

ULSTER COUNTY COMPTROLLER'S ANNUAL REPORT 2020

**Office of the
Ulster County Comptroller
March S. Gallagher**



WHERE WE ARE NOW

The COVID-19 pandemic overshadowed the 2020 staffing and work of the Comptroller's Office. The year was one of change. In addition to beginning the term of a newly elected Comptroller, a new Deputy Comptroller and Confidential Secretary were added to our ranks. The position of Director of Internal Audit and Control remained vacant during the entirety of 2020.

COVID put an immediate stop to audit work in the middle of the first quarter of the year. Although the Office had already begun its annual risk assessment and an audit on the collection of occupancy tax from short-term rentals, following guidance from the State Comptroller, the County Comptroller's Office paused on initiating new audits. As the year progressed, and Ulster County departments began to undertake normal operations, our office resumed audit and reporting responsibilities so long as those did not interfere with operations.

The Comptroller's Office moved all staff to laptops with VPN connections in February 2020 in anticipation of the pandemic spreading in the United States. That change was one that served our team for the entire year and although we delayed some audit functions to accommodate the operations of other departments, the Ulster County Comptroller's Office never ceased claims processing, payroll auditing or bank reconciliations.

We were able to offer suggestions to the county finance operations and move some processes to digital workflow. Early in the pandemic we offered memoranda in place of formal reports on topics such as revenue impacts and paperless workflow.

The Comptroller's Office remained open during the pandemic with minimal staffing and kept office cohesion through the use of video conference software. At the beginning of the pandemic we met for a daily briefing and now still meet via video conference three days a week, sometimes more.

This once in a generation public health and economic emergency has overshadowed our entire year of work. Not only did it change the way we operate internally, and how we interact with departments we are auditing, but it created unforeseen expenditures and budgetary impacts that required extra oversight during this period.

CLAIMS PROCESSING

The Ulster County Charter enumerates the claims audit function as an essential element of the powers and duties of the Comptroller's office. This role provides the County with an independent advocate who can assure that meaningful internal controls and processes are in place so tax dollars are spent efficiently and reasonably.

Two full-time auditors primarily oversee this practice with other staff members assisting as necessary. They examine each invoice, payroll warrant, or other claim submitted to determine its lawfulness and appropriateness.

This analysis assures that a claim is for a legitimate County purpose, verifies that required approvals and authorizations have been obtained, makes sure that adequate budgetary appropriations are available, and validates the accuracy of any calculations that are relied upon. These auditors also certify that a claim meets the requirements of both state and local laws and policies, and ensure that any required competitive bidding and contractual terms were properly followed. This work has continued without interruption throughout the pandemic.

Claims Audit Responsibilities Under the Ulster County Charter

§C-57(D): certify the availability of funds for all requisitions, contracts, purchase orders and other documents by which the County incurs financial obligations or for the expenditure of funds for which the County is responsible.

§C-57(F): audit and certify for payment all lawful claims or charges against the County, whether for payroll or otherwise, or against funds for which the County is responsible in whole or in part.

CLAIMS AUDIT 5 YEAR SUMMARY					
	2016	2017	2018	2019	2020
Contracts Count	760	827	831	1,002	674
Contracts \$ Amount	\$ 78,075,375	\$ 64,189,789	\$ 92,680,058	\$ 112,727,459	\$ 62,401,550
Wires Count	641*	1,094	1,249	1,296	1,282
Wires \$ Amount	\$ 134,414,382	\$ 182,334,469	\$ 186,626,735	\$ 216,451,188	\$ 211,774,351
Employee Reimbursements Count	3,038	2,526	3,273	3,262	1,413
Employee Reimbursements \$ Amount	\$ 502,900	\$ 428,869	\$ 585,721	\$ 681,849	\$ 217,520
Batches Invoice Count	25,700	26,938	28,343	28,533	23,844
Batch \$ Amount	\$ 152,478,875	\$ 149,369,722	\$ 165,059,682	\$ 163,555,213	\$ 147,329,574
Payroll Transactions	39,711	39,177	39,563	40,984	41,413
Payroll \$ Amount	\$ 78,027,841	\$ 79,171,008	\$ 83,761,365	\$ 85,975,996	\$ 86,320,810
* Comptroller's Office started approving wires effective 5/17/2016					

In fact, during 2020 the claims audit team added the responsibility of issuing a monthly taxpayer checkbook that details the payments made to each vendor every month. This material is shared within days of the close of the monthly period and allows the people of Ulster County see where their tax dollars are being spent.

In addition to the Taxpayer Checkbook, the claims auditors are responsible for approving contracts entered into by Ulster County and have made the approvals transparent through a publicly available monthly Contract Log on the County's website.

The following table shows the departments with over \$1 million in 2020 claims audited by the County Comptroller's Office. Although the Department of Social Services is the largest part of the Ulster County Budgeted Expenditures, the majority of expenditures made from the Department of Social Services are not claims audited by the Comptroller's Office. These payments include temporary assistance payments, Medicaid, HEAP, foster care payments and other forms of social services payments and are expenditures made under a separate financial system called WMS, over which New York State has primary audit authority.

DEPARTMENTS WITH OVER \$1 MILLION IN CLAIMS AUDITED

Finance	\$63,511,429
Social Services	\$20,884,672
DPW	\$19,989,910
Mental Health	\$9,610,816
Sheriff	\$6,744,651
Information Services	\$3,710,173
Insurance	\$3,321,900
UCAT	\$3,055,091
UCCC/SUNY Ulster- Capital Project	\$2,920,853
Personnel	\$2,846,009
Emergency Management	\$2,324,270
Office for Aging	\$1,673,312

The Finance Department's Expenditures includes all pass through payments made to the City of Kingston, Towns, Villages and School Districts for sales and property taxes. While these payments are audited by the Comptroller's Office and the payees are considered "vendors" for internal purposes in the financial system, they are not payments made for goods or services within the Ulster County Budget. In an effort to clarify for the reader, please see below where once pass through payments are excluded, we have highlighted the top three expenditure areas for the largest expenditure departments:

TOP THREE DEPARTMENTS' BIGGEST EXPENDITURES					
Finance (excluding pass thru expenditures)		Department of Social Services (excluding WMS)		Department of Public Works	
Ulster County Community College	\$6,400,863	Pre-School	\$12,506,192	Road, Highway & Bridge Materials	\$5,676,396
College Chargebacks	\$1,995,771	Committee on Special Education	\$4,908,490	Public Safety Training Ctr-Capital Project	\$3,662,328
Assigned Counsel	\$677,665	Professional Services Other	\$2,145,222	Building Maintenance & Repairs	\$2,442,017

TOP TEN VENDORS

<u>Vendor</u>	<u>Invoice Amount</u>
Ulster County Community College	\$6,494,325
Gateway Hudson Valley	\$3,875,392
Profex, Inc.	\$3,355,360
The Arc Mid-Hudson	\$3,067,464
Callanan Industries, Inc.	\$2,429,736
The Reis Group	\$2,180,820
Merritt Group, Inc.	\$2,112,768
Family of Woodstock, Inc.	\$1,871,814
Mental Health Assoc. in Ulster County, Inc.	\$1,853,098
Personalcare Registered Professional Nursing PC	\$1,847,250

We have also reviewed the expenditures summarized by individual vendors of goods and services provided to the County.

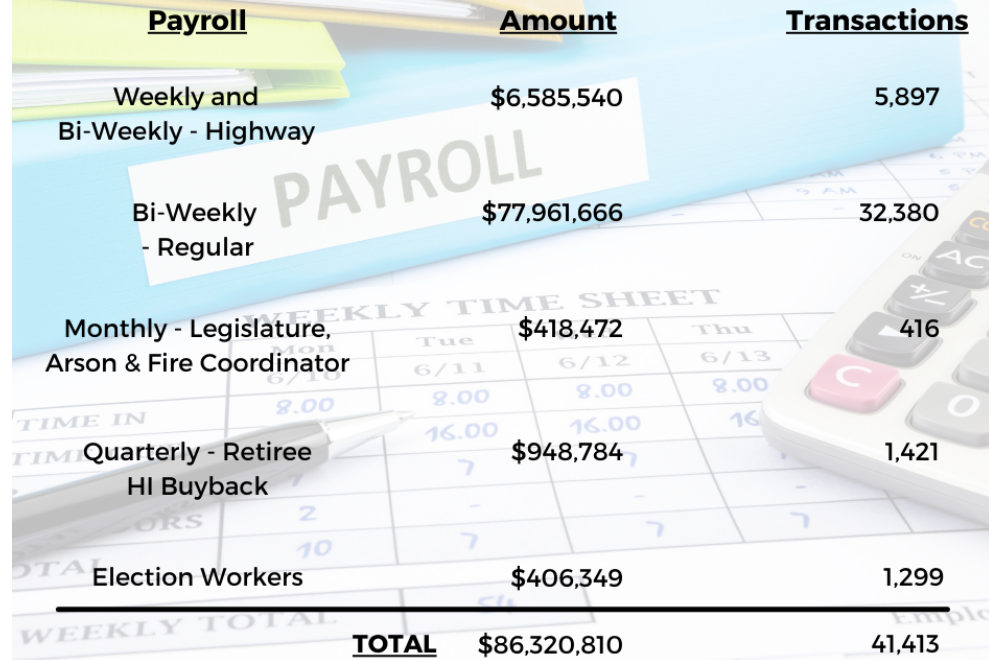
The claims auditing function is not only an indispensable component of the Office of the Comptroller, but it serves as a vital aspect in maintaining the integrity and transparency of governmental best practices. Claims auditing has also become much more than just a review of invoices, as the claims auditor highlights and tracks fluctuations in expenditures and revenues that may offer room for improvement or scrutiny if needed.

PAYROLL

The Comptroller's claims auditors certify each payroll warrant issued by verifying that calculations and backup documentation correctly match personnel records. In 2020, the Ulster County Comptroller's Office audited each payroll including 26 bi-weekly, 27 weekly, 12 monthly, 4 quarterly and 17 election worker payroll warrants for a total of 86 payroll warrants. The total payroll audited was \$86.3 million in 2020. Payroll audits are carried out primarily by the Claims Auditors with the Senior Auditors acting as back up.

We verify individual department time tracking information against the general county financial system. We look for variations in employee standard hours, all pay adjustments, other unusual compensation, and verify them to source documents provided. Additionally, rate increases are verified for appropriate authorization for the change. Employee reimbursements paid are audited individually and matched against the total reimbursements paid over all warrants for that payroll. Some of the most common issues identified are calculation mistakes regarding shift pay, incorrect standard hours paid, and data entry errors regarding employee reimbursements. Finally, the claims team is responsible for auditing employee vouchers – that is, payments to employees that are reimbursements for mileage or other expenses.

2020 PAYROLL STATISTICS



<u>Payroll</u>	<u>Amount</u>	<u>Transactions</u>
Weekly and Bi-Weekly - Highway	\$6,585,540	5,897
Bi-Weekly - Regular	\$77,961,666	32,380
Monthly - Legislature, Arson & Fire Coordinator	\$418,472	416
Quarterly - Retiree HI Buyback	\$948,784	1,421
Election Workers	\$406,349	1,299
TOTAL	\$86,320,810	41,413

BANK RECONCILIATIONS

The County Comptroller's Office is mandated under the Ulster County Charter to reconcile the County's bank accounts. After many years of having a note on the management letter from the County's outside auditor, the County Comptroller's Office and Department of Finance collaborated to draft a Bank Reconciliation Policy that was adopted by the County Legislature as Resolution [466 of 2020](#).

In 2020, the Comptroller's Office approved \$211 million in 1,280 separate wire transfers.

Currently on book accounts are reconciled within our financial system for 19 separate accounts at 6 banking institutions. In addition, we review 14 off book accounts maintained within separate financial systems that include accounts for the Department of Social Services, the Sheriff's Department and County Clerk's Office.

Despite licensing the New World/LOGOS software containing a bank reconciliation module there is a long-standing issue that the general ledger and the bank reconciliation module do not always match, meaning not all transactions appear on the bank reconciliation module. The Department of Finance has raised the issue with the vendor, New World. All items are balanced when the Comptroller's Office does the papers reconciliations, however, it uses unnecessary staff time and is an under-utilization of the expensive financial system of the County.

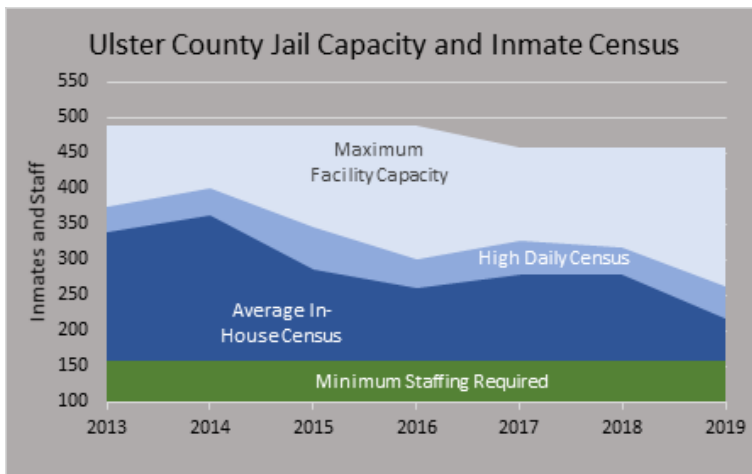
AUDITS

Occupancy Tax from Short-Term Rentals

When the pandemic struck, the Comptroller's Office had an audit underway of the collection of occupancy tax from short-term rental properties. Although the Office continued this work, we followed the lead of the Office of State Comptroller and delayed beginning new audits of County departments that were struggling to adjust their workplans and service delivery to remote work and lockdown.

The occupancy tax audit was completed in a program report and a financial report and the two were released together as a volume in June 2020. The major finding from the audit were that Ulster County was not collecting all occupancy tax due as some properties were not registered to pay tax at all. Those that were registered to pay tax were for the most part making their occupancy tax calculations correctly but given the rise of the importance of short-term rentals like Airbnb to the hospitality industry, the Audit recommended Ulster County enter into a voluntary collection agreement with Airbnb. That agreement was executed late in 2020 and approved by the Ulster County Legislature in February 2021.

Jail Capacity and Staffing



The second audit published in 2020 focused on Corrections Capacity and Staffing of the jail under the Sheriff's Office. The audit found that the Ulster County Law Enforcement Center was built, budgeted, and staffed to hold over 400 inmates but was operating at a fraction of its capacity. The audit recommended looking to pre-bail reform populations to approach the state agency that mandates staffing for the facility and request staffing adjustments. State required mandatory posts result in mandatory "mando" shifts with corrections officers being required to do double and mando shifts. In addition, the audit recommended examining and renegotiating the contracts for medical and food services which were also based on an inflated facility population. The County Sheriff working with the County Executive was able to identify over \$900,000 in savings from the facility in crafting the 2021 budget.

QUARTERLY REPORTS

The County Comptroller's Office is mandated under the Ulster County Charter to submit to the County Legislature and Executive and post to our website, quarterly reports on the financial condition of the County and the local economy. In 2020, we published 5 quarterly reports including 2 from the third and fourth quarters of 2019 as well as the first 3 quarters of 2020. The Comptroller's Office has worked to shrink the time elapsed between the close of the quarter and issuance of the quarterly report so that these reports have value in understanding the financial condition of the County. Over the last year, we have expanded the economic outlook section of the report to have some consistent measures such as unemployment and housing statistics.

The 4th quarterly report is delayed each year due to the extensive time taken to enter prior year journal entries. This makes the report outdated so that it is less valuable for its intended purpose in providing useful and timely information to the Executive, the Legislature, and the public. Closing out of 2020 is a perfect example where a large surplus is expected, and communication of that information is delayed.

OTHER REPORTS

During 2020, the Ulster County Comptroller's Office has issued a series of reports regarding the financial status of the County. Early in the pandemic the Office issued a report on possible revenue impacts from the coming COVID-19 crisis. Mid-year we issued a report on how Ulster County ranks on the State Comptroller's Fiscal Stress Test finding the County in a good position. Then in the fall, the Office issued the inaugural Popular Annual Financial Report (PAFR) which highlighted financial information from the County's Consolidated Annual Financial Report along with demographic information and a special look at housing issues.

The PAFR noted an increasing Hispanic population in Ulster County, growth in housing prices and charted the overall significant drop in the County's Net Position since 2010. The change in financial position is a result to changes in accounting standards that modified the way we account for post-employment liabilities. While all counties in New York are affected by this accounting change and Ulster County is not unique, the important take away is that taxpayers are on the hook for these coming obligations.

MEMORANDA

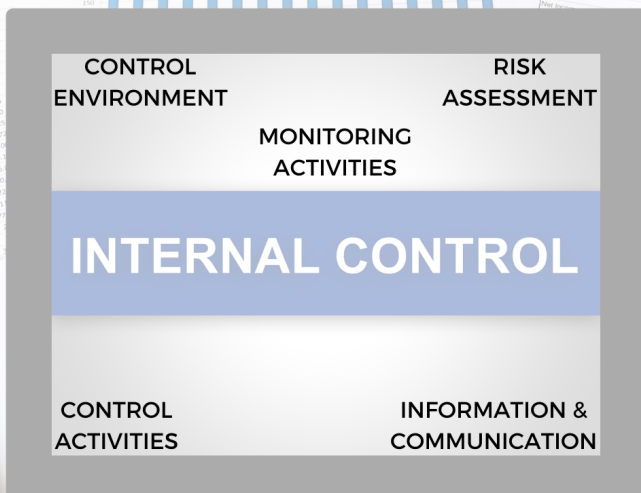
At the beginning of the pandemic, as the Office chose to reduce the impact of the audit function on other departments, yet we still found ourselves needing a way to communicate best practices with other departments. Over the course of 2020 we issued several Memoranda on topics such as overtime, paperless workflow, the financial impacts of furloughing employees because of the pandemic, and a cost/benefit analysis of the early retirement incentive program offered by the County. We found memos are a good way to communicate with both the Legislature and Executive of financial and operational matters that do not require a full audit. These memos allow the Office to share recommendations and best practices in a less formal way.

Paperless Workflow

<u>Financial Procedure</u>	<u>Pieces of Paper</u>	<u>Number of Envelopes</u>
Batches	75,000	
Payroll Backup	3,900	
Vouchers	10,000	
Check Runs	10,821	10,821
Paychecks/Stubs	41,000	41,000
Total	140,721	51,821

RISK ASSESSMENT

What Are the Five Components of Internal Control?



The Ulster County Charter §C-57(A) mandates that the Comptroller's Office perform an annual risk assessment and report the results of such to the Legislature and Executive. Risk assessment is part of an overall framework of internal control. An internal control is "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives."

A comprehensive risk assessment is crucial as it creates an awareness of the internal and external risks that could impact the organization's ability to meet its objectives. It helps prioritize risk management and aids in developing a roadmap and processes for the establishment of internal controls to mitigate or minimize the risks to an acceptable level.

In 2021 and recent years, the Office of the Comptroller has undertaken an annual risk assessment, which included the review of financial and performance related data such as budgeted to actual revenues and expenditures, staffing and contractual information. Furthermore, all departments and administrative units were surveyed on internal controls and changes during the previous year, which for 2020 was significantly impacted by the COVID pandemic. Finally, departments and administrative units were interviewed in a video conference setting by the Comptroller's Office. Going forward this annual one-time risk assessment process may be phased into a more continual approach to assessing internal control risks. The continuous risk assessment process would occur within the County's operating environment, employing the use of the County's software, and monitoring resources available to actively identify and address risks on a continual basis.

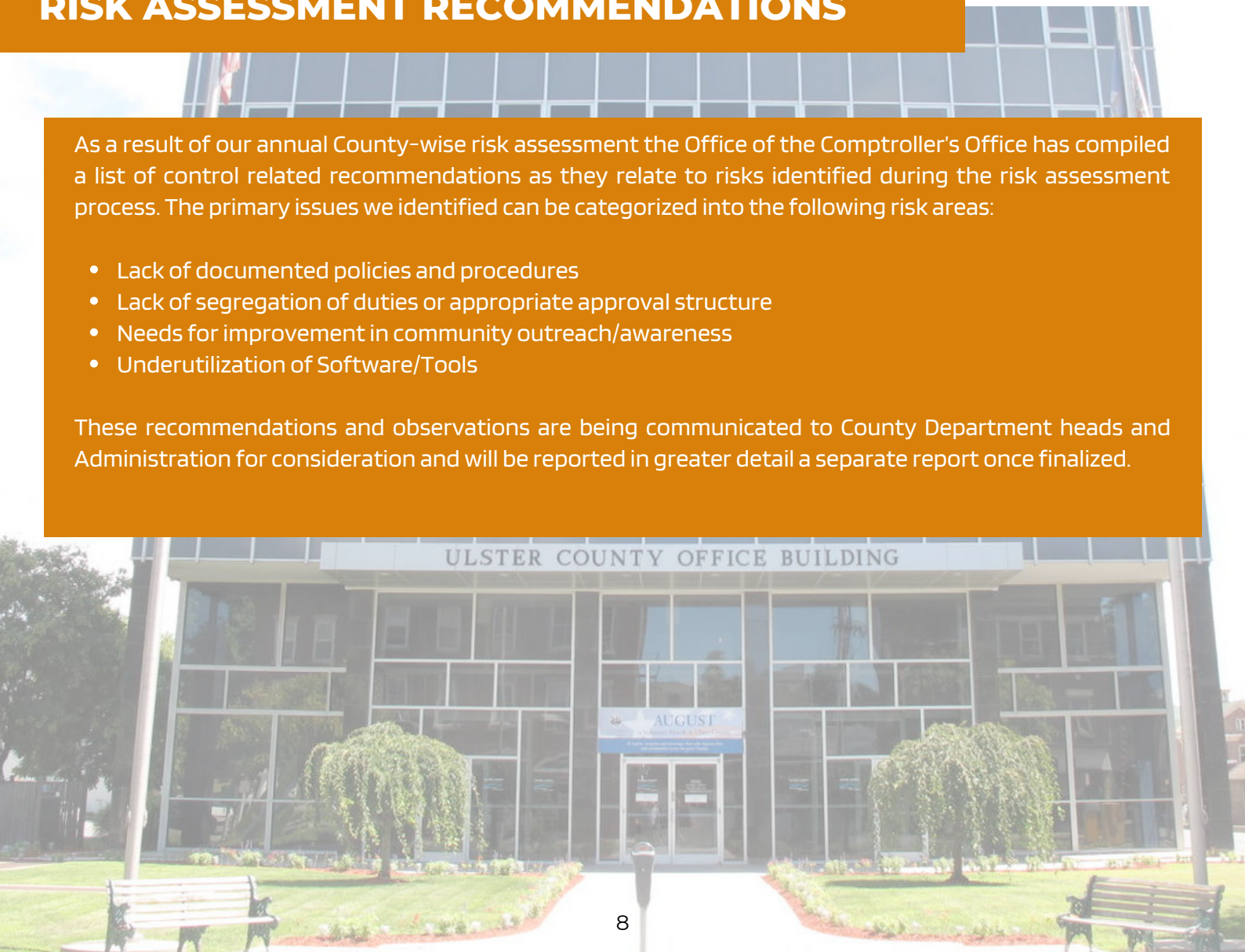


RISK ASSESSMENT RECOMMENDATIONS

As a result of our annual County-wide risk assessment the Office of the Comptroller's Office has compiled a list of control related recommendations as they relate to risks identified during the risk assessment process. The primary issues we identified can be categorized into the following risk areas:

- Lack of documented policies and procedures
- Lack of segregation of duties or appropriate approval structure
- Needs for improvement in community outreach/awareness
- Underutilization of Software/Tools

These recommendations and observations are being communicated to County Department heads and Administration for consideration and will be reported in greater detail a separate report once finalized.



2020 AUDIT, MEMO, AND REPORT RECOMMENDATIONS

- **Adopt structurally balanced budgets, that do not rely on fund balance, instead recurring revenues should support recurring expenditures.**
- **Revise and clarify the fund balance policy thresholds to align with GFOA best practices and describe how calculations should be applied across various Governmental Funds, addressing surplus fund balances.**
- **Fund the Tax Stabilization Fund as a fiscally prudent tool to absorb future potential impacts from unanticipated reduced revenues or increased expenditures.**
- **Separately account for short-term rental and hotel occupancy revenues.**
- **Enter voluntary collection agreements for the collection of occupancy tax at the point of sale.**
- **Move the real property tax auction to a virtual setting as opposed to in person to ensure health and safety while raising more revenue.**
- **Examine potential of county mortgage recording and transfer taxes to raise revenue and discourage "flipping" properties.**
- **Move financial and administrative workflow from paper formats to digital as much as possible.**
- **Track the costs and benefits of the voluntary retirement incentive program.**
- **Furlough employees prevented from working due to social distancing mandates who would make more on unemployment.**
- **Reduce the jail maximum facility capacity based on pre-bail reform census to achieve staff and services cost reductions**
- **Limit same department overtime where employees are prevented from working due to social distancing mandates.**