



# Southern Tier East Regional Planning Development Board

## Board Oversight

### Report of Examination

Period Covered:

January 1, 2016 – February 10, 2017

2017M-165



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

April 2018

Dear Regional Planning Development Board 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 the Southern Tier East Regional Planning Development Board, entitled Board Oversight. 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 New York State 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

Southern Tier East Regional Planning Development Board (STE) was created in 1975 by an inter-municipal agreement between eight counties.<sup>1</sup> Its purpose is to foster economic development within these municipalities through regional planning. STE is governed by a Regional Board (Board), which is composed of three members from each participating county, appointed by their respective county boards. Currently, due to a lack of participation instead of 24 members, the Board has only 19 participating members.

The Board is responsible for the general management and control of STE's financial activities in accordance with its bylaws and State and federal requirements. The Director as the chief executive officer is responsible for the day-to-day management of administrative staff under the Board's direction. STE employs staff, including an Assistant Director (assistant). The Board established a finance committee (committee) with fiscal responsibilities such as overseeing the administration of Board-adopted budgets, reviewing contracts and grant awards and other documentation before authorizing funds for disbursement.<sup>2</sup>

STE was designated as a local development district to coordinate programs funded by the Appalachian Regional Commission (ARC) within the New York State Appalachian Region. To accomplish this, the Board is eligible to apply for, accept and expend federal funds to administer, conduct and participate with the federal programs relating to the economic development within the Appalachian Region.

STE receives grants for various programs such as broadband, energy and research development and economic development. Financial and compliance oversight for these programs are the grantor's responsibility, such as the ARC Office of Inspector General. STE's 2017 appropriations totaled approximately \$1 million, funded primarily with support from participating county contributions and a variety of contracts through federal and non-federal awards.

STE experienced turnover in administrative staff during the audit period. The former Director served during our audit period through July 28, 2016 and the current Director took office as of January 1, 2017.

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<sup>1</sup> Broome, Chenango, Cortland, Delaware, Otsego, Schoharie, Tioga and Tompkins Counties

<sup>2</sup> While the committee may meet between Board meetings, committee meetings are generally held on even numbered months throughout the year.

**Objective**

The objective of our audit was to determine whether the Board provided proper oversight over the funding received by STE.<sup>3</sup> Our audit addressed the following related question:

- Did the Board provide proper oversight to ensure funding was appropriately used?

**Scope and Methodology**

We examined the financial records and reports to assess the level of oversight provided by the Board for the period January 1, 2016 through February 10, 2017. We extended our scope back to December 1, 2015 to review certain financial transactions.

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 B of this report. 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 relevant population size and the sample selected for examination.

**Comments of Local Officials and Corrective Action**

The results of our audit and recommendations have been discussed with STE officials, and their comments, which appear in Appendix A, have been considered in preparing this report. STE officials agreed with our recommendations and indicated they planned to initiate corrective action.

The Regional 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 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 Regional Board to make this plan available for public review in the secretary's office.

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<sup>3</sup> This includes participating counties' contributions of cash and in-kind services and State and federal funding.

## Board Oversight

The Board is directly responsible for completing organization activities, complying with federal and State program requirements and properly managing funds. Accordingly, the Board, as the recipient of funds, should formally monitor the related activities and establish effective controls, which consist of policies and procedures to help provide reasonable assurance that cash and other resources are properly safeguarded.

Although the Board can rely on committees or other STE officials to provide information and insight about the use of resources, it is responsible for ensuring STE funds are appropriately expended. The Board-adopted bylaws should clearly define the powers and duties of officials related to properly safeguarding assets.

The Board did not provide adequate oversight to ensure funding received by STE was appropriately used. It failed to develop clear and adequate policies and procedures or ensure that existing policies and procedures were followed. As a result of this weakened control environment, the former Director approved over \$3,490 in credit card payments that did not have an invoice or receipt supporting the charge, and hired an employee in violation of Broome County Civil Service (BCCS) requirements at a starting salary that was \$11,000 more than it should have been.

Furthermore, the former Director and current Director did not provide the Board with comprehensive financial reports so it could properly oversee STE financial activities. Finally, the Board did not ensure that STE's goals aligned with those of the respective member counties. Because the Board failed to meet its fiduciary responsibilities, STE's financial operations are at higher risk of abuse or errors and the Board further jeopardizes its ability to foster economic development and improve the quality of life within the geographic region.

### **Credit Card and Travel Expenditures**

Because credit card use could increase the potential for unauthorized purchases, it is essential for the Board to establish internal controls, including policies and procedures, to help ensure credit card transactions are authorized and adequately supported and travel costs are substantiated and necessary expenditures. These policies and procedures should identify the individuals who are authorized to use credit cards, establish reasonable dollar limits for purchases, set daily limits, block certain types of vendors and describe the type of purchases allowed and the documentation necessary to support

purchases. Additionally, the Board, or its designee, should audit the purchases as part of a deliberate and thorough claims audit process.

The Board-established travel procedures require the use of a travel authorization form approved by the Director or assistant before travel. The procedures require the Director or assistant to review travel appropriateness, including supporting documentation describing the travel and all expenditures incurred as part of the travel once the trip is completed. The Director signs a voucher and check authorization form to authorize credit card payments.

However, the Board did not review the authorization forms or otherwise ensure that credit card purchases were appropriate. STE officials used two credit cards to pay for 190 purchases totaling approximately \$31,900 during the audit period, including 34 charges totaling \$5,964 for travel and conferences, 72 charges totaling \$6,420 for food and beverages and 84 charges totaling \$19,500 for various miscellaneous purchases (i.e., gas, office furniture, computer equipment, office supplies, snacks, flowers, cell phone bill, newspaper and online subscriptions).

We reviewed 166 credit card charges and found that 34 totaling \$3,490 for conference related travel or other expenses lacked adequate support, such as an invoice, approved travel authorization form, conference or meeting agendas or other supporting evidence. Furthermore, while 132 charges had a receipt or invoice, 18 of the charges, totaling \$888, did not contain enough supporting information to allow the Board to determine whether the charges were appropriate.

More specifically, 16 charges had an attached receipt for food and beverage purchases but STE officials were unable to determine whether a meeting or other STE event<sup>4</sup> was scheduled based on the dates of these transactions. Finally, the credit card limits exceeded the Board established limits by \$7,500 in 2016 and \$13,500 in 2017. Because of the lack of documentation for these purchases, we could not determine whether they were appropriate STE procurements.

These discrepancies occurred because the Board-adopted credit card policy was inadequate, records were not maintained and the Board did not perform a thorough audit of credit card claims before payment. As a result, the Board was unable to determine whether these credit card charges were appropriate.

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<sup>4</sup> During our review of credit card transactions we found that food and beverage purchases for meetings were supported by the receipt of purchase, but there was not a calendar entry for the meeting or a sign-in sheet of attendees.

The Board's credit card guidelines simply addressed credit card limits, personal liability and card issuance. While the bylaws indicated that the committee may review documentation it deems necessary before the authorization of expenditures, the bylaws failed to specify who is responsible for auditing claims. While the secretary reviewed claims for reasonableness, neither the Board nor the committee audited them. Instead, the procedures allowed the former Director to review and approve his own credit card purchases. The former Director told us that the credit card charges were travel expenses relating to his attendance at conferences or expenditures for economic development administration meetings held locally or in other states.

Without a comprehensive and enforced policy, combined with an effective audit process, the Board has limited control over the use of its credit cards and could potentially pay for unauthorized or excessive purchases and have difficulty recovering unauthorized or questionable charges. Had the Board, or its designated committee, conducted a deliberate and thorough audit of credit card bills before payment, these discrepancies may not have occurred. Beginning in January 2017, the current Director and the Board Chairman review and approve the credit card statements.

## Payroll

Payroll and related employee benefit costs are by far the largest component of many local government budgets, including STE. Establishing strong controls over payroll ensures that employees are hired in accordance with laws, paid the correct salary or wages and receive appropriate benefits and payments due at the time of leaving employment. These controls help ensure opportunities for payroll errors and fraud are limited.

Hiring Practices – In April 2016, the former Director hired a new employee in a position that was in violation of the Civil Service process. Although this employee was not on any Civil Service list as a regional development analyst, the former Director hired her at an RDA II salary level, which was approximately \$11,000 more than the RDA I. This individual, who had worked with the Director at a previous employer, was employed from April 1, through July 28, 2016 and was paid \$2,445 more than she was qualified to receive during that time since she did not meet the minimum requirements for this position. This employee also received health insurance at no cost during this time, which was contrary to the Board's administrative manual.<sup>5</sup>

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<sup>5</sup> The administrative manual specifies that employees contribute 20 percent toward the full cost of health insurance.

The BCCS department notified the former Director that this employee was unqualified for the RDA II position and recommended that she be provisionally appointed to the RDA I position until a new list is created. The employee agreed to this provisional appointment and signed a letter dated July 11, 2016 acknowledging her appointment as a provisional RDA I. Subsequently, the Board laid-off this employee on July 28, 2016

## **Financial Monitoring**

It is essential that the governing board receives regular financial reports from the Director to fulfill its responsibility of monitoring financial operations. The bylaws require the Director to report to the Board and provide timely financial reports to the finance committee concerning expenditure of funds, budget balances, payment requests, and other occurrences related to the financial administration of the Board's affairs.

While the former Director and current Director discussed financial information with the Board and the committee, neither the Board nor the committee received any documentation to support the discussions. For example, neither the former Director nor current Director presented financial summaries that would allow the Board to verify the information discussed, such as reconciled bank balances, periodic budget status reports or other reports necessary to monitor STE's financial operations. Board members told us that they monitor the annual budget results. However, the annual operating results were not discussed until after the CPA had conducted the financial audit, or several months after year-end. Once the year is over, it is too late to take any corrective action to stay within budget or make a decision to modify the budget.

A lack of financial reporting hinders the Board's ability to provide financial oversight and increases the risk that errors or irregularities could occur and remain undetected and uncorrected. This financial monitoring becomes even more important when there are breakdowns in controls over the financial operations, such as those discussed in this report. Furthermore, the relevance of financial information resulting from activities that occurred months before becomes less useful as time passes.

## **Regional Partnerships**

Cooperation occurs when two or more local governments work together to provide a service for the benefit of all the municipalities involved. This cooperation can take on many forms including using the services of a multi-county regional planning board such as STE. The intent should be to identify and address multi-county issues to improve the quality of life within the region. To achieve solutions to these issues, information such as county long-term plans or other pertinent information should be shared among the Board members

and their respective governing boards to help to improve the quality of life in the region.

The bylaws require the Board to meet the first Friday of every even numbered month, holding a minimum of four regular or special meetings annually, which provide the opportunity for information sharing. Board members are allowed to be absent from three consecutive meetings.

Appointment to the Board requires commitment of time and fiscal oversight responsibilities over individual projects and STE’s financial affairs. Depending on the members’ roles<sup>6</sup> in their respective municipalities, they may not be able to meet the added demands necessary as a Board member. This would include putting their full efforts into projects or proposals that may not benefit their respective counties.

We found that county representatives did not share information as outlined in their respective counties’ comprehensive plans, and STE officials did not request this information so mutual issues or projects might be aligned and addressed on a larger scale. Furthermore, our review of the 2016 Board meeting attendance records disclosed that while there were 19 filled Board seats (with five unfilled seats), at no time did the entire Board attend a meeting.

**Figure 1: Attendance at Board Meetings in 2016**

	February	April	June	August	October	November <sup>a</sup>
Number of Board Seats	24	24	24	24	24	24
Number of Filled Seats	19	19	19	19	19	19
Number of Members Attending	9	13	14	15	15	10

<sup>a</sup> The December meeting was held in November.

Board members told us that the schedules, meeting location and other commitments within their respective county were factors that influenced Board meeting attendance. Members also told us that they focus more on available project opportunities that benefit their individual county, rather than comprehensive plans that benefit the region as a whole, which conflicts with STE’s established mission to work as a regional entity.

In addition, the current Director told us that it is difficult to get Board members more involved in STE operations or to attend meetings. Furthermore, Tompkins County did not make a cash contribution<sup>7</sup>

<sup>6</sup> Regional Board members serve in other roles in their respective municipalities such as town supervisors, county planning directors, grant managers or legislators.

<sup>7</sup> According to the bylaws, all eight member counties are required to provide an annual cash contribution to sustain the Regional and Appalachian Development programs based on the budget.

as a member during our audit period, although they were in STE's geographic region. A Tompkins County representative told us that the focus and activities pursued by the Board did not align with the goals or programs pursued by Tompkins County. Therefore, for the last 15 years, Tompkins County officials chose not to participate or contribute. When there is minimal cooperation or Board involvement, there is a risk that competing priorities may hinder the broader goal of improving the quality of life in the geographic region STE encompasses.

## **Recommendations**

The Board should:

1. Review and update policies and procedures to govern travel and credit card use.
2. Determine the most effective way to audit claims and clearly prescribe an audit procedure in its bylaws or administrative manual.
3. Ensure that STE officials comply with BCCS requirements and the policies and procedures established by the administrative manual regarding payroll including hiring, salary and benefits for new and existing staff.
4. Require interim financial reports of revenues and expenditures, including budget status reports and bank account balances, to ensure that the Board is meeting its fiduciary responsibilities.
5. Ensure that member counties comply with the organizational structure as defined by the bylaws or revise existing bylaws to reflect the current status of its participating and contributing members.
6. Revise meeting schedules and locations to increase participation among its members.
7. Ensure that comprehensive plans of member counties include STE's strategic long-term goals.

The Director should:

8. Ensure that reports to the Board include supporting documentation that would allow the Board to verify the information presented.

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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



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Regional Planning  
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As Chair of STE, we have reviewed the audit and agree with the findings. Some of the things have been completed and we are working on the rest! Thank You for your work and suggestions. Ed Hollenbeck

Ed Hollenbeck

*Chair*

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed STE officials and reviewed bylaws, administrative manuals, financial documents and surveyed Board members, to gain an understanding of the procedures related to the financial operation and roles and responsibilities of the Board and other committees.
- We judgmentally selected all reimbursements greater than \$300 from the general ledger and reviewed them to determine whether the amount paid was proper.
- We judgmentally selected six travel claims that included travel outside the State. We attempted to determine the purpose, mileage reasonableness, whether all expenses on these claims were properly supported and all costs associated with the trips were reported on the travel vouchers.
- We reviewed all credit card charges listed on the monthly statements in 2016, We traced each charge to supporting documentation to ensure that purchases made with the credit card was supported and represent legitimate business expense. We also reviewed for compliance with the credit card policy.
- We reviewed all payroll expenditures for the audit period totaling \$245,147, to determine whether payroll was properly approved, employees were paid at the Board approved rates, and whether employees contributed the correct percentage towards their health insurance premium.
- We reviewed the hiring and separation practices of STE for compliance with procedures established by BCCS and STE's administrative manual.
- We reviewed the long-term plans of the eight member counties and compared these plans to STE's strategic plan to determine whether counties include STE's strategic long-term goals.

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

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