Office of the New York State Comptroller

Division of Local Government & School Accountability

Schuyler County

Treasurer's Office

Report of Examination

Period Covered:

January 1, 2011 — September 11, 2013

2014M-186

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government and School Accountability

October 2014

Dear County Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and County Legislature 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 entitled Schuyler County Treasurer's Office. 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

State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

Schuyler County (County) is located in the Finger Lakes Region of New York State and has a population of 18,340. The County is governed by eight part-time Legislators. The Chairman of the County Legislature (Legislature) is the County's chief executive officer. The Legislature appoints a chief administrative officer (Administrator) who acts as the supervisor of County administrative functions. The Legislature is responsible for setting wages and benefits and for formalizing them in collective bargaining agreements, individual employment contracts and employee policies. The County's budgeted appropriations for 2013 were $45.2 million.

The elected County Treasurer (Treasurer) is the County's chief fiscal officer. The Treasurer is the recipient and custodian of all of the County's money and is responsible for maintaining an accurate accounting of all receipts and disbursements. The Treasurer's office performs a variety of financial functions including the collection of funds through taxes and fees and the administration of the accounts payable function and the payroll function. The County had two elected Treasurers during our audit period.[1]

Scope and Objective

The objective of our audit was to examine the operations of the Treasurer's office for the period January 1, 2011 through September 11, 2013. Our audit addressed the following related question:

- Did the Treasurer perform the fiscal duties of his or her office appropriately?

Audit Results

Neither Treasurer appropriately performed the duties of their office. Neither Treasurer had established written procedures for the office's financial processes. In addition to the lack of procedures, neither Treasurer had adequately segregated duties for receipts and disbursements or developed compensating controls to adequately safeguard County assets. For example, neither Treasurer provided any oversight procedures for collecting general receipts and tax moneys or disbursing payroll and accounts payable checks. Because of the lack of oversight, the Treasurers could not verify that the records maintained in their office were accurate.

[1] The former Treasurer served from January 1, 2004 through December 31, 2011, and the individual referred to as the current Treasurer served from January 1, 2012 through August 1, 2014.

In addition, the Treasurers did not reconcile cash with the accounting records in a timely manner and subsidiary accounts were not reconciled to control accounts, resulting in inaccurate financial reports that were not prepared in a timely manner. As a result, County officials did not know the true cash or financial position at any point in time during the fiscal year. In fact, the public accountant (CPA) had to reconcile cash and all the balance sheet accounts during the annual financial audits and provide correcting journal entries for the material errors in the Treasurers' records. These errors resulted in the misstatement of all financial reports prepared by the Treasurers' office throughout the fiscal year. Furthermore, because the records were inaccurate and out of balance, the annual update document (AUD) could not be filed timely. The 2011 AUD was not submitted by the current Treasurer until February 1, 2013, and the 2012 AUD was not filed until October 16, 2013. Even after the CPA provided correcting entries and a financial statement, the filed 2011 AUD was not supported by the accounting records because office staff did not make all of the correcting entries.

The Treasurers also did not review the Deputy's tax collection reconciliations with the County's eight town tax collectors. We reviewed all 24 of the towns' reconciliations prepared for 2011, 2012 and 2013 for accuracy. We found one reconciliation for the Town of Reading for 2011 was short $1,786. This amount was not charged back to the Town in the subsequent year. Therefore, the County lost this revenue. In addition, we found the Deputy's reconciliations failed to identify and collect $11,316[2] in service charges paid by taxpayers from two towns that chose the installment tax payment option.

Furthermore, County officials did not know the number of delinquent tax accounts or the total amount of taxes due to the County at any time during the year. Officials did not have a list of taxpayers with tax installment agreements and a list of taxpayers in default on their tax installment agreement. As a result, collections were limited and haphazard.

Although the County's CPA conveyed the material weaknesses resulting from the lack of oversight in the annual management letter, the Treasurers did not address the CPA's recommendations. Instead, the Treasurers relied on the annual public audit to determine the correct amounts that should be reported.

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.

[2] Town of Catharine: $1,436 for 2011, $1,469 for 2012 and $1,889 for 2013 and Town of Tyrone: $2,788 for 2012 and $3,734 for 2013

Introduction

Background

Schuyler County (County) is located in the Finger Lakes Region of New York State and has a population of 18,340. The County is governed by eight part-time Legislators. The Chairman of the County Legislature (Legislature) is the County's chief executive officer. The Legislature appoints a chief administrative officer (Administrator) who acts as the supervisor of County administrative functions. The County's budgeted appropriations for 2013 were $45.2 million.

The elected County Treasurer (Treasurer) is the County's chief fiscal officer. The Treasurer is the recipient and custodian of all of the County's money and responsible for maintaining an accurate accounting of all receipts and disbursements. The Treasurer's office performs a variety of financial functions including the collection of funds through taxes and fees and the administration of the accounts payable function and the payroll function. The County had two elected Treasurers during our audit period.[3]

Objective

The objective of our audit was to examine the operations of the Treasurer's office. Our audit addressed the following related question:

- Did the Treasurer perform the fiscal duties of his or her office appropriately?

Scope and Methodology

We examined the Treasurer's processing and recording of receipts and disbursements for the period January 1, 2011 through September 11, 2013.

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.

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.

The Legislature 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 New York

[3] The former Treasurer served from January 1, 2004 through December 31, 2011, and the individual referred to as the current Treasurer served from January 1, 2012 through August 1, 2014.

State General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, Responding to an OSC Audit Report, which you received with the draft audit report. We encourage the Legislature to make this plan available for public review in the office of the County Clerk.

Treasurer's Office

As the County's chief fiscal officer, the elected Treasurer must develop sound procedures and processes which, when implemented properly and consistently, provide a system of internal controls that account for and safeguard County funds. Key accounting functions must be adequately segregated to the extent possible given the size and complexity of the Treasurer's operations. When it is not feasible to adequately segregate accounting functions, the Treasurer must implement compensating controls, such as increased oversight and periodic account reconciliations. In addition, recommendations made to improve any fiscal operation deficiency should be addressed formally with a corrective action plan (CAP) to ensure that the financial information can be used to report and manage County operations.

The Treasurers did not appropriately perform the duties of their office. The Treasurers have not established any written procedures for the office's financial processes. In addition to the lack of procedures, the Treasurers did not adequately segregate duties for receipts and disbursements or develop compensating controls to adequately safeguard County assets. For example, the Treasurers did not provide any oversight procedures for collecting general receipts and tax moneys or disbursing payroll and accounts payable checks. Because of the lack of oversight, the Treasurers could not verify that records were accurate. Also, the Treasurers did not reconcile cash with the accounting records in a timely manner, resulting in inaccurate financial reports that were not prepared in a timely manner. Although the County's public accountants (CPA) have conveyed the material weaknesses resulting from the lack of oversight, the Treasurers did not develop any formal plan to address the recommendations made by the CPA in the annual management letter. Instead, the Treasurers relied on the CPA's annual audit to determine the correct amounts that should be reported.

Segregation of Duties

To fulfill the responsibilities of the chief fiscal officer, the Treasurer must establish written procedures for processing the various financial transactions handled by office staff. These procedures should provide detailed guidance that adequately explains and segregates the financial duties of office staff. The concentration of key responsibilities with one individual significantly increases the risk that errors or irregularities could occur and remain undetected and uncorrected. It is important that those who record transactions do not perform other accounting duties such as receiving or disbursing cash and reconciling to the bank statement. Finally, it is necessary that the Treasurer provide oversight of office employees and operations to ensure that assets are properly accounted for and protected from waste, abuse, fraud or corruption.

The Treasurers had three employees in their office to process cash receipts and disbursements, such as real property taxes, accounts payable and payroll. The Treasurers did not establish any procedures for processing the various financial transactions handled by office staff. As a result, there is a lack of segregation of duties.

Specifically, we found:

- The Deputy Treasurer (Deputy) collects receipts, records transactions in the accounting software, and is responsible for reconciling the general and welfare fund bank accounts, without any oversight from the Treasurers. The Deputy also reconciles to the general ledger without any oversight.

- The payroll clerk downloads the time and attendance data, prepares the payroll, makes manual adjustments, prints checks with a computerized signature, distributes checks and reconciles the payroll bank account to check register without any oversight.

- The accounts payable (AP) clerk enters approved vouchers into the accounting software, prints checks with a computerized signature and mails checks to vendors without any oversight.

- All staff collect money, issue receipts, record cash receipt transactions in the cash receipts journal and accumulate funds in a common drawer using a shared computer terminal and password.

- The Treasurer, Deputy and AP clerk prepare and sign manual checks with a signature stamp and mail them prior to review by the claims auditor.

Because of the lack of adequate segregation of duties and oversight, there is an increased risk that errors and irregularities may not be prevented or detected in a timely manner. Due to these deficiencies, we reviewed tax receipts, general receipts, cash disbursements and payroll.

<u>Tax Receipts</u> – Real property tax receipts represented 26.5 percent of the County's estimated revenue ($12 million of $45.2 million) for 2013. The eight towns within the County collect both town and county taxes until March 31 and retain all taxes collected until the town supervisors have received their town's entire tax levy. Collections in

excess of the towns' tax levy are remitted to the Treasurer's office by the town tax collectors. Throughout the towns' collection period any available Treasurer's office staff may collect tax receipts, issue a manual receipt and enter the payment in the accounting system's tax module.

On April 1, town tax collectors remit a list of all unpaid taxes to the County for collection, including taxpayers that have chosen the installment option.[4] Then, the Deputy prepares a reconciliation to ensure that the towns received only the amount due to them. While the Deputy prepares the reconciliation, any available office employee can accept payments from taxpayers and prepare a manual receipt. These payments are not deposited or recorded until the Deputy has settled with the towns and updated the accounting system's tax module. After March 31, delinquent taxpayers can pay their overdue taxes up to the time when their property is sold at auction. The County also allows delinquent taxpayers to enter an installment agreement,[5] which allows them to make payments plus interest over a period of 24 months.

Because the Treasurers did not review the Deputy's reconciliations, we reviewed all 24 of the towns' reconciliations prepared for 2011, 2012 and 2013 for accuracy. We found one reconciliation for the Town of Reading was short $1,786[6] for 2011. This amount was not charged back to the Town in the subsequent year. Therefore, the County lost this revenue. In addition, we found the Deputy's reconciliations failed to identify and collect $11,316 in service charges paid by taxpayers from two towns that chose the installment option. Finally, the tax accounting software automatically charged penalties and interest on uncollected taxes. However, these amounts are not recorded in the general ledger until the entire tax is collected. As a result, the subsidiary accounts never balanced with the general ledger control account.

<u>General Cash Receipts</u> – County receipts are collected and recorded in the accounting software by all office employees on the shared counter computer which is logged into the accounting software using the Deputy's user name and password. These receipts are placed in the shared counter cash drawer. At the end of the day, one

[4] The County offers taxpayers an installment option, which requires the taxpayer to pay 50 percent of their taxes plus a 1 percent service charge payable to the Town by January 31. The service charge paid to the Town must be remitted to the County. The remaining 50 percent is payable to the County by July 1.

[5] The County offers installment agreements which require the taxpayer to pay 10 percent of total delinquent tax at signing and 12 percent interest per annum charged on the outstanding balance for a term not to exceed 24 months.

[6] Town of Catharine: $1,436 for 2011, $1,469 for 2012 and $1,889 for 2013 and Town of Tyrone: $2,788 for 2012 and $3,734 for 2013

employee counts the cash in the counter drawer while another runs receipt reports from the tax accounting software to update the general ledger. The cash collected is compared to the cash receipts reports and differences are resolved before the cash is deposited. Because the Treasurers allow anyone available to collect and record cash receipts without the ability to determine who is responsible for the collection, there is no accountability for cash receipts.

We tested all 70 general receipts transactions posted to the accounting system's general ledger totaling $3,823,711 for a randomly selected month (February 2013). Of these 70 transactions, 11 transactions totaling $188,064 were deposited accurately and timely but were not recorded in the correct cash account. These errors were not identified or corrected until the bank statements were reconciled four months later in June 2013. Furthermore, the Deputy made the correcting journal entries without any approval or review when she prepared the bank reconciliations.

<u>Cash Disbursements</u> – The AP clerk processes approved claim vouchers biweekly. The AP clerk receives approved claims from the County's claims auditor and enters these into the accounting software for payment. She then prints the checks with the Treasurer's signature electronically affixed to them and mails them without any review. Concentrating these key disbursement duties with one individual with little or no oversight significantly increases the risk that errors or irregularities could occur and go undetected. For example, the AP clerk prepares manual checks for certain utilities prior to the claims auditor's review. She affixes the Treasurer's signature using a signature stamp machine and mails the checks without any review. The claims, but not the check stub, are then forwarded to the claims auditor for review.

In addition, there are claims and checks that are manually processed outside of the computerized accounting system that are entered as general journal entries after they are paid. The Treasurer and Deputy prepare manual checks for various claims including payments to snowmobile clubs for County trail maintenance and tax settlements for schools. They manually prepare the checks, stamp them with the Treasurer's signature, mail them and post the journal entries. These disbursements are not reviewed or approved by the claims auditor. Allowing manual payments without controls prevents the claims auditor from ensuring that all payments are for valid County purposes.

We reviewed 477 disbursement transactions from the month of February 2013 totaling $1,202,074 to determine if they were recorded in the correct general ledger subaccounts. We selected 24 of the 477 transactions totaling $317,812 to determine if the disbursements were audited, authorized and properly supported. We found that, generally, the disbursements were audited and properly supported.

Payroll – All hourly and salaried employees enter their time in the automated timekeeping system anytime during the biweekly pay period. The entries are reviewed and approved by the employees' Department head/supervisor. This information is downloaded to the payroll clerk for interface with the accounting system software where she makes adjustments because the two software programs do not fully interface. For example, she has to manually enter holiday hours into the accounting system. The payroll clerk then processes the payroll, prints checks or initiates direct deposits using an electronic signature and prepares the general journal entries. Although the Treasurer certifies the payroll, he does not review it due to time constraints. The payroll clerk also prepares the monthly, quarterly and annual payroll reports for governmental reporting and reconciles the payroll checkbook to the bank statement. Because the payroll clerk has unlimited access to the accounting system's payroll module and processes payroll with limited oversight, there is significant risk that errors and irregularities could occur and go undetected.

As a result of these weaknesses, we tested the payroll records for 25 employees from 2011 and 2012 for appropriate salary, deductions, and benefits in accordance with contractual agreements and tested leave accruals for 2011. We found minor deficiencies with pay rates, deductions and leave accruals which were discussed with officials.

Accounting Records and Reports

The County's financial data must be complete, accurate and current to be relevant and useful for managing County operations. The Treasurer is responsible for maintaining adequate accounting records that allow for the preparation of periodic financial reports for the Legislature's review and filing the annual financial report with the Office of the State Comptroller (OSC) following the close of the fiscal year.[7] Adequate accounting records consist of journals, ledgers and other financial documents that provide a record of all County transactions and account balances in a timely manner.

Monthly bank reconciliations help verify the accuracy of the accounting records and must be prepared on a timely basis to be useful, particularly when there is a lack of segregation of duties. These reconciliations show whether the Department has properly recorded all cash receipt and disbursement transactions, and whether book balances agree with cash on hand and in the bank. Therefore, bank reconciliations must be performed for each fund and any

[7] The County's annual financial report to OSC must be filed no later than 120 days after the close of the fiscal year.

differences must be promptly documented and resolved to ensure that financial activities are accounted for in a proper and timely manner. In addition, subsidiary accounts should balance to control accounts to ensure that the accounting system modules are in agreement with the general ledger financial information. Deficiencies in software programs should be supplemented with supporting manual systems to ensure the accuracy of financial data.

The Treasurers' records were not up-to-date or accurate. For example, although the figures in the 2011 annual report matched those on the audited financial statements, we found several differences between these figures and the figures on the County's trial balance. Specifically, the trial balance reported total revenue that was $856,219 higher and total expenditures that were $1,034,905 higher than the audited financial statements and annual report. Bank reconciliations were not timely or accurately prepared and subsidiary accounts were not reconciled to control accounts. As a result, County officials did not know the true cash or financial position at any point in time during the fiscal year. In fact, the CPA had to reconcile cash and all the balance sheet accounts during the annual financial audits for 2011 and 2012 and provide correcting journal entries for the material errors in the Treasurer's records. These errors resulted in the misstatement of all financial reports prepared by the Treasurer's office throughout the fiscal year.

Furthermore, because the records were inaccurate and out of balance, the annual update document (AUD) could not be filed timely. The 2011 AUD was not submitted until February 1, 2013, and the 2012 AUD was not filed until October 16, 2013. Even after the CPA provided correcting entries and a financial statement, the filed 2011 AUD was not supported by the accounting records because office staff did not make all of the correcting entries.

Finally, County officials had no record of the number of delinquent tax accounts or the total amount of taxes due to the County at any time during the year. Officials did not have a list of taxpayers with tax installment agreements and a list of taxpayers in default of their tax installment agreement. As a result, collections were limited and haphazard.

The Deputy did not maintain a record of the installment agreements and the agreements were not kept in a centralized location in her office. Therefore, she could not provide any record or report showing the status of the installment agreements for the audit period. Although the Deputy stated that she reviewed the installment agreements monthly to determine if any had defaulted, the lack of a formal procedure and centralized location for the agreements significantly increase the risk that those in default would not be identified in a timely manner.

We located and reviewed 401 installment agreements for 479 properties totaling $1,504,382 that were either for agreements that were paid off or entered into during the period January 1, 2011 through July 2, 2013. We reviewed the installment agreements to determine the number that were in default and the amount owed to the County at December 31, 2011, December 31, 2012 and June 30, 2013.

Figure 1: Defaulted Installment Agreements at Year End 2011 and 2012 and June 30, 2013

Date	Agreement Amounts[a]	Number of Agreements	Amount Defaulted[a]	Number Defaulted	Percent Dollar Amount Defaulted	Percent of Agreements Defaulted
12/31/11	$242,871	135	$99,650	68	41%	50%
12/31/12	$393,619	191	$22,946	27	6%	14%
6/30/13	$379,684	154	$ 9,298	12	2%	8%

[a] Net of payments made during the period.

The number of installment agreements in default for 2011 represent about 50 percent of all the agreements and 41 percent of the value of all the agreements. Although the number of agreements in default declined over the period reviewed, this is largely due to the period of time left to comply with the term set for the agreement. We also reviewed all the installment agreements during our audit period and determined 89 had payments overdue by one month or more during the installment term. Of the 89 agreements, 22 were overdue by a month, 32 were overdue more than a month but less than six months and 35 were overdue by more than six months. Finally, we found that the previous Treasurer failed to pay any of the required $383 down payment on her own installment agreement. Although this amount was added to her amortization schedule, she used her position to circumvent the requirements to avoid paying the down payment.

The Treasurers' failure to maintain accurate and up-to-date financial records and reports denies the Legislature and the public a primary fiscal tool necessary to monitor and manage the County's financial affairs. Furthermore, the Treasurers' handling of tax collections significantly impacts the County's cash flow.

Corrective Action Plan Deficiency

A CAP is a written response to recommendations made pursuant to an examination by the OSC or in response to a management letter or report issued by a public accountant. The CAP should include, with respect to each finding or recommendation, a statement of the corrective actions taken or proposed to be taken, or if corrective action is not taken or proposed, an explanation of the reasons. Any such written response should also include a statement of the status of corrective actions taken on findings or recommendations contained in any previous report of examination, or report of an external audit, or any management letter prepared by an independent public accountant for which a written response was required. All officers and employees of the County should fully cooperate with the governing board in the preparation of this response.

The County annually engages a CPA to audit the Treasurer's financial records. As part of the service, the CPA prepares a management letter that includes recommendations to improve the Department's internal controls based on the tests that they have performed. The management letter for 2011 contained several recommendations regarding the accuracy and timeliness of recording and reconciling financial information that were repeated in the 2012 management letter. For example, cash balances were not reconciled in a timely manner and significant differences were noted between actual cash balances and the general ledger for all but the capital projects fund.

In addition, balance sheet accounts were not reviewed or reconciled on a periodic basis resulting in large negative balances in accounts receivable and payable during the year. Finally, one-time entries were either not made or not made in a timely manner and trial balances did not balance. Although the management letters for 2011 and 2012 provided the Treasurer with recommendations to improve the internal control weaknesses identified during the CPA's audit, none have been formally responded to, which is the first step to improving performance. Furthermore, the failure to reconcile cash and other balance sheet accounts significantly increases the risk that assets could be misappropriated without timely detection and correction.

Recommendations

The Treasurer should develop procedures for financial processes that:

1. Appropriately segregate duties and provide adequate oversight to ensure that financial transactions are properly recorded and County moneys are safeguarded.

2. Ensure that complete and accurate bank reconciliations are performed for all bank accounts monthly and that any difference disclosed by the reconciliation process are promptly resolved.

3. Prepare and file the required annual report with OSC in a timely manner and ensure that the accounting records are accurate.

4. Ensure installment agreements are located in one place and a list developed to allow for the determination of defaulted contracts and amounts owed to the County.

5. Ensure that CAPs be developed and monitored to ensure that recommendations improve the accuracy, timeliness and integrity of financial data.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Dennis A. Fagan, Chairman
Old District I

Thomas M. Gifford
Old District II

Stewart F. Field, Jr.
Old District I

Barbara J. Halpin
New District I

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Stacy B. Husted, Clerk/County Auditor
Jamee L. Mack, Deputy Clerk

"An Equal Opportunity - Affirmative Action Employer"

Philip C. Barnes
Old District II

Van A. Harp
New District II

Michael L. Lausell
New District III

James D. Howell, Jr.
New District IV

September 24, 2014

Mr. Edward V. Grant, Jr.
Chief Examiner
Office of the State Comptroller
Rochester Regional Office
16 W Main St. Suite 522
Rochester, NY 14614-1608

Dear Mr. Grant,

This letter is in response to the Office of the State Comptroller's (OSC) Examination of the Schuyler County Treasurer's Office covering January 1, 2011 through September 11, 2013. The audit reviewed the fiscal stewardship of two elected Treasurers; Margaret Starbuck who served through 12/31/2011, and Gary Whyman who served from 1/1/12 through 8/1/14. Please consider this our official written "Corrective Action Plan "(CAP) with respect to your findings and recommendations.

First and foremost, the County does not dispute any of the findings of your office. Your thorough review and subsequent recommendations validate concerns that have been expressed by the Legislature and our independent auditors for the past several years. As you will note below, most of the recommended actions have either already been accomplished or substantially completed by Treasurer Whyman and other County staff prior to his resignation in August of this year. It should also be noted that the majority of your recommendations mirror those of the County's independent auditor, dating back over the past several years. The Legislature does recognize and appreciate former Treasurer Whyman's receptiveness to implementing necessary changes and his willingness to implement much needed reform in that office. We remain confident that his successor will continue the progress that has been made in correcting the severe deficiencies and your report will be instrumental to that end.

As chief fiscal officer for the County, the Treasurer plays a critical role in ensuring sound financial management and fiscal stewardship. Through lapses in that office, the County has suffered financially as a result of not having accurate financial data from which to make sound budgetary decisions. While there has been frustration expressed at many levels in this regard, the inescapable fact is that this is an elected position with no minimum qualifications beyond being a registered voter. That being the case it is possible, and in Schuyler's cases the practice, that an individual with no formal education or training in municipal finance can become the Chief Fiscal Officer for a multimillion dollar enterprise. That being said, while the Legislature remains committed to providing the necessary resources and support to the Treasurer's Office and fully endorses the following CAP, ultimately it will be the elected Treasurer's decision (and we feel obligation) to maintain and continue the improvements that have been made in this office.

We thank you for the opportunity to provide this response and we appreciate your assistance. Please be assured that your review has greatly enhanced our ability to effectively manage our operations with sound fiscal stewardship. The following is a summary of the recommendations and the County's corrective action to address same:

Recommendations
The Treasurer should develop procedures for financial processes that:
Appropriately segregate duties, develop and provide adequate oversight to ensure that financial transactions are properly recorded and County moneys are safeguarded.
Status – Completed 9/14. The Treasurer now provides oversight and sign off of activities assigned to the Deputy. Examples include collection of receipts, transactions in the accounting software, and reconciliation of all bank accounts and general fund.
Payroll duties are now segregated from Treasurer's office with time and attendance data processing being performed by Human Resources. The Treasurer exercises internal control of this function through the segregated duty of maintaining the appropriate journal entries for this function in the financial software system.
Additionally, effective August, 2013, the County implemented a completely electronic audit. This has resulted in the elimination of manual checks while providing internal controls wherein no checks may be issued without internal auditor's approval.
While all staff is cross trained to collect money, issue cash receipts, and accumulate funds, the practice of using a shared computer terminal and password has been modified wherein each individual employee has their own separate and distinct log in and thus accountability for transactions that they have processed.

Ensure that complete and accurate bank reconciliations are performed for all bank accounts monthly and that any difference disclosed by the reconciliation process are promptly resolved.
Status – Completed 8/14. A staff accountant was added to the Treasurer's office in November of 2013 and has assumed responsibility for all bank reconciliations. This is a shared position with Public Health accomplished without a net increase in staffing. As of August of 2014, both the general ledger and welfare accounts are fully reconciled. Any discrepancies in the reconciliation process are handled through interaction between the accountant and Deputy Treasurer and promptly resolved. It should be noted that this solution was embraced by Treasurer Whyman but when offered previously, rejected by Treasurer Starbuck.

Prepare and file the required annual report with OSC in a timely manner and ensure that the accounting records are accurate.
Status - Completed 8/14. The 2013 AUD has been filed and accepted by OSC. With improvements designed to increase the efficacy and capacity of the office, it is our expectation that future AUD filings will be timely. We will use to a greater degree the OSC staff review of draft AUD submissions to ensure more importantly, accurate submissions. This will also lessen our reliance on our contracted independent auditor, both eliminating conflicts and lessening cost.

Status - In Process, projected completion June 2015. Effective August, 2013 the County implemented a tax collection module from the [redacted] financial software package to ensure accurate accounting and segregation of tax installment agreements from that date forward. As a result the number of defaulted agreements has decreased from 50% to 8% over this time period. By June of 2015 all previous agreements (pre-8/2013) will have been fulfilled and 100% of installment agreements will be electronically administered. The Legislature is deeply disturbed to learn that the previous Treasurer used her position to completely circumvent the installment requirements in the case of her own personal agreement. Of particular concern is the fact that of the 27 instances cited, the previous Treasurer was the only person that did not pay any of the required down payment. The other 26 instances involved minor calculation errors of payment due. The Legislature is researching language/legislation that will require full disclosure and oversight should any future Treasurer be in a similar situation.

Ensure that corrective action plans be developed and monitored to ensure that recommendations to improve the accuracy, timeliness and integrity of financial data.
Status – In Process. This response will additionally serve as the Treasurer's response to the findings and recommendations once again set forth by our public accountant with respect to internal controls. It is our hope and expectation that the future Treasurer will continue to comply with this requirement and the Legislature will request a copy of all future corrective action plans from this office. In a similar vein, the Legislature will request read only access to all appropriate [redacted] financial data managed by that office and require regular financial updates of County finances throughout the year. Additionally, the County Administrator will provide increased support and monitoring of the Treasurer's office.

We are appreciative of OSC's review of the Treasurer's office and feel that this coupled with recent initiatives of the office has allowed Schuyler County to finally "turn the corner" and reverse the decade's long deficiencies of this office. In addition to the CAP outlined above, the County Legislature has supported all requests for training within that office and since 2012 almost 100 hours of financial software and management training has been provided to the Treasurer's office staff and other key County employees. This has resulted in better utilization of resources, increased internal controls, and greatly improved accuracy. It is our expectation that the CAP represents a beginning with even greater accomplishments yet to come. We also would like to thank the individual OSC auditing team members for their assistance throughout this lengthy review. Your staff at all times was professional and a great partner in providing guidance and suggestions for improving the office. We would respectfully request that the team return in six to nine months to evaluate the progress made in this office, as we value your objectivity and experience in this area. Thank you for your efforts on our behalf.

Respectfully,

Dennis A. Fagan
Chairman, Schuyler County Legislature

Timothy O'Hearn
County Administrator

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We conducted interviews of Treasurer's office and County officials and performed limited testing of cash receipts and disbursements to determine areas of greatest risk.

We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected the general cash and tax receipts, cash disbursement and payroll processes for further review.

The objective of this audit was to review the Treasurer's office general cash and tax receipt, payroll and cash disbursement processes for the period January 1, 2011 through September 11, 2013. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed the Treasurer, Deputy, payroll clerk, AP clerk and other County employees to gain an understanding of the controls in place over the general cash and tax receipts, payroll and cash disbursement processes.
- We randomly selected the month of February 2013 and recalculated all totals in the cash receipts journal (CRJ), tax receipts journal (TRJ), cash disbursements journal and check register. We used a non-biased judgmental sample from February 2013 and traced:
    - o A sample of 132 individual receipt transactions on the CRJ to supporting documentation (representing all individual receipts from five days selected randomly from February 2013);
    - o A sample of seven special franchise receipts on the CRJ to the subsidiary ledgers (all on the CRJ for February 2013);
    - o A sample of 19 CRJ daily totals and 16 TRJ daily totals to the general ledger (all on the CRJ and TRJ for February 2013);
    - o A sample of 264 individual receipt transactions to sub-accounts (first three days on CRJ and TRJ for February 2013); and
    - o All 70 general receipts transactions from the general ledger to bank statements for February 2013.
- We verified the accuracy of the December 2012 bank reconciliations.
- We reviewed the accounts payable and accounts receivable figures on the trial balance at December 31, 2012.
- We traced the December 31, 2011 and 2012 trial balance from the accounting software to the annual report to OSC and the audited financial statements.

- We traced 477 disbursements on the cash disbursements journal to sub-accounts in the general ledger (all individual disbursement transactions in the general ledger for February 2013).

- We traced all February 2013 check register transactions to the bank statements or an outstanding check list.

- We traced 477 sub-account AP transactions from the general ledger to the cash disbursements journal (all sub-account AP transactions in the general ledger for February 2013).

- We reviewed cash disbursements to Treasurer's office employees and the County Administrator for propriety.

- We randomly selected two pay periods from our audit scope, November 10, 2011 and October 12, 2012. From the payroll population for the two pay periods, we randomly selected 10 employees from each pay period. We also judgmentally selected one Treasurer's office employee and the Administrator for 2011 and the Treasurer and two Treasurer's office employees for 2012. We reviewed the individual employee earnings record, negotiated contracts, payroll registers, electronic timekeeping reports and had discussions with County officials to determine the following:

  - The process each department/office supervisor used to approve time records.

  - The account codes used to record salaries were accurate.

  - The electronic time recording records matched the individual payroll earnings report.

  - The salaries were in accordance with negotiated contracts.

  - Total earnings reported matched the payroll records.

  - Optional deductions were authorized by employees and matched the payroll records.

  - Employee leave accruals were in accordance with negotiated contracts and leave requests were supported and authorized for 2011.

  - Employee health insurance copays or payments to opt out of coverage were accurate.

  - We reviewed negotiated employee contracts to determine what percentage of the health insurance cost the employee was required to pay. We then reviewed the coverage form for each employee to determine the coverage selected, either family or single. We reviewed the rates to determine how much the employee should pay and traced the amount to the employee earnings history to verify that the employee paid the correct amount. If they opted out of health insurance coverage, we reviewed the opt out forms to determine if they had support and payment was made.

- We interviewed the Deputy Treasurer about the tax collection process and reviewed the tax collections for 2011, 2012 and the period January 1, 2013 through July 2, 2013 as determined by the County's Real Property Tax Department to determine the total amount of tax assessed.

- We reviewed the annual settlements with the town's for the years 2011, 2012 and 2013 to verify that they were accurate.

- We calculated the amount of tax owed to the County by taxpayers that had chosen the installment option and/or the installment agreement from January 1, 2011 through July 2, 2013 to determine the amount of uncollected tax and the percentage of taxpayers that used these optional methods.

- We reviewed the 2011 and 2012 audited financial statements and management letters. We discussed the reports with officials to determine if the County had responded to recommendations.

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.

APPENDIX C

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