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January 4, 2008

Mr. Robert S. Juravich
Executive Director
Development Authority of the North Country
Dulles State Office Building
317 Washington Street
Watertown, New York 13601

Re: Report 2007-F-38

Dear Mr. Juravich:

Pursuant to the State Comptroller's authority as set forth in Article X, Section V of the State Constitution, and Section 2714 of the Public Authorities Law, we have followed up on the actions taken by Development Authority of the North Country (Authority) to implement the recommendations contained in our audit report, *Revenue, Selected Expenses and Accounting System* (Report 2005-S-62).

Background, Scope and Objective

The Authority is a public benefit corporation which institutes comprehensive, coordinated programs of economic development activities in the counties surrounding the United States Army base at Fort Drum (Jefferson, Lewis, and St. Lawrence counties). The Authority's primary operations include: a solid waste management facility, a water/sewer facility, and a fiber-optic network referred to as the Open Access Telecom Network (Network). These operations are decentralized and have independent management.

Our initial audit report, which was issued on September 19, 2006, examined whether Authority officials established an adequate system of internal controls over revenue, payroll, investments, vehicle use, meal and lodging costs, and accounting systems. We determined that the Authority's controls over its solid waste operations needed to be improved to include confirming the accuracy of hauler invoices. Also, the Board and Authority management needed to improve accountability for invested funds. In addition, the Authority's controls over payroll and meal and lodging expenses needed to be strengthened. We also found that the Authority did not properly report certain taxable fringe benefits as compensation, and that access controls to its accounting information system needed to be improved.

The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of November 14, 2007, of the 16 recommendations contained in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found Authority officials have made progress in implementing the recommendations contained in our initial report. Of the 16 recommendations, 9 have been implemented, 6 have been partially implemented, and 1 has not been implemented.

Follow-up Observations

Recommendation 1

Review and realign the duties of the scale house supervisor to separate truck weighing and billing duties or implement appropriate compensating controls.

Status - Implemented

Agency Action - The Authority developed a compensating control and now requires Solid Waste Management Facility managers to conduct random scale audits. The audits are conducted each billing period and are performed by observing and documenting trucks dumping waste at the facility. To confirm the audits were performed, we selected three billing periods and obtained and reviewed the scale audits. Each audit was performed in accordance with management's expectations.

Recommendation 2

Verify that the supervisor reconciles checks received, require documentation of reconciliations be maintained and restrictively endorse checks upon receipt.

Status - Implemented

Agency Action - The check receipt log for the accounting system is now reconciled by the Senior Accountant and reviewed by the Finance Director. During our review, we confirmed that checks are restrictively endorsed, check reconciliations are performed, and documentation to support the reconciliations is maintained.

Recommendation 3

Develop and implement detailed guidelines and monitoring procedures to support the Policy. The procedures should, at a minimum, assign responsibility for monitoring transactions and following up on unusual or incorrect transactions.

Status - Partially Implemented

Agency Action - The Authority developed a monitoring procedure to support the Policy. The monitoring procedures, among other things, assign monitoring responsibilities and require follow-up on unusual or incorrect transactions. The monitoring procedure is currently in draft and has not been approved by the Board.

Recommendation 4

Segregate investment responsibilities so one individual is not responsible for making and recording investment transactions, and for reconciling investment statements. If this is not possible, implement appropriate compensating controls.

Status - Implemented

Agency Action - The Authority developed a compensating control to ensure that investment transactions are appropriate. The compensating control requires that the Finance Director review the investment statements and reconcile them to the bank transactions to confirm compliance with management's direction.

Recommendation 5

Prohibit third-party disbursements from Authority investment accounts. Examine prior third-party disbursement transactions to confirm that no inappropriate transactions occurred.

Status - Partially Implemented

Agency Action - The Authority revised its Investment Policy to prohibit third-party disbursements. However, the revised Investment Policy is currently in draft and has not been approved by the Board. The Authority also reviewed their investment accounts from January 1, 2004, through December 31, 2004, to identify all third-party transactions. Each third-party transaction was examined and determined to be appropriate.

Recommendation 6

Correct the misallocations to the Authority's accounts.

Status - Implemented

Agency Action - The Authority's accounting department worked with representatives from their investment firm to correct the misallocations. We confirmed the misallocations have been corrected by examining correspondence between the Authority and the investment firm as well as reviewing the investment statements.

Recommendation 7

Make sure the Board annually reviews and updates the Policy and obtains and reviews quarterly investment reports.

Status - Implemented

Agency Action - The Authority's Board now annually reviews and updates the investment Policy and obtains and reviews quarterly investment reports. We noted these reviews were reflected in the Authority's Board minutes.

Recommendation 8

Segregate primary payroll functions so one individual is not responsible for major payroll components. If the primary payroll functions cannot be segregated, develop compensating controls.

Status - Implemented

Agency Action - The Authority, to the extent possible, segregated payroll processing responsibilities so that a single individual is not responsible for all major payroll components. Since the payroll components could not be fully segregated, appropriate compensating controls were also developed. The compensating control requires the Accounting Supervisor to review a report and confirm the payroll is accurate. To confirm the controls were working as intended, we reviewed payroll documentation for three pay periods and found the controls worked as intended.

Recommendation 9

Develop payroll processing procedures and consider using standardized payroll forms. The procedures should include but not be limited to:

- *defining payroll processing responsibilities;*
- *prohibiting the processing of time sheets without proper supervisory approval; and*
- *requiring all payroll changes be authorized in writing.*

Status - Partially Implemented

Agency Action -The Authority developed payroll processing procedures. The procedures define payroll processing responsibilities, prohibit a time sheet from being processed unless it has been approved, and require that payroll changes be authorized in writing. The procedures are currently in draft and have not been approved by the Board.

Recommendation 10

Develop and distribute a comprehensive written Meal and Lodging Policy whose provisions include but are not limited to:

- *identifying meals and lodging expenses that are reimbursable, as well as the documentation employees must submit to obtain reimbursement;*
- *identifying practices/costs the Authority does not reimburse (e.g., parking tickets); and*

- *defining amounts and types of expenses the Authority does not pay because they are excessive.*

Status - Partially Implemented

Agency Action - The Authority developed and distributed a comprehensive written Meal and Lodging Policy to all employees. The Policy identifies meals that are reimbursable, expenditures the Authority will not reimburse, and expenses that are deemed excessive. The Policy also indicates that reasonable and customary lodging expenses will be reimbursed, but the Policy does not define what the Authority deems reasonable or customary, or the amounts and types of expenses the Authority does not pay because they are excessive.

Recommendation 11

Ensure that employees that process travel costs consistently review submitted expenses for conformance to the Policy before reimbursing travelers by confirming that all vouchers for meals and lodging expenses, including credit card charges, have sufficient back-up documentation. Documentation should at a minimum include: the business reason or nature of the business discussions and a list of attendees. Expenditures should also comply with the Authority's expenditure limits.

Status - Implemented

Agency Action - The Authority revised its Policy to include several controls designed to confirm that expenditures are valid, properly documented, and that they comply with the Authority's expenditure limits. Travel and other business expenses must be justified in writing and detail the business reason for the expense and, in case of meetings, who attended. Each justification must be approved by management before the expenditures are incurred. To confirm the controls are functioning as intended, we selected three travel or business meeting expenditures and examined the supporting documentation. We found the controls were functioning as intended.

Recommendation 12

Develop a cost benefit analysis to determine which automobile acquisition method is the most cost-effective.

Status - Partially Implemented

Agency Action - The Authority now requires that a cost benefit analysis be developed whenever a vehicle is replaced or when a vehicle is added to the fleet. The analysis is developed to identify which acquisition method is the most cost-effective since the Authority requires that the most cost-effective procurement method be used. To confirm if the cost benefit analysis was performed and used to acquire vehicles, we reviewed two cost benefit analyses. We found that although the analyses determined that it cost less to acquire the vehicles, in both instances the Authority chose to lease. However, there were no written

justifications to support these decisions. We suggest in the future that such decisions be adequately documented.

Recommendation 13

Develop a written fleet management policy that incorporates the components and requirements discussed in this report.

Status - Implemented

Agency Action - The Authority developed a fleet management policy that incorporates the components discussed in our initial report. The policy was issued on August 29, 2006.

Recommendation 14

Identify and report all taxable fringe benefits employees receive as employee compensation.

Status - Implemented

Agency Action - The Authority now identifies and reports taxable fringe benefits as employee compensation. All employees who have assigned vehicles must complete a Fringe Benefit Withholding Form. The Form is used to calculate taxable fringe benefits. We confirmed that each employee who is assigned a vehicle completed the Form and that the taxable portion was reported as employee compensation.

Recommendation 15

Require passwords to be changed in accordance with industry standards (i.e., every 30 to 90 days).

Status - Not Implemented

Agency Action - The Authority strengthened its Computer Password Policy; however, the Policy does not meet industry standards. The Authority does not believe it is necessary to change passwords every 30 to 90 days.

Recommendation 16

Establish policies and procedures for accessing the Accounting Information System, including:

- *logical access control (e.g., user IDs, passwords);*
- *separation of duties;*
- *a determination of user access need and the assignment of access rights in accordance with identified need;*

- *periodic review to determine if assigned rights are consistent with user needs and responsibilities; and*
- *limited authorization to delete and modify historical records.*

Status - Partially Implemented

Agency Action - The Authority developed an Accounting and Information System Policy and procedures to implement the Policy. The Policy improves logical access controls and requires periodic confirmation of user access need and access rights. The Policy also segregates duties and requires that a periodic review of access rights be performed to confirm if assigned rights are consistent with user needs and responsibilities. The Authority has also limited authorization to delete and modify historical records to only employees who need these rights. While the Policy is still in draft, the Authority has already implemented the Policy.

Major contributors to this report were Randy Partridge and Don Cosgrove.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Authority for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Donald D. Geary
Audit Manager

cc: Denise Gray