OFFICE OF THE NEW YORK STATE COMPTROLLER

DIVISION OF LOCAL GOVERNMENT
& SCHOOL ACCOUNTABILITY

Essex County

Financial Condition and Internal Controls Over Payroll

Report of Examination

Period Covered:

January 1, 2012 — January 31, 2013

2013M-177

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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 Board of Supervisors 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 Essex County, entitled Financial Condition and Internal Controls Over Payroll. 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

Essex County (County) is governed by a Board of Supervisors (Board) which comprises 18 members, one of whom also serves as the Chairman of the Board (Board Chairman). The Board is responsible for the general oversight of the County's financial affairs and for safeguarding its resources. The Board Chairman is the chief executive officer and the elected County Treasurer is the chief fiscal officer. The Treasurer is responsible for maintaining the County's central accounting system, providing timely and accurate financial reports, processing payroll, and investing idle moneys.

Scope and Objective

The objective of our audit was to review the financial condition of the County and internal controls over payroll for the period January 1, 2012, to January 31, 2013. We expanded our scope period to begin on January 1, 2010, for our review of the County's financial condition. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets that are structurally balanced and take appropriate actions to maintain the County's fiscal stability?

- Are internal controls over payroll and the maintenance of leave accruals appropriately designed and operating effectively to adequately safeguard County assets?

Audit Results

The County's financial condition has declined over the last three fiscal years. This occurred because the Board adopted budgets for the general fund that were not structurally balanced. Instead, the Board routinely relied on appropriating significant amounts of fund balance to finance operations. In addition, the County's enterprise health fund and enterprise refuse and garbage fund were not self-sufficient and, therefore, required subsidies from the general fund through both interfund transfers and advances.

County officials also did not ensure that interfund advances from the general fund to the enterprise funds were fully repaid by the close of the fiscal year, as required by General Municipal Law. As a result, the general fund realized planned operating deficits, a declining fund balance, and a declining cash balance from 2010 to 2012. The total fund balance in the general fund has decreased by $12,315,242 during the last three fiscal years, from $36.4 million at the start of the 2010 fiscal year to $24 million at the end of the 2012 fiscal year.

During the same time period, unexpended surplus funds fluctuated from one year to another. But, as of the end of 2012, unexpended surplus funds totaled only $13 million, which represented approximately

17 percent of the 2013 general fund budgeted appropriations of $77 million. Furthermore, the general fund's cash balance has declined from $19 million as of December 31, 2010, to only $9 million as of December 31, 2012, which represented approximately 12 percent of the 2013 general fund budgeted appropriations.

The County's financial condition will likely decline further during 2013 because the Board has adopted budgets for the general fund, enterprise health fund, and enterprise refuse and garbage fund for 2013 using the same budgeting practices that resulted in the County's financial condition decline from 2010 to 2012. Although we do not consider the County to be fiscally stressed at this time, these declining trends will result in fiscal instability if allowed to continue.

Internal controls over payroll were not appropriately designed and operating effectively to adequately safeguard County assets. County officials have not established comprehensive written policies and procedures to provide guidance and internal controls for the preparation and processing of payroll and leave time accruals. Specifically, County officials did not adequately segregate payroll duties and did not establish sufficient compensating controls. As a result, we found that employees were both over and underpaid and that employees' leave accrual records were not properly maintained. In addition, County officials have not properly limited users' access within the computerized payroll systems and have not generated and reviewed change reports from these systems. As a result, there is an increased risk that inappropriate transactions could be initiated and remain undetected and uncorrected in a timely manner.

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. Except as specified in Appendix A, County officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the County's response letter.

Introduction

Background

Essex County (County) is located in northeastern New York State and has a population of approximately 39,000. The County encompasses 18 towns and four villages.[1] The County is governed by a Board of Supervisors (Board) which comprises 18 members, one of whom also serves as the Chairman of the Board (Board Chairman). The Board is responsible for the general oversight of the County's financial affairs and for safeguarding its resources. The Board Chairman is the County's chief executive officer, and the elected County Treasurer (Treasurer) is the chief fiscal officer. The Treasurer is responsible for maintaining the County's central accounting system, providing timely and accurate financial reports, processing payroll, and investing idle moneys.

The County's budgeted appropriations for the 2013 fiscal year are approximately $107.1 million,[2] which are funded primarily with revenues from real property taxes, sales tax, and State and Federal aid. The County employs approximately 625 full and part-time employees who are assigned to various departments that provide services including general government support, road maintenance and snow removal, economic assistance, public safety services through the Sheriff's Department and County Jail, and various public health services including the Horace Nye Nursing Home (nursing home), a New York State-licensed, 100-bed skilled nursing facility owned and operated by the County. For 2013, the County budgeted approximately $25.1 million for personal service costs and $16.7 million for employee benefits, such as health insurance.

Objective

The objective of our audit was to review the financial condition of the County and internal controls over payroll. Our audit addressed the following related questions:

- Does the Board adopt realistic budgets that are structurally balanced and take appropriate actions to maintain the County's fiscal stability?

- Are internal controls over payroll and the maintenance of leave accruals appropriately designed and operating effectively to adequately safeguard County assets?

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[1] Only a portion of the Village of Keeseville and the Village of Saranac Lake are in the County.

[2] The budgeted appropriations include $76,932,975 for the general fund, $10,992,669 for the enterprise health fund, and $1,241,247 for the enterprise refuse and garbage fund.

Scope and Methodology

We reviewed the County's financial condition and internal controls over payroll for the period January 1, 2012, to January 31, 2013. We expanded our scope period to begin on January 1, 2010, for our review of the County's financial condition.

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 C 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. Except as specified in Appendix A, County officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an issue raised in the County's response letter.

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.

Financial Condition

The Board is responsible for the financial planning and management necessary to maintain the County's fiscal health. As such, an essential component of the Board's duties and responsibilities is to make sound financial decisions that are in the best interests of the County and the taxpayers that fund its operations. This responsibility requires Board members to balance the level of services desired and expected from County residents with the ability and willingness of the residents to pay for such services. To maintain good fiscal health, it is imperative that the Board adopt structurally balanced budgets that provide recurring revenues to finance recurring expenditures, identify and adjust to long-term changes, and plan for service and capital needs beyond the current year by developing and adopting comprehensive, multiyear financial and capital plans.

The Board adopted budgets for the general fund that were not structurally balanced, but instead the Board routinely relied on appropriating significant amounts of fund balance to finance operations. In addition, the County's enterprise health fund and enterprise refuse and garbage fund were not self-sufficient and, therefore, required subsidies from the general fund through both interfund transfers and advances. County officials also did not ensure that interfund advances from the general fund to the enterprise funds were fully repaid by the close of the fiscal year, as required by General Municipal Law (GML). As a result, the general fund realized planned operating deficits, a declining fund balance,[3] and a declining cash balance from 2010 to 2012. The County's financial condition will likely decline further during 2013, because the Board has adopted budgets for the general fund, enterprise health fund, and enterprise refuse and garbage fund for 2013 using the same budgeting practices that resulted in the County's financial condition decline from 2010 to 2012. Although we do not consider the County to be fiscally stressed at this time, these declining trends will result in fiscal instability if allowed to continue.

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[3] The Governmental Accounting Standards Board (GASB) issued Statement 54, which replaces the fund balance classifications of reserved and unreserved with new classifications: nonspendable, restricted, and unrestricted (comprising committed, assigned, and unassigned funds). The requirements of Statement 54 are effective for fiscal years ending June 30, 2011, and beyond. To ease comparability between fiscal years ending before and after the implementation of Statement 54, we will use the term "unexpended surplus funds" to refer to that portion of fund balance that was classified as unreserved, unappropriated (prior to Statement 54), and is now classified as unrestricted, less any amounts appropriated for the ensuing year's budget (after Statement 54).

General Fund

The prudent use of surplus fund balance as a funding source to reduce the level of real property taxes needed to finance operations is a basic component of local government budgeting. However, it is not a sound practice for County officials to consistently rely on the availability of surplus fund balance as a recurring revenue source to finance recurring expenditures. When fund balance is continually relied on to finance recurring expenditures, it is eventually depleted below a reasonable level. In such a case, the County would not have any financial cushion if unforeseen expenses arise.

The total fund balance in the County's general fund has decreased by $12,315,242 during the last three fiscal years, from $36,353,305 at the start of the 2010 fiscal year to $24,038,063 at the end of the 2012 fiscal year. This is primarily a result of the Board appropriating unexpended surplus funds as a financing source to support operations over each of the last three fiscal years. Table 1 illustrates the County's general fund balance trends during the last three fiscal years.

Table 1: General Fund – Fund Balance			
	2010	**2011**	**2012**
Beginning Fund Balance	$36,353,305	$31,284,133[a]	$27,122,321[a]
Operating Surplus/(Deficit)	($5,067,350)	($4,235,720)	($3,084,258)
Ending Fund Balance	$31,285,955	$27,048,413	$24,038,063
Less: Restricted Fund Balance	$8,649,714	$4,722,186	$3,817,755
Less: Appropriated Unexpended Surplus	$6,062,390	$4,000,000	$6,850,000
Unexpended Surplus Funds	$16,573,851	$18,326,227	$13,370,308

[a] Differences between the beginning and prior year ending fund balances are due to prior year adjustments.

From 2010 to 2012, the Board adopted realistic general fund budgets with no significant variances in totals for budgeted and actual revenues and expenditures. However, the Board has budgeted for planned operating deficits[4] in each of these three fiscal years by appropriating fund balance[5] to help finance the 2010 to 2012 budgets. Therefore, even though adopted budgets have been realistic in the estimation of the cost of operations, the Board's use of fund balance as a financing source for operations has resulted in planned deficits and a decline in total fund balance in the general fund.

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[4] A planned operating deficit occurs when the Board intentionally adopts a budget in which estimated revenues are less than appropriations, with the difference to be funded with appropriated fund balance.

[5] The Board appropriated fund balance as a financing source in its budgets of $6,188,817 for 2010, $6,062,390 for 2011, and $4,000,000 for 2012, for a combined total of $16,251,207.

During the same time period, unexpended surplus funds fluctuated from one year to another. But, as of the end of 2012, unexpended surplus funds totaled only $13,370,308, which represented approximately 17 percent of the 2013 general fund budgeted appropriations of $76,932,975. In addition, the general fund's cash balance declined from $19,214,577 as of December 31, 2010, to only $9,340,980 as of December 31, 2012,[6] which represented approximately 12 percent of the 2013 general fund's budgeted appropriations.

We reviewed the County's 2013 general fund budget to verify that budget estimates were reasonable based on historical data and that the budget was structurally balanced. We found that the budgeted revenues and appropriations were reasonable. However, the budget was not structurally balanced, because the Board again appropriated unexpended surplus funds totaling $6,850,000 as a financing source to support operations.

The County Manager's tentative budgets for 2009 to 2013 all contained a section stressing to the Board that the continued reliance on appropriation of fund balance as a financing source in the annual budgets is not sustainable and will eventually result in the depletion of the County's fund balance. However, the Board Chairman and Chair of the Finance Committee told us that the Board's budgeting practices have been prudent by returning fund balance to taxpayers that the County had accumulated through conservative budgeting in prior fiscal years and by limiting real property tax increases to reasonable amounts.[7] While the use of surplus fund balance as a funding source to reduce fund balance to a reasonable level is prudent, continued reliance on fund balance to finance recurring expenditures will result in future budgets that have funding gaps that will require significant property tax increases or reductions in services.

While the general fund is not currently in fiscal stress, the over reliance on fund balance as a financing source for funding recurring expenditures results in budgets that are not structurally balanced and creates an environment that could result in the unhealthy depletion of the County's fund balance and undesired constraints on the County's financial flexibility in future years. Because County officials continue to use significant amounts of fund balance as a means to finance recurring expenditures, this will likely cause the general fund's financial condition to decline further during 2013.

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[6] Another factor contributing to the decline of the general fund's cash balance is that the general fund advanced a significant amount of cash to the County's capital projects fund from 2010 to 2012. As of December 31, 2012, the capital projects fund still owed $7,279,012 to the general fund.

[7] The County's year-to-year percentage change in its tax levy was 2.34 percent for 2010, 8.62 percent for 2011, 10.54 percent for 2012, and 1.13 percent for 2013.

Enterprise Funds

The County created and uses enterprise funds to account for operations that are financed and operated in a manner similar to private business where the intent of the County is that the cost (i.e., expenses, including depreciation) of providing services to the general public on a continuing basis be financed and recovered primarily through user charges. Operating revenues and expenses generally result from providing services in connection with ongoing operations. If the enterprise funds are not self-sufficient, they must rely on the general fund to maintain their fiscal stability.

GML allows the County to temporarily advance moneys held in one fund to another fund. However, the County must maintain suitable records of the amounts advanced, and the County Manager must authorize the advances before they are made. Interfund advances are intended to address short-term cash flow needs of operating funds and/or enterprise funds and are, in effect, short-term borrowing arrangements between the operating funds and/or enterprise funds. Repayment of the borrowed cash must be made as soon as moneys are available, but no later than the close of the fiscal year in which the advance was made.

Enterprise Health Fund – The County accounts for all activity related to its nursing home in the enterprise health fund, which is intended to be self-sufficient. However, the enterprise health fund experienced operating losses during the 2010 to 2012 fiscal years because operating revenues were substantially below the level required to finance operating expenditures (Table 2).

Table 2: Enterprise Health Fund Operating Revenues and Expenses

	2010	2011	2012
Operating Revenues	$5,915,140	$10,266,319[a]	$8,044,121
Operating Expenses[b]	$11,468,543	$12,592,246	$12,917,701
Operating Income/(Loss)	**($5,553,403)**	**($2,325,927)**	**($4,873,580)**

[a] Operating revenues increased significantly during 2011 because the County received $2,569,489 in retroactive rate adjustment revenues based on a review of Medicaid rates.

[b] The operating expenses include future other post employee benefit (OPEB) costs of $1,408,030 for 2010, $1,525,773 for 2011, and $2,010,645 for 2012.

County officials stated that Medicaid reimbursement rates for eligible services have not kept pace with the expenditures necessary to operate the nursing home, resulting in the enterprise health fund not being self-sufficient. As a result, the County's general fund has had to subsidize a significant portion of the enterprise health fund's operations through interfund transfers, which consisted of $1,735,651 during 2010, $407,548 during 2011, and $1,952,993 during 2012, for a combined total of $4,096,192. In addition, the general fund subsidized the enterprise health fund by making interfund advances to the fund for cash-flow purposes, so that the fund could pay its operating expenses. However, none of the interfund advances were approved by the County Manager, and the enterprise health fund did not have enough cash on hand to repay these balances by the close of the fiscal year, as required by GML (Table 3).

Table 3: Interfund Advance Year-End Balances			
	Enterprise Health Fund		General Fund
Date	Cash on Hand	Due To	Due From
12/31/10	$331,827	$4,884,879	$4,884,879
12/31/11	$133,762	$1,193,953[a]	$1,193,953
12/31/12	$211,069	$1,728,996	$1,728,996

[a] The interfund advance balance decreased significantly from 2010 to 2011 because the County received a Federal subsidy of $3,503,460 during 2011, which was used to repay the advance from the general fund.

We reviewed the County's 2013 enterprise health fund budget and determined that it contains estimated revenues of $2,264,940 for interfund transfers from the general fund. As a result, the enterprise health fund will likely not be self-sufficient again during 2013 and will require subsidies from the general fund. This fund's continued reliance on the general fund to cover operating expenses has contributed to the general fund's declining financial condition.

County officials stated that they were aware of the financial decline of the enterprise health fund and the inability of the fund to be self-sufficient. As a result, the County currently has a pending sale of the nursing home to a private company for $4,050,000 and anticipates that the sale will be finalized by the end of 2013. Although this sale will help the County's financial condition in the short-term, the County will still have long-term nursing home expenses related to annual medical and prescription drug insurance benefit expenditures for the nursing home's former retirees and their spouses and covered dependents, which will have to be funded by the general fund. County officials projected that these expenditures would total approximately $4.5 million during the three-year period of 2014 to 2016.

Enterprise Refuse and Garbage Fund – The County's enterprise refuse and garbage fund (refuse fund) accounts for all activity related to the County's solid waste management program, including the operations of the County's landfill, which opened in August of 1992 and stopped accepting waste in 1998. The County contracts with a third-party that collects solid waste at transfer stations located at towns throughout the County and transports the solid waste to landfills outside the County. The County's current contract with the third-party requires the County to pay a semi-monthly maintenance fee of $21,250

($510,000 annually) and $50.25 per ton for tipping fees. The County then charges the towns a tipping fee of $55.25 per ton.

Although the refuse fund is intended to be self-sufficient, it experienced operating losses during the 2010 to 2012 fiscal years because operating revenues were substantially below the level required to finance operating expenditures (Table 4).

Table 4: Enterprise Refuse and Garbage Fund Operating Revenues and Expenses			
	2010	2011	2012
Operating Revenues	$828,539	$860,117	$820,827
Operating Expenses	$1,145,417	$1,243,562	$1,187,674
Operating Income/(Loss)	**($316,878)**	**($383,445)**	**($366,847)**

We determined that the tipping fees that the County charges to the towns are not sufficient to operate the County's solid waste management program. In fact, the County has not increased the tipping fees in more than 10 years. As a result, the refuse fund is not self-sufficient, and the general fund has had to subsidize a significant portion of the refuse fund's operations through interfund transfers, which consisted of $348,057 during 2010, $358,137 during 2011, and $347,504 during 2012, for a combined total of $1,053,698. In addition, the general fund subsidized the refuse fund by making interfund advances to the fund for cash-flow purposes, so that the refuse fund could pay its operating expenses. However, none of these interfund advances were approved by the County Manager, and the refuse fund did not have enough cash on hand to repay these balances by the close of the fiscal year, as required by GML (Table 5).

Table 5: Interfund Advance Year-End Balances			
	Enterprise Refuse and Garbage Fund		General Fund
Date	Cash on Hand	Due To	Due From
12/31/10	$115,501	$2,010,094	$2,010,094
12/31/11	$130,952	$1,968,688	$1,968,688
12/31/12	$144,691	$2,021,327	$2,021,327

We reviewed the County's 2013 refuse fund budget and determined that it contains estimated revenues of $347,247 for interfund transfers from the general fund, and the County has not increased the town's tipping fees for 2013. As a result, the refuse fund will likely not be self-sufficient again during 2013 and will require subsidies from the general fund. The refuse fund's continued reliance on the general fund to cover operating expenses has contributed to the general fund's declining financial condition.

Long-Term Planning

An important oversight responsibility of the Board is to plan for the future by setting adequate long-term priorities and goals. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period. Planning on a multiyear basis allows County officials to identify developing revenue and expenditure trends and set long-term priorities and goals. Any long-term financial plans should be monitored and updated on an ongoing basis to ensure that decisions are guided by the most accurate information available.

The Board did not develop and adopt comprehensive, multiyear financial and capital plans. However, the County Manager provided us with a multiyear financial plan, covering the 2011 to 2015 fiscal years, that he had prepared and provided to the Board during the preparation of the County's 2013 budget. The plan was prepared to provide a document to the Board indicating the amount of real property taxes that the County Manager felt the County would need to raise during the 2013 to 2015 fiscal years in order to have a balanced budget for 2015, which would not require any appropriation of fund balance as a financing source. However, the County Manager told us that the multiyear financial plan was no longer realistic because the Board-adopted 2013 budget did not coincide with the plan.

The development and adoption of multiyear plans would be a useful tool for the Board to identify recurring sources of revenue sufficient to finance anticipated recurring expenditures to maintain a reasonable level of unexpended surplus funds at year end. The Board's failure to develop such plans may lead to an unhealthy depletion of the County's fund balance and could place undesired constraints on the County's financial flexibility in future years.

Recommendations

1. The Board should adopt budgets for the general fund that are structurally balanced and rely on sources of recurring revenues that are sufficient to finance operations.

2. The County Manager should authorize all interfund advances, and the Board should develop a plan to ensure that all outstanding interfund advances from the general fund are repaid.

3. The Board should establish tipping fee rates that provide a level of funding that is sufficient to adequately finance the County's solid waste management program costs.

4. The Board should develop and adopt comprehensive, multiyear financial and capital plans that provide a framework for preparing future budgets and managing the financing of future capital

needs. The Board and County officials should frequently monitor and update these plans to ensure that they are based on the most accurate and up-to-date financial information.

Payroll

One of the Board's and County officials' responsibilities is to establish a system of internal controls over payroll to ensure that employees are paid wages and salaries and provided benefits to which they are entitled. Good internal controls for payroll consist of establishing written policies and procedures for preparing and disbursing payroll and maintaining leave accrual records, as well as written Board authorization for salaries, wages, and fringe benefits. Two important components of any internal control system are properly segregating financial duties to ensure that one person does not control all phases of a transaction and providing management oversight.

County officials' failure to establish comprehensive written policies and procedures for the preparation and processing of payroll and leave time accruals has resulted in a lack of segregation of duties and lack of compensating controls. As a result, we found that employees were both over and underpaid and that employees' leave accrual records were not properly maintained. In addition, County officials have not properly limited users' access within the computerized payroll systems and have not generated and reviewed change reports from these systems. As a result, there is an increased risk that inappropriate transactions could be initiated and remain undetected and uncorrected in a timely manner.

Payroll Processing

Written payroll policies and procedures, combined with job descriptions that assign responsibilities for specific payroll activities, help to ensure that each employee understands the overall objectives and his or her individual role in the payroll process. An important principle of internal control requires that one individual should not have uncontrolled access to an entire processing cycle. County officials must establish a system of checks and balances to ensure that payroll processing duties are adequately segregated. Properly designed and maintained individual time records also are an important component of effective internal controls over payroll processing. An essential part of these controls includes requiring employees to maintain daily records of hours worked and requiring supervisors and/or employees to submit these records to individuals who process payroll in a timely manner, so that the processors can ensure that employees receive proper payroll payments. It is also important that County management certify the final payrolls to ensure their accuracy.

The County did not have comprehensive written policies and procedures to provide proper guidance and internal controls over preparing and processing of payroll. Consequently, payroll duties were not adequately segregated. The payroll specialist in the Treasurer's Office was responsible for entering the pay rates of all County employees at the beginning of the fiscal year, entering and making changes to employees' withholdings and deductions, processing and preparing payroll, printing payroll checks signed with the Treasurer's electronic signature, preparing the direct deposit file, and having access to paychecks until disbursed to County employees. In addition, the payroll specialist had access to functions within the computerized payroll system[8] that were not required for her day-to-day job duties.

County officials instituted some compensating controls, such as having the Deputy Personnel Officer review the biweekly payroll journals to ensure that all payroll changes that were forwarded to the payroll specialist from the Personnel Office were properly made and by having other employees within the Treasurer's Office perform bank reconciliations. However, these controls were not sufficient to compensate for the comprehensive duties of the payroll specialist because the controls would not necessarily detect an erroneous or inappropriate transaction. One effective compensating control would be for the Treasurer and Personnel Officer to certify the final payroll journals. However, during our review of a random sample of five payroll journals,[9] we determined that none of them had been certified by either the Treasurer or Personnel Officer.

We also found that County employees do not all submit their time sheets on a biweekly basis to the payroll specialist. Although all County employees are paid on a biweekly basis, the payroll specialist receives biweekly time sheets only from part-time or temporary employees working in all County departments. In addition, for five departments,[10] the department head sends one spreadsheet biweekly to the payroll specialist containing all of the hours worked by their employees. Each department head also signs their spreadsheet to indicate approval of the time worked. However, these five department heads do not submit supporting time records[11] with the spreadsheets that would allow the payroll specialist to verify the accuracy of the spreadsheet data.

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[8] Refer to the Computerized Payroll Systems section for further information.

[9] We used a computerized random number generator to select five payroll journals from all of the payroll journals during our audit period.

[10] Department of Public Works (approximately 70 employees), Sheriff's Department (approximately 80 employees), Communications Department (approximately 10 employees), Department of Public Health (approximately 40 employees), and Nursing Home (approximately 140 employees)

[11] An example of supporting time records would be electronic time card swipe reports for employees of the nursing home.

All other employees of the County are paid for their regularly scheduled hours without submitting time records to the payroll specialist on a biweekly basis. In fact, time records for these employees are never submitted to the payroll specialist. Instead, department heads for these employees follow the County's policy for submitting their employees' time sheets, which requires only that department heads file their departments' monthly time sheets of their time worked and leave time used with the Personnel Office no later than the 10th of the following month. However, we found that the Personnel Office does not review all of the monthly time sheets that are submitted; instead, it relies on the departments to ensure that the time worked by employees is properly recorded on the monthly time sheets.

As a result of these control weaknesses, we reviewed a sample of 25 employees[12] to verify that data entered into the payroll system agreed with input documents, pay rates agreed with Board resolutions and/or the County's collective bargaining agreement, and gross pay was calculated correctly for four pay periods[13] during the 2012 fiscal year for a total of 100 payroll payments totaling $171,018. We found that all 25 employees' pay rates were in agreement with Board resolutions and/or the County collective bargaining agreement. However, five of the 25 employees did not receive the correct gross pay for all four payroll periods, resulting in discrepancies in eight of the 100 payroll payments that we reviewed. For example, one employee was paid twice for 6.5 hours of overtime worked, and the other four employees did not receive the correct gross pay because their shift differentials were not accurately calculated, resulting in both overpayments and underpayments. In all eight cases, the payments associated with these discrepancies were minor.

Although our testing did not reveal any material exceptions, when County officials allow key payroll duties to be performed by one individual, this significantly increases the risk that errors and/or irregularities could occur and remain undetected. In addition, the County's lack of proper oversight over the payroll process, as evidenced by the absence of sufficient compensating controls, further increases the potential for fraud and abuse.

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[12] Our sample consisted of selecting five employees that were directly involved in processing payroll and then choosing the remaining 20 employees by randomly selecting five employees from each of the County's four largest departments (Nursing Home, Department of Social Services, Sheriff's Department, and Department of Public Works) using a computerized random number generator.

[13] June 29, 2012, July 13, 2012, November 30, 2012, and December 14, 2012

Leave Time Accruals

A good system of accounting for employee leave time (e.g., vacation and sick time) requires periodic verification that the records for leave time earned and used and leave allowances earned by employees are accurate and prepared in a timely manner. The County must have comprehensive policies and procedures in place that provide for periodic independent reviews of leave time accrual records and balances throughout the year. It is important for procedures to be designed to ensure that leave time is earned in accordance with County policies, collective bargaining agreements, and/or Board resolutions, and that days used are properly deducted from employee leave time accruals. Because the County provides cash payments to employees for all or a portion of their unused vacation, sick, and compensatory leave time when they leave employment, and because employees receive retirement service credit for unused sick leave time,[14] it is especially important for the County to maintain accurate leave time accrual records. It is also important that the Board Chairman and/or County Manager review and approve the monthly time sheets of the department heads to ensure the accuracy of their leave time used and accrued.

The County did not have comprehensive written policies and procedures to provide proper guidance and internal controls over leave time. Consequently, departments established their own procedures to account for employee leave accruals. For example, the Department of Public Works used manual leave requests, the Sheriff's Department used electronic leave requests through their scheduling software, and the Department of Social Services used electronic leave requests through the Essex County time sheet system (time sheet system).[15] Because the County's policy manual requires only that department heads file their departments' monthly time sheets of their time worked and leave time used with the Personnel Office no later than the 10th of the following month, the payroll specialist is unable to ensure that County employees have sufficient leave time available prior to them being paid for it. Instead, the County relies on the department heads to send a personnel change form to the Personnel Office indicating that an employee has exhausted their leave time, so that they will not receive their regular pay. In addition, we found that 18 department heads submit their own monthly time sheets of their leave time used to the Personnel Office without any independent approval.

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[14] Employees can receive retirement service credit for 165 days of unused sick leave and a cash payment for unused sick leave in excess of 165 days, up to 35 days.

[15] This application is used by most departments of the County to account for employee leave accruals and by the Personnel Office to maintain leave accrual balances for all County employees.

As a result of these control weaknesses, we reviewed a sample of leave accrual records for 25 employees[16] to verify that leave accrual amounts entered into the time sheet system agreed with input documents for four payroll periods[17] during the 2012 fiscal year and to verify that leave time credited and carried over to the 2012 and 2013 fiscal years agreed with Board resolutions and/or the County's collective bargaining agreement. We found that for nine of the 25 employees, the data entered into the employees' leave accrual records in the time sheet system did not agree with the input documents for all four payroll periods, resulting in discrepancies with 13 of the 100 employee payrolls that we reviewed.

In addition, we found that the unused leave time amount for one of the 25 employees was not properly carried over from the 2011 to the 2012 fiscal year, and the unused leave time amounts for three others was not properly carried over from the 2012 to the 2013 fiscal year. In total, we found errors in the leave accrual records for 11 of the 25 employees that resulted in the 11 employees being either incorrectly credited with leave time, or not having leave time deducted when they took time off, totaling 78 hours, which was valued at $1,519. In addition, one of the 11 employees had not been credited with 8.25 hours of compensatory leave time that he was entitled to, which was valued at $166. Although the cost to the County for these discrepancies was small, the cumulative impact of such errors and irregularities over time could result in a substantial cost.

We also verified whether employees who had negative leave accrual balances totaling 15.05 hours as of the end of 2012 had been docked pay in a timely manner. As of April 12, 2013,[18] we found that none of the five employees had been docked pay. An employee in the Personnel Office told us that this occurred because the Personnel Office was waiting to receive a personnel change form from each of the employees' departments before they would be docked pay.

The Personnel Office currently relies on the leave accrual balances that are maintained by the Sheriff's Department, instead of the balances that are maintained centrally by the Personnel Office. The Personnel Officer told us that this has occurred because there is some dispute on the part of the Sheriff's Department as to the accuracy of the leave accrual balances maintained by the Personnel Office. We compared the leave accrual balances for 10 Sheriff's Department employees[19] maintained by the Personnel Office with the leave accrual balances maintained by the Sheriff's Department as of January 1, 2013, to

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[16] We selected the same 25 employees that we reviewed in our payroll testing.
[17] June 15, 2012, June 29, 2012, November 16, 2012, and November 30, 2012
[18] This was the date that we performed this verification.
[19] Refer to Appendix C for further information on this sample selection.

determine the extent of the discrepancies between the two systems and found that none of the 10 employees' leave accrual balances were in agreement. In total, the Personnel Office's leave accrual balances for sick, vacation, and compensatory leave time for the 10 employees were in excess of the Sheriff Department's leave accrual balances by 193.99 hours (sick time), 237.29 hours (vacation time), and 26.85 hours (compensatory time). Also, the Personnel Office's leave accrual balances for personal leave time for the 10 employees were less than the Sheriff Department's leave accrual balances by 28 hours.

Accurate leave records are essential in determining the proper amount of termination payments that are due to employees who retire or resign from their positions and ensuring that County employees are compensated for the correct amounts to which they are contractually entitled. The number of errors identified during our testing indicates that the County's process for maintaining leave accrual records needs substantial improvement and that the County may be at risk of under or overpaying employees who retire or resign from County employment.

Computerized Payroll Systems

Effective controls over users' access to software applications restrict authorizations to only those functions needed for individuals to perform their job duties. Such authorizations should preserve the proper segregation of duties so that the same person is not involved in multiple aspects of a financial transaction. Generally, a designated system administrator has oversight and control of the system with the ability to add new users, change users' access rights, and control and use all aspects of the system. In addition, a computerized payroll system should provide a means of determining, on a constant basis, who is accessing the system and what transactions are being processed. Audit logs (commonly known as audit trails) maintain a record of any change or transaction made in the system. An audit trail enables management to determine when an entry was made and what it entailed and establishes individual accountability by identifying the associated user account. Management or management's designee must review this audit log to monitor the activity of users who access the system.

<u>Payroll System</u> – We reviewed user access reports for the payroll system and found that five employees in the Treasurer's Office and three employees in the Personnel Office had access to functions that were not required for their day-to-day job duties. For example, the payroll specialist, a principal account clerk, and two senior account clerks in the Treasurer's Office have the ability to add new employees and change pay rates, although these functions are supposed to be performed by employees of the Personnel Office. In addition, the Deputy Personnel Officer, personnel clerk, and personal assistant

in the Personnel Office have the ability to make withholdings and deduction changes, although these functions are supposed to be performed by employees of the Treasurer's Office. Furthermore, a Deputy Treasurer and a senior account clerk in the Treasurer's Office have access to multiple functions within the payroll system, although their day-to-day job duties do not include performing payroll processing functions. None of these employees need this level of access to perform their job duties or to provide coverage for other employees during absences.

We determined that changes made in the payroll system (i.e., pay rate changes) are recorded in the system with the user identification of the individual who made the changes. However, the County does not generate any reports from the system to indicate the payroll changes that were made, although these change reports can be generated. Because users have more access in the payroll system than is necessary to complete their job duties, and because the County does not generate any change reports from the system, we tested transactions within the payroll system where users had more access than necessary, to verify that the transactions were accurate and/or for appropriate purposes. Specifically, we traced the names of a random sample of 20 individuals[20] who received payroll payments during the 2012 fiscal year to personnel files to determine if they were legitimate employees. We reviewed a sample of 20 pay rate changes[21] that were made during the 2012 fiscal year to verify that pay rate changes were supported, in agreement with Board resolutions and/or the County's collective bargaining agreement, and for an appropriate purpose. We also reviewed a sample of 10 withholdings and deduction changes[22] that were made during the 2012 fiscal year to verify that withholdings and deduction changes were in agreement with supporting documentation and for an appropriate purpose. We did not identify any discrepancies.

Although our testing did not disclose any discrepancies, when County officials allow employees to have access rights to the payroll system that are not in accordance with their job duties, and when someone independent of the payroll process does not review change reports

[20] We used a computerized random number generator to select 20 individuals in the payroll system who received a payroll payment during the 2012 fiscal year.

[21] We selected 20 pay rate changes that were made throughout the period February 1, 2012, to December 31, 2012, from a payroll activity report that was generated from the payroll software. Refer to Appendix C for further information on our sample selection.

[22] We selected 10 withholdings and deduction changes that were made throughout the period February 1, 2012, to December 31, 2012, from a payroll activity report that was generated from the payroll software. Refer to Appendix C for further information on our sample selection.

from the system, the County has an increased risk that unauthorized changes could be made to the payroll data, or inappropriate transactions could be initiated, and remain undetected and uncorrected in a timely manner.

Essex County Time Sheet System – We reviewed user access reports for the time sheet system and found that the senior computer program analyst and the information systems coordinator in the County's information technology (IT) Department and the personnel clerk in the Personnel Office have administrative rights to the system, which allow them to modify any County employee's leave accrual transactions. While we determined that these employees would need this level of access based on their job duties, we determined that County officials do not review any change reports from the system indicating the modifications that were made, although these change reports can be generated. From a time sheet system change report,[23] we selected and reviewed 25 modifications[24] made during our audit period to verify that that they were for appropriate purposes. We found one minor exception with these transactions, which we discussed with County officials.

We also found that 15 department heads record their own leave time used directly into the system and have the ability within the system to modify leave accrual transactions without any approval. For example, these department heads have the ability to access previous months' time sheets and delete leave time that they previously recorded using, which would then be added back to their leave accrual balances. The County does not generate any change reports from the system indicating the modifications made by department heads, although these change reports can be generated. We reviewed a change report indicating all of the modifications made by department heads to their own leave accrual transactions during our audit period and found that 10 of the 15 department heads made a total of 15 modifications to their leave accrual transactions. Because these modifications were made by the department heads to their own leave accrual records without any additional supporting documentation, we had no means to verify if the 15 modifications were for appropriate purposes. Of these 15 modifications, 13 were made by the department heads within at least two weeks of the original transaction date. However, we found that

[23] This change report included all of the modifications made to the time sheet system during our audit period by employees with administrative rights to the system. It indicated that 608 modifications were made during our audit period by the information systems coordinator and personnel clerk and that none were made by the senior computer program analyst.

[24] Refer to Appendix C for further information on our sample selection.

one department head changed 16 hours of vacation leave to personal leave more than a month after he originally recorded the leave taken.[25]

The excessive level of access that employees and department heads have in the system, combined with the lack of someone independent of the payroll process reviewing change reports from the system, increases the County's risk that inappropriate modifications could be made to leave accrual transactions and remain undetected and uncorrected in a timely manner.

Recommendations

5. County officials should establish a comprehensive payroll processing and leave time accrual policy that incorporates the duties, records, and procedures that are needed to ensure that payroll records are accurate, efficient, timely, and appropriate.

6. The Treasurer should segregate payroll processing duties. Where it is not practicable to segregate duties, the Treasurer should establish appropriate compensating controls, such as increased management review procedures.

7. The Treasurer and Personnel Officer should review and certify final payroll journals.

8. The Personnel Office should review all time sheets that are submitted to ensure that time worked and leave time earned and used by employees is properly recorded.

9. The Board Chairman and/or County Manager should approve department heads' time sheets.

10. County officials should ensure that employees who exhaust their leave accrual balances are docked pay in a timely manner.

11. County officials should ensure that the leave accrual balances that are maintained by the Personnel Office are accurate for all County employees.

12. County officials should evaluate employee job descriptions and assign payroll system access rights to match the respective job functions.

13. County officials should ensure that someone who is independent of the payroll process generates and reviews payroll change

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[25] The department head originally recorded the leave taken as vacation leave on December 18, 2012, and December 19, 2012. On February 7, 2013, he changed the designation of those hours taken from vacation leave to personal leave.

reports to verify that changes made to employee records within the payroll system are authorized and appropriate. In addition, County officials should ensure that someone who is independent of maintaining employees' leave accrual records generates and reviews time sheet system change reports to verify that changes made to employee records in the time sheet system are appropriate.

14. County officials should ensure that the time sheet system is updated to prevent department heads from being able to both record their leave time used and modify leave accrual transactions in the system without any approval.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

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Office of the Manager

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Michael Mascarenas, Deputy County Manager
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October 16, 2013

NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

Dear Sirs/Madam:

Please accept the following as the County's response to your audit findings as previously provided to us.

As you are aware, the full Board of Supervisors was provided with a draft of your findings for their review. As of this date, no formal response by the Board has been presented to this office, but I have been authorized by the Chairman of the Board to prepare this letter as a response to the findings.

The scope and objective of your audit were to review the financial condition of the County and the internal controls over the payroll for the period of January 1, 2012, to January 31, 2013. Specifically, you addressed the following questions:

- *Does the Board adopt realistic budgets that are structurally balanced and take appropriate action to maintain the County's fiscal stability?*

- *Are internal controls over payroll and the maintenance of leave accruals appropriately designed and operating effectively to adequately safeguard County assets?*

You note within your audit findings that *"the County's financial condition has declined over the last three fiscal years. This occurred because the Board adopted budgets for the general fund that were not structurally balanced. In addition, the County's enterprise health fund and enterprise refuse and garbage funds were not self-sufficient and, therefore, required subsidies from the general fund through both interfund transfers and advances."*

We do not disagree with these findings and acknowledge the same. As noted within your audit this office has been vocal with the Board as it relates to the very same specific areas of concern. However, in our view the audit fails to acknowledge the primary cause of County's over reliance on fund balance is driven in large part on the State of New York.

We recognize that the Office of the State Comptroller views itself as a distinct and separate entity from the State Legislature, however the cost of local government has been driven by all state and federal mandates. Included within those mandates is the New York State Retirement fund which has exploded on local governments with little if any relief in sight. Currently more than 20% of our payroll costs are driven by New York State retirement contributions. The County's New York State Retirement contributions in 2008, was $1,797,993.00 and has increased to $4,570,270.00 in 2013, which represents $2,772,277.00 in additional contributions on a yearly basis for the County.

Since 2008, the County has lost more than $4,500,000.00 in revenue from all sources including State and Federal funds. Mandated services to Counties continue to increase while state and federal funding continues to decline at an alarming rate. We realize this does not change the fact that the Board has used excessive amounts of fund balance to cover these expenditures, but the simple question remains, what is the alternative?

See Note 1 Page 29

It must be pointed out, at the same time the mandated costs have exploded on the counties, the state implemented the 2% tax cap provisions. The result of the tax cap legislation has had unintended consequences, which the state may not have anticipated.

As is the case with most County governments, the initial response to the tax cap was to cut back in those areas which really represented low hanging fruit. After the initial response, County's began looking at serious reductions in services such as the sale of nursing homes and the closing of CHHA programs within Public Health, as well as reductions in staffing and the elimination of locally controlled service programs.

Another recurring response to the tax cap is the current practice of most local and county governments to remove major equipment purchases and indefinitely delay capital improvement projects in an effort to stay within the tax cap. If we were a private business, this practice would signal that we were preparing for the point in which we would close the doors and go out of business. As a government we don't have that as an option, therefore all that has been accomplished is a short term response to a long term problem.

Additionally, inherent within the response to the tax cap was the over reliance on fund balance as a revenue source. As you pointed out in the audit, fund balance is not a recurring revenue source and should not be used to finance recurring expenditures. However, the public pressure created within the context of the property tax cap left the use of fund balance as the least painful short term response. The reality is the Comptroller's office will be releasing on a routine basis local government audits with the primary fault being "structurally unbalanced budgets."

In terms of the problems associated with the Enterprise Funds, we have addressed the issue of the Enterprise Health Fund which represents the County's operation of the Horace Nye Nursing Home, thru the sale of the home. The sale closing for the nursing home is on track to occur in December of 2013.

The problems associated with the Enterprise Refuse and Garbage Fund will be addressed in the 2014 budget year. The County is due to renew contracts, and decisions will be made at that point if we are to continue under the current arrangement or arrive at some other structure. As it relates to the current deficit within this fund, the board has been aware of the deficit but has not been willing to increase the tipping fees to the Towns to offset the same. Basically it would take an increase of nearly $40.00 per ton to cover the operating losses within the Enterprise fund. Increases of $40.00 a ton within Town budgets would in most cases make it difficult for Town's to meet their tax cap obligations. It is difficult to get an affirmative vote of the Board to create what would be additional pressure on their local budgets.

In terms of the Payroll audit, we acknowledge and agree with many of the findings contained within the report. Problems associated with tracking and keeping time records has been an ongoing issue. As far back as three years ago it was presented to the Board for the implementation of a fully integrated biometric time and attendance payroll software system. The projected cost of this software integration was anticipated to exceed $150,000.00. In light of the fact the cost of the proposed system represented more than half of the County's tax cap allocation, it was removed from the budget. We have currently put together a biometric time and attendance proposal that would reduce the cost to $90,000.00, which has been approved by the Board. In the mean time we have implemented time sheet reviews procedures based upon recommendation contained within the audit.

As provided for under the audit we will prepare a more detailed corrective action plan to address the concerns of the Comptroller's office. We look forward to working with you and if you should have any questions please let us know.

Sincerely yours,

Daniel L. Palmer
Essex County Manager

cc: Essex County Board of Supervisors
Michael Diskin, Essex County Treasurer
Linda Wolf, Essex County Purchasing Agent / CPA

APPENDIX B

OSC COMMENTS ON THE COUNTY'S RESPONSE

Note 1

We agree that the County, like most other counties, has had increased costs that affect its budget from year to year. The County is deliberately using fund balance to address these increased costs, but continuing this practice will result in fiscal instability.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the financial condition of the County and the adequacy of the County's internal controls over payroll. To accomplish this, we performed an initial assessment of the County's financial condition and of internal controls related to payroll, so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed County officials, performed limited tests of transactions, and reviewed pertinent documents such as County policies and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses as related to our objectives.

To accomplish our financial condition audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed the Board Chairman, Chairman of the Finance Committee, and other County officials to gain an understanding of the County's financial management policies and procedures. This included making inquires about the County's budgeting practices, the preparation of multiyear financial and capital plans, and the development of plans to maintain the County's fiscal stability.

- We analyzed the County's financial records for the general fund for fiscal years 2010 through 2012 to determine if the general fund's financial condition had declined. We also evaluated any factors contributing to the decline.

- We compared the adopted budgets for the general fund for fiscal years 2010 through 2012 with the actual results of operations to determine if the budgets were realistic and structurally balanced.

- We reviewed the adopted budget for the general fund for the 2013 fiscal year to determine if the budgeted revenues and appropriations were reasonable based on historical data and if the budget was structurally balanced.

- We analyzed the County's financial records for the enterprise health fund and enterprise refuse and garbage fund for fiscal years 2010 through 2012 to determine if the funds were self-sufficient. We also evaluated any factors contributing to these funds not being self-sufficient.

- We reviewed the County's accounting records to determine all of the interfund transfers and interfund advances that were made from the general fund to the enterprise health fund and the enterprise refuse and garbage fund during fiscal years 2010 through 2012. We then reviewed the interfund advances to determine if they were approved by the County Manager and repaid by the close of the fiscal year, in accordance with GML. We also compared the cash balances of the enterprise health fund and enterprise refuse and garbage fund at the fiscal year-ends of 2010, 2011, and 2012 to the corresponding amount that each fund owed the general fund for advances that they had received to determine if the funds had sufficient cash on hand to repay these balances.

- We reviewed the adopted budgets for the enterprise health fund and enterprise refuse and garbage fund for the 2013 fiscal year to determine if the funds would be self-sufficient or would require subsidies from the general fund.

To accomplish our payroll audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed County officials and employees and reviewed the County's policy manual, collective bargaining agreement, Board resolutions, and various financial records and reports to gain an understanding of the internal controls over the processing of payroll and maintenance of leave accruals and any associated effects of deficiencies in those controls.

- We reviewed a random sample of five payroll journals during our audit period to determine whether they were certified by the Treasurer and Personnel Officer.

- We reviewed a sample of 25 employees to verify that data entered into the payroll system agreed with input documents, pay rates agreed with Board resolutions and/or the County's collective bargaining agreement, and gross pay was calculated correctly for four pay periods during the 2012 fiscal year.

- We reviewed a sample of 25 employees' leave accrual records to verify that leave accrual amounts entered into the time sheet system agreed with input documents for four payroll periods during the 2012 fiscal year and to verify that leave time credited and carried over to the 2012 and 2013 fiscal years agreed with Board resolutions and/or the County's collective bargaining agreement.

- We reviewed a report that was generated from the Essex County time sheet system listing all employees with negative leave accrual balances as of the 2012 fiscal year-end to verify if employees who had exhausted their leave accrual balances were docked pay in a timely manner.

- We compared a random sample of 10 Sheriff's Department employees' leave accrual balances that were maintained by the Personnel Office with the leave accrual balances that were maintained by the Sheriff's Department as of January 1, 2013, to determine the extent to which the balances were not in agreement. We used a computerized random number generator to select these 10 Sheriff's Department employees from a report that was generated from the payroll system that listed all employees within the department.

- We interviewed County officials and employees, reviewed user access reports for the payroll system, and physically inspected employees' computer screens to determine which employees had access to the payroll system, each employee's access rights, and whether the employees had access to functions that were not required for them to fulfill their day-to-day job duties.

- We traced the names of a random sample of 20 individuals who received payroll payments during the 2012 fiscal year to personnel files to determine if they were legitimate employees.

- We reviewed a sample of 20 pay rate changes made in the payroll system during the 2012 fiscal year to verify that pay rate changes were supported and in agreement with Board resolutions and/or the County's collective bargaining agreement. We selected these 20 pay rate changes by selecting them from the time period February 2012 to December 2012 to satisfy the total sample amount. We selected the individual pay rates changes as they occurred by time period (February to December) and not due to any other criteria.

- We reviewed a sample of 10 withholdings and deduction changes made in the payroll system during the 2012 fiscal year to verify that withholdings and deduction changes were in agreement with supporting documentation and for an appropriate purpose. We selected these 10 withholdings and deduction changes by selecting them from the time period February 2012 to December 2012 to satisfy the total sample amount. We selected the individual withholdings and deduction changes as they occurred by time period (February to December) and not due to any other criteria.

- We interviewed County officials and employees, reviewed user access reports for the Essex County time sheet system, and physically inspected and observed transactions in the computer system.

- We reviewed a sample of 25 leave accrual transaction modifications made during our audit period to verify that they were for appropriate purposes. Our sample was selected by first having the senior computer program analyst from the County's IT Department generate a change report from the system indicating all of the modifications that were made during our audit period by employees with administrative rights to the system. Our sample consisted of selecting one modification that was made by the personnel clerk in the Personnel Office during each of the 13 months during our audit period and selecting one modification that was made by the information systems coordinator from the County's IT Department during 12 of the 13 months during our audit period.

- We reviewed a change report indicating all of the modifications that were made by department heads to their own leave accrual transactions during our audit period.

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 objective.

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