurer did not control his signature during check printing.

Key Recommendations

The Legislature should:

- Audit all claims or delegate its responsibility for auditing claims by establishing the office of county auditor or the office of county comptroller, in accordance with law.
- Direct the County's Information Technology (IT) Department to review user access rights to the financial software and modify user rights according to job duties.

The Treasurer should:

- Control his signature when it is applied to prepared checks.
- Discontinue assigning users access rights in the financial software.

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

Background

Cortland County (County) is located in the southern tier of the State. The County is governed by the County Legislature (Legislature), which is composed of 17 elected members who represent its one city, 15 towns and three villages. The Chair of the Legislature serves as the acting chief executive officer since the County Administrator position is currently vacant. The elected County Treasurer is the chief fiscal officer and oversees four clerks in the Finance Office.

Quick Facts

Population	47,786
2018 Budgeted Appropriations	\$134 million
Number of Checks Printed During Audit Period ^a	15,230

^a In the general, county road, road machinery and solid waste funds we examined

Audit Period

January 1, 2017 – March 31, 2018

Claims Audit and Check Printing

How Do County Officials Ensure That Disbursements Are for Proper County Purposes?

To ensure that tax dollars are spent efficiently and in accordance with established policies and procedures, a thorough, deliberate and independent audit of claims should be conducted before payments are authorized. The legislature is required to audit all claims against the county to ensure they contain adequate supporting documentation, such as invoices, original bills, receipts, or other information to show that the claim complies with statutory requirements and county policies and that the amounts claimed represent actual and necessary county expenditures. By law,¹ the legislature can choose to delegate its responsibility for auditing claims and establish the office of county auditor or the office of county comptroller, which can be an effective approach to ensure a thorough and deliberate audit of claims.

The treasurer should always ensure that any facsimile of his or her signature is protected from unauthorized use and, therefore, should directly supervise the check signing process. Furthermore, good internal controls require that users have access to only those functions within the financial software that they need to perform their job duties. While cross-training on certain applications, such as cash disbursements, may be necessary, access rights to these functions should be assigned only in the absence of the person originally responsible.

County Officials Did Not Ensure Disbursements Were for Proper Purposes

Claims Audit – Currently, staff from County departments assemble claims packages² and then deliver them to the Finance Office where an account clerk enters necessary information into the financial software.

Prior to 2015, the County auditor was responsible for auditing all County claims. Following the County auditor's retirement, the Legislature abolished that office and assigned those duties to the Director of Budget and Finance (Director), until she left office in August 2017. The typical work activities outlined in the former Director's job description included only pre-audit of claims, and the former Director told us that the Legislature did not direct her to audit claims; however, the Legislature also did not audit the claims. As a result, no one has audited claims since the County abolished the County auditor position in 2015.

Check Printing Rights – Two Finance Office clerks are responsible for different aspects of the disbursements process. One clerk routinely enters disbursement

¹ New York State County Law Sections 575, 577 and 600

² The package includes invoices or other documentation to support the purchase as a necessary County expenditure. The claims packages typically contain documentation of department head approval of the purchase and underlying support.

information into the financial software, while another clerk routinely prints the checks,³ reconciles the general fund bank statements and maintains a check log. However, all four Finance Office clerks have the ability to enter disbursements and apply the Treasurer's signature at the time of check printing,⁴ without the Treasurer's direct supervision. Therefore, the clerks could disburse funds for non-County purposes without detection. We found that staff were still using the previous Treasurer's signature two weeks after he resigned because a signature change request was not processed in a timely manner.

These deficiencies occurred primarily because the Legislature did not consider other options available to it by law, such as establishing a comptroller position responsible for auditing claims or retaining the Legislature's claims audit responsibility. After we informed the Legislature of the significance of the claims audit function, they advertised to fill the County auditor position. However, the position has not been filled, and as of November 2018, the Legislature had not started to audit claims. Furthermore, the County did not have adequate procedures in place for assigning users' rights to the financial software. The Treasurer assigned users' rights and County officials did not monitor those rights to ensure users were given only those access rights appropriate for their respective job functions. We provided the Legislature with claims audit and internal control guidance available in our publications titled *Improving the Effectiveness of Your Claims Audit Process*, *The Practice of Internal Controls and Management's Responsibility for Internal Controls*.⁵

The lack of a claims audit, combined with improperly assigned user access rights to the financial software, increases the risk that inappropriate disbursements will be made. During our audit period, the County paid approximately \$44 million from the four major County funds.⁶ Because of the lack of claims audit and weakness in check printing access, we performed the following tests:⁷

- We reviewed 387 claims totaling approximately \$1.2 million to determine whether they were adequately supported and proper County expenditures. We also verified that the vendor names and amounts listed on the claims agreed with the corresponding canceled check images. Except for minor deficiencies which we discussed with County officials, we found that the claims were supported and were for proper County purposes.

3 The check printing function accesses an embedded signature of the Treasurer.

4 There is a dedicated printer for check printing located in the Finance Office.

5 <https://www.osc.state.ny.us/localgov/pubs/lgmg/claimsauditing.pdf>; <https://www.osc.state.ny.us/localgov/pubs/lgmg/practiceinternalcontrols.pdf>; <https://www.osc.state.ny.us/localgov/pubs/lgmg/managementsresponsibility.pdf>

6 The general, county road, road machinery and solid waste funds

7 See Appendix B – Audit Methodology and Standards for details of sample selection.

-
- We reviewed support for 63 utility payments totaling approximately \$55,600 to determine whether the payments were associated with County-owned properties, and found no exceptions.
 - We reviewed all 91 general fund manual checks totaling \$103,375 to determine if they were adequately supported and for valid County purposes. We found that 66 checks totaling \$28,630 lacked adequate support to allow for a proper claims audit. For example, some checks were supported by email printouts requesting that manual checks be issued, without explanation. Other checks lacked any support but were issued for reasons including refunds of tax overpayment and reimbursement of civil service exam fees. Based on our review of canceled check images, descriptions on the checks and discussions with County officials, these disbursements were for appropriate County purposes.
 - We reviewed the three largest credit payments totaling \$20,562 and found that the charges were supported, and appeared to be for proper County purposes.

When County claims are not audited before payment, there is an increased risk that the County could pay for goods and services that are not legitimate County expenditures. This risk is compounded because users of the financial system have access rights that do not align with their job duties and the Treasurer does not directly supervise the use of his signature.

What Do We Recommend?

The Legislature should:

1. Audit all claims, or delegate its responsibility for auditing claims by establishing the office of County auditor or the office of County comptroller, in accordance with law.
2. Direct the County's IT Department to review user access rights to the financial software and modify those rights for users responsible for cash disbursement activity so that only appropriate users can print checks.

The Treasurer should:

3. Control his signature when it is applied to printed checks.
4. Discontinue assigning user rights in the financial software.

Appendix A: Response From County Officials



CORTLAND COUNTY

60 Central Avenue
Cortland NY 13045

Kevin Whitney
Chair, Cortland County Legislature

Eric Mulvihill
Clerk of the Legislature

February 20, 2019

Via 1st Class Mail and E-mail (.pdf)

Ann C. Singer,
Chief Examiner, New York State Comptroller's Office
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417

**Re: Response to Draft Report of Examination of Cortland County Claims Audit and Check Printing
2018M-247 – Period Covered: January 1, 2017-March 31, 2018**

Ms. Singer,

The Office of the Chairman of the Cortland County Legislature, pursuant to General Municipal Law, has the responsibility to respond, on behalf of the Cortland County Legislature, to your agency's draft report referenced above.

First and foremost, we wanted to take this opportunity to thank-you and your staff for the diligence and professionalism exhibited during the course of the examination. Specifically we extend our gratitude to your on-site examiners who approached the process with thoroughness, but were willing to work cooperatively with our employees to minimize disruptions to our day-to-day operations. We also appreciate your office's willingness to discuss details of the draft exit interview held on January 24, 2019.

During the draft exit interview your examiners reviewed their audit objective which as stated in the report was to determine if Cortland County officials ensured financial disbursements were for proper County purposes.

According to the reports key findings:

- The Cortland County Legislature has not audited claims since 2015
- The Cortland County Treasurer's Office Clerks have access rights within the County's financial software that allows staff to enter disbursements and apply the Treasurers signature to checks at the time of printing, without direct supervision.
- The County Treasurer did not control his signature during the check printing process

The Cortland County Legislature agrees with your findings. While the County believed it had properly addressed these issues it has become clear that due in part to a series of turnover in key County positions and due to a lack of policy and procedures the County is vulnerable due to these material weaknesses. It is Cortland County's intent to provide your office with a corrective action plan as required in order to address the deficiencies outlined above and in your report.

In closing, thank-you for the time and effort your staff particularly your examiner [REDACTED] for your diligence and thoughtful approach in bring these matters to our attention.

Sincerely,

Kevin Whitney, Chair
Cortland County Legislature

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, our audit procedures included the following:

- We interviewed County officials and employees to gain an understanding of the claims audit process.
- We applied Benford's Law⁸ to canceled check amounts paid from January 1, 2017 through March 31, 2018 and selected amounts that did not follow an expected frequency. From the results of that analysis, we selected a random sample of 387 claims totaling approximately \$1.2 million to determine whether they were for proper County purposes.
- We examined the selected 387 claims to determine whether they contained sufficient evidence to allow for a proper claims audit before payment. We also determined whether these claims were for legitimate County purposes. In addition, we examined the related canceled checks to determine whether the vendor names and amounts matched.
- We reviewed all 91 general fund manual checks totaling \$103,375 that were paid during our audit period to determine whether they were adequately supported and for valid County purposes.
- We reviewed all credit card, store account and online retail purchases paid during our audit period to determine whether any of those purchases may not have been for a County purpose. We judgmentally selected six items and verified they were located on County grounds. These items were selected because they could be used for personal purposes and therefore were at a potentially higher risk of theft.
- We randomly selected two months of utility bills (63 payments totaling approximately \$55,600) and reviewed the underlying support to determine whether all invoices for the associated utilities were for County-owned properties. We verified County addresses against commonly used Internet mapping software that provided satellite imagery of the properties.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

⁸ <https://www.journalofaccountancy.com/issues/2017/apr/excel-and-benfords-law-to-detect-fraud.html>

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.

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, pursuant to Section 35 of 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 Legislature to make the CAP available for public review in the County Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

BINGHAMTON REGIONAL OFFICE – Ann C. Singer, Chief Examiner

State Office Building, Suite 1702 • 44 Hawley Street • Binghamton, New York 13901-4417

Tel (607) 721-8306 • Fax (607) 721-8313 • Email: Muni-Binghamton@osc.ny.gov

Serving: Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Sullivan, Tioga, Tompkins counties



Like us on Facebook at facebook.com/nyscomptroller

Follow us on Twitter [@nyscomptroller](https://twitter.com/nyscomptroller)