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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 25, 2014

Mr. Robert E. Beloten
Chairman
Workers' Compensation Board
328 State Street
Schenectady, NY 12305

Re: Controls Over Cash Advance Accounts
Report 2014-S-12

Dear Mr. Beloten:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we audited controls over cash advance accounts at the Workers' Compensation Board (WCB) for the period April 1, 2011 through March 11, 2014. The objectives of our audit were to determine whether WCB needs all these accounts, and whether the money is properly accounted for and used for appropriate business expenses.

Background

Section 115 of the State Finance Law authorizes the establishment of cash advance accounts, which State agencies may use for petty cash, travel, and other funding needs (e.g., confidential, patient, inmate work release, and resident allowances). Advances are issued from agency appropriations and the cash is transferred from the State Treasury to a local bank account for use by the agency. Cash advance accounts are reimbursed periodically by vouchers audited and approved by the Office of the State Comptroller (OSC) for payment out of the State Treasury. Section 115 describes general criteria for establishing these accounts such as: what they can be used for; that all accounts shall be audited by the Comptroller before reimbursement is made to replenish the accounts; and that if the Comptroller at any time determines the cash advance accounts are being used for other than authorized purposes, the Comptroller will direct the responsible party to return the cash advanced to establish the account. According to OSC's Bureau of State Accounting Operations, WCB was authorized to have two advance accounts with a total value of \$106,000 as of March 31, 2012.

Results of Audit

WCB designed effective internal controls over these accounts to ensure that payments were for appropriate business purposes and were properly accounted for; these controls have

generally operated as intended.

WCB management determined that one of the accounts, authorized for \$100,000, was no longer necessary. Our review found the account had no activity after June 10, 2013. Management closed the account on February 7, 2014, shortly after we engaged our audit. Our testing of transactions prior to the account's closure revealed no irregularities.

The \$6,000 petty cash account is still open and necessary; it is used for subpoena expenses and for some office expenses. However, WCB made only 62 payments from this account during the period April 1, 2011 through March 11, 2014. WCB personnel were unable to locate source documentation to support expenditures for the years prior to SFY 2012-2013, including one year during our audit scope. Officials explained that the agency had moved offices during the summer of 2012 and they assume that these records were lost or misfiled in that process. We compensated for these missing documents by testing other alternative records.

Our review of available documentation for the petty cash account revealed that, although it is needed for subpoena fees, a New York State procurement card could be used for most other office expenses. The largest monthly total of disbursements for our audit period was \$891, while the average was only \$115 per month. Therefore, \$6,000 appears to be an excessive authorization level for this account. In responding to our draft report, WCB officials indicate they plan to reduce the level of the petty cash account to \$3,000.

Finally, we noted the following isolated issues related to certain checks that were not properly accounted for or documented in WCB records:

- One voided check was missing. A notation on the check register states "void at the time of issuance," but the hard copy check cannot be located. This check was reportedly issued due to a payroll problem, but was ultimately not needed.
- There was also no information, other than check number, listed in the electronic check register for two other checks. WCB personnel had no documentation for these checks, but stated they were initially written for subpoena fees and given to another WCB unit.

We reviewed bank records to confirm that none of these three checks had been cashed.

Recommendations

1. Reduce the amount of the advance in the petty cash fund to a level that more reasonably matches immediate needs and return the excess funds to the State Treasury.
2. Issue stop payment orders for each of the three missing checks discussed in this report.

Audit Scope, Objectives, and Methodology

We audited WCB's controls over cash advance accounts for the period April 1, 2011

through March 11, 2014 to determine whether WCB needs these accounts, and whether the money is properly accounted for and used for appropriate business expenses.

To accomplish our objectives, we reviewed bank account statements, copies of cancelled and voided checks, and agency-prepared bank reconciliations and interviewed WCB personnel and administrators to obtain an understanding of internal controls relevant to cash advance accounts. In addition to reviewing agency-prepared bank reconciliations, we performed our own account reconciliations for the most recent months available. We also analyzed the check registers to identify a judgmental sample of transactions based on unexpected payees and amounts, and tested this sample for adherence to internal controls and appropriate use of funds.

We conducted our audit in accordance with 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 objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

A draft copy of this report was provided to WCB officials for review and comment. WCB officials agreed with our recommendations and responded they are taking steps to implement them. A copy of their response is at the end of this report.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Workers' Compensation Board shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendation contained herein, and where not implemented, the reasons why.

Major contributors to this report were Walter Irving, Joel Biederman, Lynn Freeman, and Jason Dessureault.

We wish to thank WCB management and staff for the courtesies and cooperation they extended to our auditors during this review.

Sincerely,

John F. Buyce, CPA, CFE
Audit Director

cc: Mary Beth Woods, Director of Financial Administration

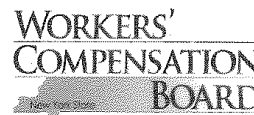
Agency Comments



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ROBERT E. BELOTEN
CHAIR

June 3, 2014

Mr. John F Buyce, CPA, CFE
Audit Director
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: Controls over Cash Advance Accounts Report 2014-S-12

Dear Mr. Buyce:

We have reviewed the draft report of your examination on the controls over cash advance accounts held by the Workers' Compensation Board.

In response to the first recommendation to reduce the amount of the petty cash account to a level that more reasonably matches immediate needs, we will reduce the account from its current balance of \$6,000 to \$3,000.

The second recommendation was to issue stop payment orders for three missing checks. As noted in the report, one of these checks was related to a payroll issue but was actually never needed. It was voided shortly after it was prepared and not issued. The other two checks were for subpoena fees. We were able to issue stop payment on one of the three missing checks but unable to stop payment on the other two because of a lack of supporting documentation needed by the bank. We have changed our procedures regarding the processing of requests from this account so that all checks will be appropriately tracked and stop payments issued timely.

Thank you for the opportunity to respond. Please let us know if you have any questions or require any further information.

Sincerely,

Robert E. Beloten
Chair

cc: Uluss (Gus) Thompson, Deputy Director of Admin./WCB
Mary Beth Woods, Acting Executive Director

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