

ULSTER COUNTY OFFICE OF THE COMPTROLLER

March S. Gallagher, Esq.
Comptroller



Alicia DeMarco, CPA
Deputy Comptroller

MEMORANDUM

TO: Charter Review Commission Chair Kathleen Mihm and Members

CC: County Executive Jen Metzger

FROM: Comptroller March Gallagher

RE: Ulster County Charter Revision Bank Reconciliations

DATE: January 10, 2023

Per our discussion of bank reconciliations and your request for additional information, we would like to offer the following information for your consideration when determining where the responsibility for the performance of bank reconciliations should reside.

As we have noted previously in our discussions with the Commission, we recommend that the responsibility of the *performance* of Ulster County bank reconciliations be moved to the Department of Finance, and that the Comptroller be charged with the *review* and *approval* of completed reconciliations.

The foundation for our recommendation is based on the following facts:

- 1) Bank reconciliation procedures are typically performed by the Treasurer, Finance Department, Chief Fiscal Officer, or those charged with regular accounting services
- 2) The performance of bank reconciliations by auditors is a threat to independence according to Government Auditing Standards, and is listed as a prohibited service

Based on a survey of counties through the New York State County Treasurer and Finance Officer Association, every response received stated that the performance of bank reconciliations is the function of the Department of Finance, Treasurer, or the individual department maintaining "off book" bank accounts (i.e. – Sheriff, Clerk, or other elected office). We are the only Comptroller's Office in the state that is charged with the responsibility of performing bank reconciliations who does not also perform the duties of treasurer (finance department duties). Our "off book" accounts are reconciled by those individual departments and sent to us for review monthly.

"Ulster County Off Book Accounts"	
Department	Account Subject
DSS	Support Collections Unit
Sheriff	Inmate Accounts
Sheriff	General Fees
Probation	Probation
County Clerk	Recording Account
County Clerk	Transfer/ Deed Tax
County Clerk	Mortgage Tax
County Clerk	Court Administration Fees
County Clerk	DMV - Van
County Clerk	DMV - State
County Clerk	DMV - Office
County Clerk	DMV - Exchange
County Clerk	Special
County Clerk	Community Preservation

More importantly, the performance of bank reconciliations is a direct impairment to independence, which hinders the ability of our office to conduct audits. According to Government Auditing Standards, promulgated under the United States Government Accountability Office, the performance of bank reconciliations by an auditor is a direct threat to independence (GAS 2018 Revision 3.89)¹, which states:

3.89 Auditors should identify as threats to independence any services related to preparing accounting records and financial statements, other than those defined as impairments to independence in paragraph 3.87 and significant threats in paragraph 3.88. These services include

- a. recording transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger;
- b. preparing certain line items or sections of the financial statements based on information in the trial balance;
- c. posting entries that an audited entity's management has approved to the entity's trial balance; and
- d. preparing account reconciliations that identify reconciling items for the audited entity management's evaluation**

While reconciling the County's bank accounts, the Comptroller's Office staff is required to identify and recommend adjusting and general journal entries. This requirement results in a direct impairment to the Comptroller's independence as it relates to the financial transactions recorded

¹ <https://www.gao.gov/assets/gao-18-568g.pdf>

in the various County bank accounts. Auditors must always be aware of “self-review threats,” and are prohibited from auditing work that may be perceived as their own work. By forcing the Comptroller to reconcile the County’s various bank accounts, including the disbursement account which is used to record most payments made by the County, the Charter limits the Comptroller’s ability to review and audit based on the professional standards under which we operate.

In the past the need for adjusting journal entries has resulted in months long delays to completion of bank reconciliations in the financial system and created friction between the Finance Department and the Comptroller’s Office. The issue underlying these tense exchanges is that the Comptroller’s Office is being required to do work that is not normally within the scope of an internal audit function.

Additionally, we would like to note that in an example of non-attest services that should NOT be performed by auditors, the performance of monthly bank reconciliations was identified as a specifically prohibited non-audit services under Generally Accepted Government Auditing Standards (GAGAS), as demonstrated in the example on the following page:

Using the examples provided above:

Routine Activities	Specifically Prohibited/Nonaudit services
Analyzing lease vs. purchase	Deciding whether the entity should lease or purchase a fixed asset.
Responding to whether an activity would generate unrelated business income.	Determining the costs to allocate to unrelated business income.
Advising the entity to transfer available cash to an interest-bearing money market account.	Selecting the investment vehicle for the entity to deposit its available cash into.
Showing the entity how to prepare a cash reconciliation in the accounting program the entity uses.	Performing the monthly cash reconciliations for the entity.
Distributing to the entity a list of typical internal controls over fixed assets.	Determining which internal controls the entity should implement.

Finally, the Commissioner of Finance noted that his primary apprehension to completing the reconciliations himself was related to staffing. While the Department of Finance (37 staff not including the ARPA division) is much larger than the Comptroller’s Office (7 currently), if staffing is the primary issue, departmental resource needs should be addressed with the legislature through the appropriate budgetary process. Regarding his secondary concern that the performance of reconciliations would be an issue as it relates to appropriate segregation of duties, we note that the segregation of duties only requires that two separate employees be involved in the reconciliation process, which can be achieved by the Department of Finance’s current staffing structure. Additionally, most of the responding departments from other counties across the state noted the appropriate segregation of duties within the department of Finance performing the reconciliation.