

Yates County Industrial Development Agency

Receipts and Disbursements

JANUARY 2020



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

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Report Highlights

Yates County Industrial Development Agency

Audit Objective

Determine whether Yates County Industrial Development Agency (YCIDA) officials properly recorded, supported and reported cash receipts and disbursements, including payroll.

Key Findings

Although we did not find any significant errors in how cash receipts and disbursements were recorded and reported, we found the following weaknesses:

- The Board did not require pre-numbered duplicate receipts or cancelled checks to facilitate the review of accounting records and reports.
- Controls over receipts and disbursements would be strengthened by adding mitigating controls.
- A privately contracted payroll vendor has access to the YCIDA's bank account to withdraw funds for payroll and processing fees.

Key Recommendations

- The Board should adopt cash receipts and disbursement policies.
- Ensure that duties are adequately segregated or implement mitigating controls.
- Discontinue allowing the payroll vendor to access the bank accounts.

IDA officials agreed with our recommendations and have indicated they plan to initiate corrective action.

Background

The YCIDA is an independent public benefit corporation established in 1975 at the request of Yates County. The YCIDA's Board (Board) is composed of seven members, appointed by the Legislature of Yates County. The Board is responsible for the general management and control of the YCIDA's financial and operational affairs.

The YCIDA's Board appointed a Chief Executive Officer (CEO) that supervises day-to-day YCIDA operations. The Board also appointed a Chief Financial Officer/Administrative Assistant (CFO/AA) that has custody of all the funds and is responsible for keeping the books of accounts (cash receipts and disbursements). Her duties also include preparing Board minutes and monthly and quarterly financial reports.

Quick Facts

2018 Revenues	\$642,883
2018 Expenditures	\$686,585
2018 Salaries	\$259,792

Audit Period

January 1, 2018 – August 28, 2019

Cash Receipts and Disbursements

What Are Adequate Controls Over Receipts and Disbursements?

It is essential that YCIDA officials establish controls to ensure that cash receipts and disbursements are properly safeguarded. Good controls include segregating duties related to the cash receipts and disbursements processes. For example, no one individual should collect, deposit and disburse cash; maintain the accounting records and report financial activity. If it is not possible to segregate these duties, officials should implement mitigating controls, such as having someone separate from the processes periodically review bank statements and canceled check images.

The YCIDA's bylaws state that the Chief Financial Officer/Administrative Assistant (CFO/AA) is responsible for collecting, recording and depositing all money due to the YCIDA and ensuring that all money disbursed is appropriate, supported, recorded and reported accurately. The CFO/AA is also responsible to report to the audit committee an account of such transactions at each monthly meeting. The Treasurer, along with another Board member, are responsible for signing all checks for the payment of Board-audited claims.

The YCIDA Board is responsible for ensuring all receipts and disbursements are properly recorded, supported and reported. To meet these responsibilities, a board must adopt appropriate policies and procedures and oversee financial operations including monthly reviews of key reports. Specifically, the Board should adopt cash receipts and disbursement policies to ensure the CFO/AA issues pre-numbered duplicate receipts for all money received¹ and require the return of canceled checks with the bank statement² audit claims for proper support and valid purposes before it approves payment and regularly review financial records and reports to ensure that receipts and disbursements are properly reported in the accounting records.

Controls Over Cash Receipts and Disbursements Could be Improved

The CFO/AA prepares monthly invoices, collects all revenue, remotely deposits funds into the various bank accounts, records all deposits in a computerized accounting program and reconciles the bank statements after the CEO has received and initialed them. The CEO and Treasurer review and initial the reconciled bank statement. However, the bank statement lacks a copy of the canceled checks and the CFO/AA only issues duplicate receipts upon request. Reviewing a reconciliation without canceled checks is not an effective control. We also found two duplicate pre-numbered receipts issued in our 15-month audit test period which is another control that is ineffective.

1 New York State (NYS) General Municipal Law (GML) 99-b (1) requires a receipt be issued when no other evidence satisfactory for purpose of audit is available.

2 GML 99-b (2) requires the Treasurer to receive and retain canceled checks or, if authorized by the Board, check images showing both sides of the canceled check.

The CFO/AA recorded the receipts and disbursements in the computerized accounting program, printed the checks from her pre-numbered check inventory and submitted the checks along with the claims packet to the Board at its monthly meeting. The Board reviewed and approved the claims prior to the Treasurer and another Board member's signing the checks for the CFO/AA to mail. With few exceptions, the checks had dual signatures as required by the bylaws.

Because of the lack of duplicate receipts, copies of canceled checks and weak segregation of duties, we reviewed all the deposits from December 2018 (\$97,840) and March 2019 (\$93,156) totaling \$190,996 and all the disbursements from December 2018 (\$260,945) and March 2019 (\$137,792) totaling \$398,737. We found the CFO/AA deposited, recorded and reported all receipts accurately and generally timely, with minor accounting errors. We also found all the disbursements were appropriate, approved (except payroll),³ recorded and reported accurately, with minor accounting errors. We discussed these minor errors with the CFO/AA.

The CFO/AA also made transfers from the YCIDA savings account to the checking account as funds were needed for disbursements without any approval. As a result of this weakness, we traced all bank transfers from January 1, 2018 to March 31, 2019 and found they were appropriate.

The fact that CFO/AA performs record keeping and reconciliations, as well as having access to cash assets, weakens segregation of duties and adds importance to the mitigating control the CEO has when reviewing the bank reconciliation.

Without issuing duplicate pre-numbered receipts for collections, reviewing cancelled checks or facsimile copies when reviewing the bank reconciliations and stronger segregation of duties, the Board cannot ensure that all receipts are deposited timely and intact and disbursements are for the approved claims.

What Are Effective Controls Over Payroll Disbursements?

YCIDA officials may engage a private vendor to perform certain payroll preparation functions but may not delegate the custody of agency funds and disbursement duties to that payroll vendor. Both NYS GML and NYS Banking Law allow public companies to contract with banks to deposit payroll money and subsequently disburse such funds. However, there is no similar authority for allowing YCIDA to enter into contracts with other private firms for depositing and disbursing payroll funds, accessing bank accounts and transferring funds to the firm's own account for the purpose of disbursing payroll and paying taxes and processing fees.

³ See Payroll section

In addition, the Board should document and approve authorized salaries and an individual independent of the payroll process should review and certify payroll reports prior to the disbursement of payroll and its related payments. The Board should also require all vendors to submit detailed invoices in a timely manner that show fees charged for services provided.

YCIDA Officials Did Not Effectively Oversee Payroll Processing

YCIDA officials establish the CEO's annual salary and discuss expected staff salary increases during personnel committee meetings. Ultimately, the amount of staff salary increases are the CEO's responsibility with the stipulation that the amount not exceed the approved budget. The CEO communicates any salary modifications to the CFO/AA and she relays this information to the contracted third-party vendor that processes payroll. The vendor processes the payroll on a bi-weekly basis using the provided salary amounts and any hourly employees' work hours provided by the CFO/AA. When the vendor finalizes the payroll, it directly withdraws payroll amounts, the corresponding taxes and its payroll processing fees from the YCIDA bank account. YCIDA officials did not review the payroll registers after payroll was processed and before funds were withdrawn.

There is no legal authority to allow a vendor access to the YCIDA's bank account. Allowing the vendor to directly withdraw funds from the YCIDA's bank account creates additional risks for inappropriate transactions to occur. In addition, because the YCIDA officials did not review payroll registers prior to payment and did not know the amount of vendor fees paid, the YCIDA has an increased risk that it could inaccurately pay employees and be charged erroneous fees.

During our test period, the vendor initiated withdrawals totaling \$340,043 from the YCIDA's bank account for employee direct-deposit paychecks, payroll withholdings and vendor fees. We reviewed the first quarter of 2019 payroll-related disbursements totaling \$61,819 to determine whether the amounts paid were accurate and appropriate.

We found that salaries and taxes paid by the vendor were accurate and appropriate. We also confirmed that the vendor timely and accurately paid the New York State payroll taxes. However, we were unable to determine if the vendor's processing fees were appropriate because the vendor contract could not be located.

Because YCIDA officials did not review payroll registers prior to payment and did not document the amount of approved salaries and wages, the YCIDA has an increased risk that it could inaccurately pay employees and erroneous fees and that errors or irregularities could occur and not be detected in a timely manner.

What Do We Recommend?

The Board should:

1. Develop and adopt written policies and procedures for cash receipts and disbursements.
2. Ensure that duties are adequately segregated or implement mitigating controls such as increased supervisory review of the CFO/AA work and a periodic reconciliation of the receipts and disbursement activity by someone independent of the process, such as the Treasurer.
3. Authorize all salaries and wages provided to employees and pay rates for service providers and record official Board action related to such authorization in the minutes.
4. Discontinue allowing the third-party vendor access to the bank accounts.
5. Require an YCIDA official to review and certify payroll reports.
6. Locate the payroll vendor's contract, or enter into a new contract with the vendor.
7. Require the payroll vendor to submit detailed invoices in a timely manner, showing the fees charged for its services and audit the claims prior to payment.

The Treasurer and/or the CEO should:

8. Review canceled check images while reviewing the bank statement reconciliation.

The CFO/AA should:

9. Issue pre-numbered duplicate receipts for collections.

Appendix A: Response From IDA Officials



December 10, 2019

Mr. Edward V. Grant, Jr.
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Division of Local Government and School Accountability
110 State Street – 12th Floor
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RE: Yates County Industrial Development Agency Receipts and Disbursements Response
Report Number 2019M-182

Dear Mr. Grant:

Please accept this letter of formal response to the draft Receipts and Disbursements Audit performed by your office beginning in May of 2019 and ending in August of 2019.

The Yates County IDA Board of Directors and Staff take oversight seriously and continuously look for ways to improve the agencies; operations and transparency to support our mission of economic growth in Yates County. In advance of the audit period the Yates County IDA staff and board were in discussions on needed upgrades to our current systems, procedures and policies to make sure we were compliant with all new Authority Budget Office regulations.

We are in agreement with all recommendations that were suggested from our audit and are currently working on remediation of the recommendations offered from our audit. Our Corrective Action Plan will have detail in how we will remedy the recommendations.

Sincerely,

Stephen G. Griffin
CEO

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Appendix B: Audit Methodology and Standards

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

- We requested deposit compositions from the bank for the months of December 2018 and March 2019 and traced to deposits per the bank statements and deposits recorded and reported in the accounting records. We reviewed pre-numbered duplicate receipts issued for deposits, traced deposits to loan schedules and lists of rents and utilities developed from reviewing leases and compared delinquent payments for loans and rents to the accounts receivable list. We compared checks from deposit compositions to deposits to determine if deposits were made intact. We compared the deposit date to the date received if entered on the check or check date recorded to determine if deposits were timely. We compared recorded receipts to bank deposits and recorded receipts to reported receipts to determine if all receipts were recorded and reported accurately. We discussed any discrepancies with the CFO/AA.
- We requested canceled checks from the various banks for the months of December 2018 and March 2019 and traced them to the check detail. To determine if disbursements for December 2018 were Board approved, we traced December 2018 check detail to Board packet check detail from November 22, 2018 to December 19, 2018 and December 20, 2018 to January 16, 2019 selecting December disbursements. To determine if disbursements for March 2019 were Board approved, we traced March 2019 check detail to Board packet check detail from February 21, 2019 to March 20, 2019 and March 21, 2019 to April 17, 2019 selecting March disbursements. We traced recorded check detail for December 2018 and March 2019 to disbursements per the bank to determine if claims were recorded. We compared reported December 2018 and March 2019 to total cash disbursements to determine if disbursements were reported. We reviewed claim packets and payroll reports to determine if disbursements were supported and appropriate. We compared all bank disbursements to book disbursements to determine they were all accounted for and Board approved.
- We traced all bank transfers from the savings account to the checking account for the period January 1, 2018 to March 31, 2019.
- We reviewed the minutes of the personnel committee to determine the amounts of the 2019 employees' approved salaries. We compared reports for the 2019 first quarter to payroll reports and taxes remitted. We discussed salary variances with the CEO and compared final salaries to the 2019 budget.
- We requested a copy of the payroll vendor's contract to verify the fees charged.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the CFO/AA's office.

Appendix C: Resources and Services

Regional Office Directory

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

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

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

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

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

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

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

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

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

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

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

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

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

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

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

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

Contact

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