

Promoting Government Accountability with Realistic Internal Controls

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Office of the State Comptroller

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Division of Local Government & School Accountability

▶ **Mission Statement**

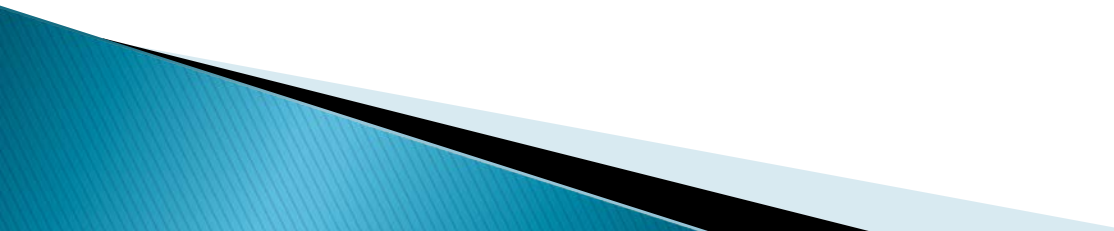
To serve taxpayers' interests by improving the fiscal management of local governments and schools in New York State.

▶ **Goals –to achieve our mission we have developed the following goals:**

- Enable and encourage local government and school officials to maintain or improve fiscal health by increasing efficiency and effectiveness, managing costs, improving service delivery, and accounting for and protecting assets.
- Promote government reform and foster good governance in communities statewide by providing local government and school officials with up-to-date information and expert technical assistance.

Types of Audits We Do

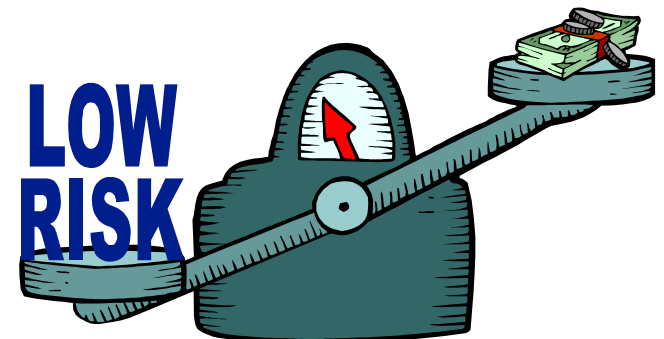
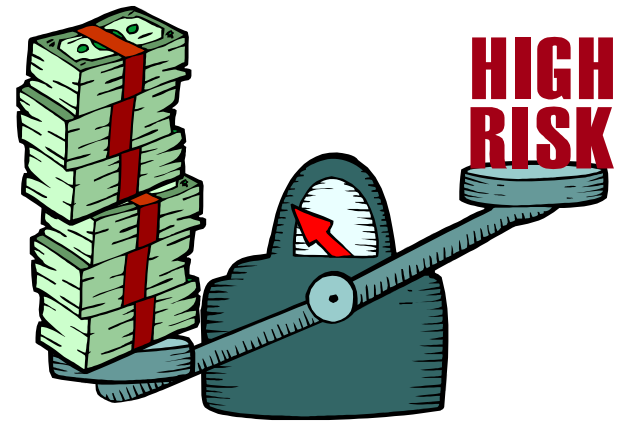
Performance Audits:

- ▶ Program Effectiveness and Results
 - ▶ Economy and Efficiency
 - ▶ Internal Control
 - ▶ Compliance with Legal or Other Requirements
 - ▶ Providing Prospective Analysis, Guidance or Summary Information
- 

Risk Assessment

Our process includes:

- ▶ Determining who and what to audit
- ▶ Research and information gathering
 - Annual Financial Reports
 - Unit's history
 - Media reports, newspaper articles
 - Last OSC visit
 - Anonymous tips





Types and Classes of
Governments that our
Division has responsibility
to oversee

Local Governments in New York State

General Purpose Governments

Counties (outside of NYC)	57
Cities	62
Towns	932
Villages	555
	1,606

Special Purpose Governments

School Districts	697
Fire Districts	874
Library Districts	181
Special Districts	78
	1,830

Other Government Entities

Special Purpose Units	604
Local Government Public Authorities	207
	811

Other Service Structures

Town Special Districts	7,272
County Special Districts	144
	7,416
Total	11,696

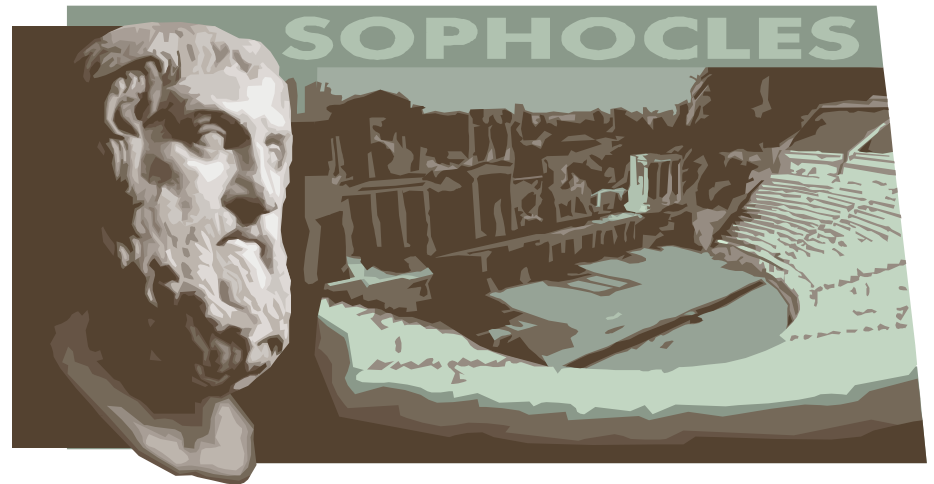


Fraud, Waste and Abuse in Local Governments and School Districts

Fraud

“Rather fail with honor than succeed by fraud.”

-- Sophocles (496–406 BC)



What has OSC found?



From 1994 to 2011, the Division of Local Government's audits disclosed 234 cases of fraud, waste and abuse amounting to over \$31 million

Summary of Fraud, Waste & Abuse by Year

Year	Number of Cases	Amount
1994	13	\$103,207
1995	14	\$899,378
1996	11	\$283,193
1997	13	\$499,937
1998	12	\$142,383
1999	6	\$169,118
2000	9	\$132,929
2001	13	\$263,676
2002	8	\$118,820

Summary of Fraud, Waste & Abuse by Year

(cont'd)

Year	Number of Cases	Amount
2003	7	\$131,310
2004	17	\$131,549
2005	16	\$11,823,360
2006	22	\$4,854,499
2007	21	\$5,222,614
2008	15	\$1,290,803
2009	8	\$2,900,920
2010	21	\$1,568,979
2011	8	\$742,522

Summary of Fraud, Waste & Abuse by Class

(cont'd)

Class of Government	Number of Cases	Amount	% of Total
Counties	13	\$2,936,175	9%
Cities	6	\$2,922,505	9%
Villages	58	\$1,133,249	4%
Towns	101	\$3,066,783	10%
School Districts	28	\$18,742,320	60%
Fire Districts	16	\$1,419,712	5%
Public Authorities	3	\$732,506	2%
Other	9	\$325,947	1%
Totals	234	\$31,279,197	

OSC Facts about Fraud



From 2004 –2011, a review of 128 cases disclosed that:

- 58 of the cases were found by OSC Auditors*
- 70 of the cases were brought to OSC's attention by others*

Roslyn Union Free School District – Largest Fraud Found in School Districts

▶ SCHOOL FUNDS USED FOR PERSONAL BENEFIT

◦ <i>Personal Credit Cards</i>	\$ 5,902,544
◦ Private Mortgages and Loans	\$ 1,137,939
◦ Home Depot	\$ 609,000
◦ Food	\$ 594,121
◦ Salaries and Benefits	\$ 576,586
◦ Gluckin-owned Companies	\$ 255,537
◦ Computers and Electronic Equipment	\$ 249,883
◦ Private Automobiles	\$ 206,798
◦ Insurance Premiums	\$ 160,171
◦ Travel Expenses	\$ 133,619
◦ Other Personal Expenses	\$ 112,983


▶ APPARENT MISUSE OF DISTRICT FUNDS:

◦ Related Party Consultants	\$ 1,074,547
◦ Postage and Shipping	\$ 166,945
◦ Other Questionable Expenditures	<u>\$ 64,492</u>

TOTAL

\$11,245,165

Hempstead School District –\$5.1 Million in Questionable, Wasteful Expenses

- ▶ **Avoidable Expenses** **\$2,300,000**
 - ▶ **Lack of a Competitive Process** **\$1,300,000**
 - ▶ **Payments to Temporary
Employment Agencies** **\$1,100,000**
 - ▶ **Questionable & Inappropriate
Expenses** **\$ 298,000**
 - ▶ **Missing Computer Equipment** **\$ 27,000**
 - ▶ **In addition, the district inappropriately paid two
superintendents at the same time.**
- 

William Floyd Central School District – \$3.2 Million in Questionable Expenses, Procurement and Payroll Costs

- ▶ Superintendent authorized increase in his salary
- ▶ Excessive meal and lodging reimbursements
- ▶ Professional service providers had no contracts
- ▶ Obtained goods without prior authorization
- ▶ Paid travel allowance not entitled to
- ▶ Board ratified 9 years of administrative contracts that had never been approved by the board


Just the tip of the iceberg!



William Floyd Central School (cont'd)

Theft of almost \$1.5 Million

In June of 2004, the District's former Treasurer, James Wright, was arrested and charged with one count of 2nd degree larceny for allegedly stealing at least \$700,000 in District funds:

- ▶ He improperly increased his final year's salary to increase his pension;
 - ▶ Gave himself extra longevity pay and vacation days he was not entitled to; and
 - ▶ Wrote checks to himself.
- 

William Floyd Central School (cont'd)



Theft of almost \$1.5 Million

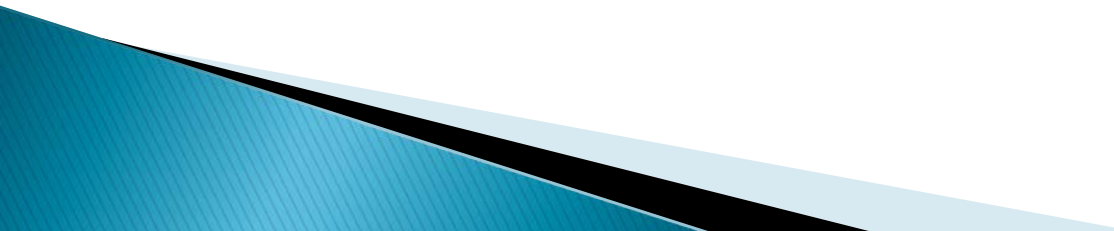
In January 2005, Daniel Cifonelli, the former Assistant Superintendent for Business, was arrested and charged with four counts of 2nd degree larceny and one count of 3rd degree larceny:

- ▶ He received \$445,000 from the New York State Teachers' Retirement System (NYSTRS) while earning consulting fees of more than \$441,000 from the District
- ▶ He also stole \$230,848 in District funds

**On January 30, 2006, Wright and Cifonelli
pled guilty to stealing District funds**

Fraud, Waste and Abuse found in Local Governments

Town of Vienna – Theft of \$415,261

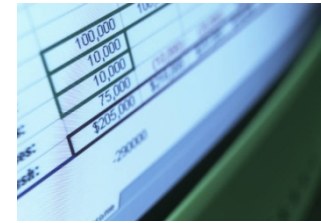
- ▶ Theft was uncovered by a CPA firm providing accounting services to the Town
 - ▶ Oneida DA's Office was notified & an investigation was initiated
 - ▶ CPA firm obtained copies of missing checks from bank and all checks were payable to & endorsed by the bookkeeper
- 

Town of Vienna (cont'd)



- ▶ Supervisor notified OSC of the apparent theft
- ▶ OSC's audit disclosed that **139 checks totaling \$415,261** were drawn on Town bank accounts payable to the Bookkeeper
- ▶ None of these payments were accounted for in the Town's records, or supported by approved vouchers or other evidence of authority to pay
- ▶ In addition, our prior audit of the town disclosed serious weaknesses in the Town's internal controls

Town of Vienna (cont'd)



Bookkeeper's regular duties included:

- ▶ Maintaining the Town's accounting records
- ▶ Preparing the Supervisor's monthly report and the Town's annual financial report
- ▶ Preparing bank deposits and transferring funds between Town bank accounts
- ▶ Performing bank reconciliations
- ▶ Opening mail, including payments sent to the Town, bank statements and cancelled checks
- ▶ Preparing Town payrolls
- ▶ Processing checks through the Town's computer

Monroe County Water Authority

Our office found \$495,572 in unearned salaries and benefits:

- ▶ \$290,000 to the Executive Director:
 - Excessive pay raises for 3 years – 44.8%
 - Unearned benefits of \$166,000 for all unused sick leave and lifetime health insurance & medical reimbursement benefits for himself & spouse
- ▶ \$205,672 in extended leave to 5 other employees and was solely authorized by Executive Director

Village of Port Henry

Over \$152,000

The Clerk-Treasurer used various schemes to remove cash from the Village office while avoiding detection by other Village officials including:

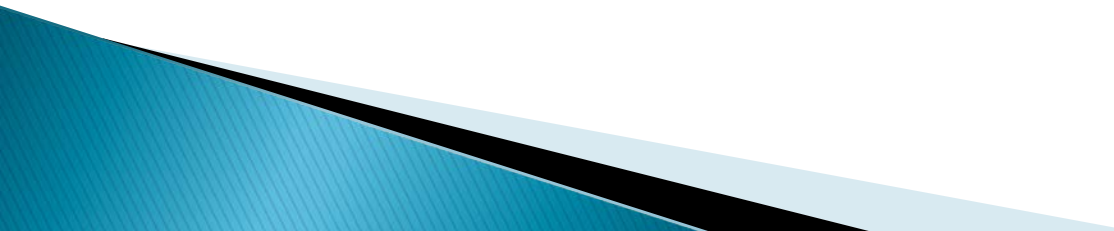
- ▶ Skimming,
- ▶ Lapping,
- ▶ Substituting checks for cash and,
- ▶ Adjusting receivable accounts.



Charlton Fire District

Over \$500,000

The Treasurer misappropriated District funds. The Treasurer was able to:

- ▶ Make non-district purchases with district credit card,
 - ▶ Write checks to herself and husband,
 - ▶ Write excessive payroll checks to herself
- 

Commonalities in these School Districts & Local Governments



- ▶ Lack of internal controls
- ▶ Breakdown of internal controls
- ▶ Management override of internal controls
- ▶ Board failed to monitor & oversee the local government's financial activities

Commonalities in these School Districts & Local Governments (cont'd)

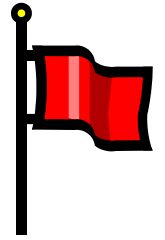
- ▶ Management's disregard of legal requirements
- ▶ Board did not establish sound business practices regarding cash receipts and payments, travel, cell phones, credit cards, bank account reconciliations, etc.
- ▶ Board did not establish policies required by law
- ▶ ***Board acted irresponsibly***



A red flag with a white border is waving on a red pole. The pole has a circular finial at the top and is mounted on a blue, textured base. The flag is divided into three vertical sections of different shades of red. The text is centered on the middle section.

Similar *Red Flags*
in all of these local
governments &
school districts

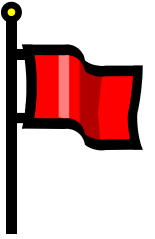
Employee Red Flags



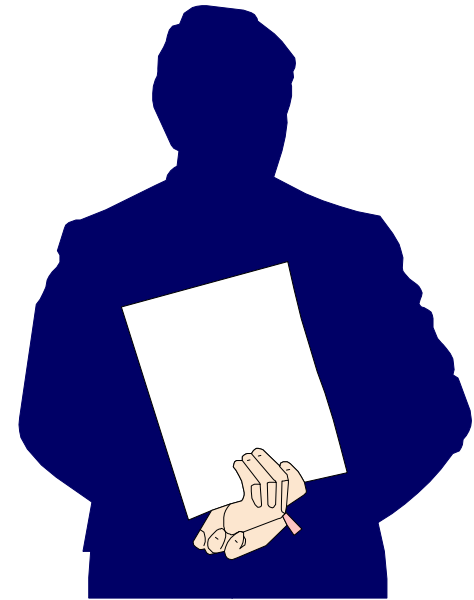
- ▶ Lifestyle changes
- ▶ Credit problems
- ▶ Behavioral changes
- ▶ Refusal to stay home
(vacation or sick leave)
- ▶ Lack of segregation of duties



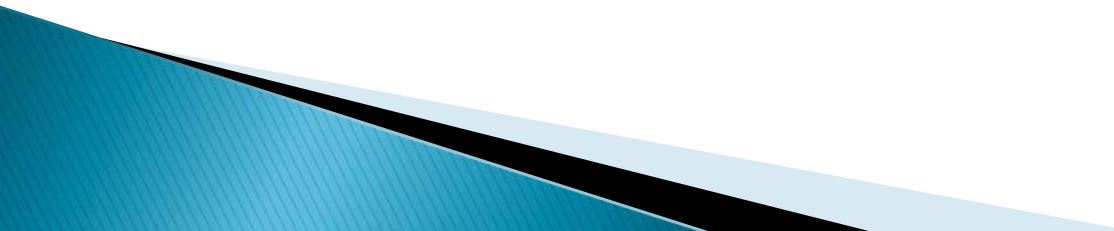
Management Red Flags



- ▶ Reluctance to provide information to auditors
- ▶ Excessive number of checking accounts
- ▶ Directives to override controls/requirements
- ▶ Excessive number of year-end transactions



Red Flags in Cash/ Accounts Receivable

- ▶ Large number of write-offs of accounts
 - ▶ Taxpayer complaints about non-payment notices
 - ▶ Discrepancies between bank deposits and postings
 - ▶ Excessive or unjustified cash transactions and/or adjustments
- 

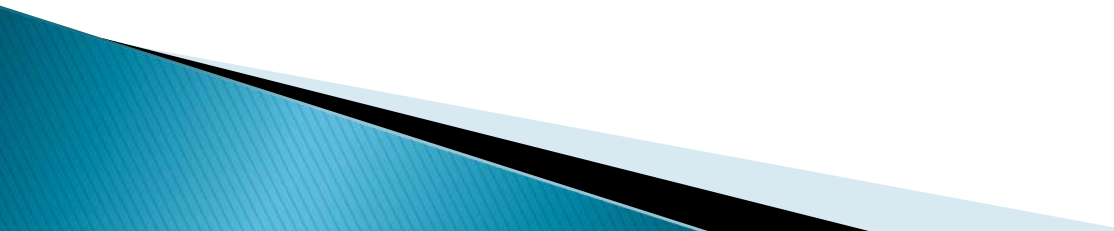
Red Flags In Purchasing



- ▶ Taxpayer complaints about service
- ▶ Purchases that bypass normal procedures
- ▶ Purchases without shipping documents
- ▶ Purchasing agents who do you a “favor”
- ▶ Lack of physical security over assets
- ▶ Vendor addresses matching employee addresses
- ▶ Purchasing agents that deliver vendor payments rather than mailing



Fraud Danger Signals that were common in the OSC Cases

- ▶ Poor internal controls
 - ▶ Management override of internal controls
 - ▶ Collusion between employees
 - ▶ Collusion between employees and third parties
- 

Fraud Danger Signals that were common in the OSC Cases (cont'd)

- ➡ No supporting documentation for adjusting entries
- ➡ Incomplete or untimely bank reconciliations
- ➡ Unrealistic performance expectations
- ➡ Using copies of invoices to pay vendors






OSC recommendations
to local governments
& school districts for
controlling fraud, waste
and abuse

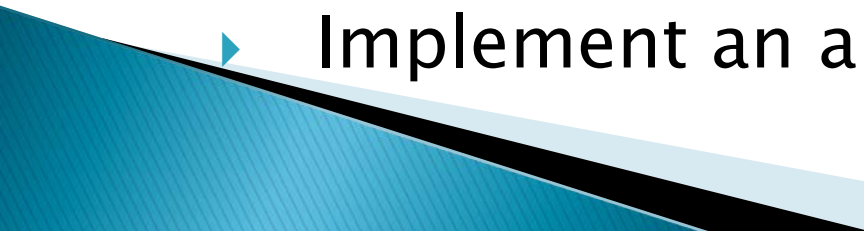
Recommendations for controlling Fraud, Waste & Abuse

Financial controls

- ▶ Reconcile accounts
 - ▶ Perform ratio analysis
 - ▶ Review all general ledger adjustments
 - ▶ Institute job rotation
 - ▶ Conduct surprise audits
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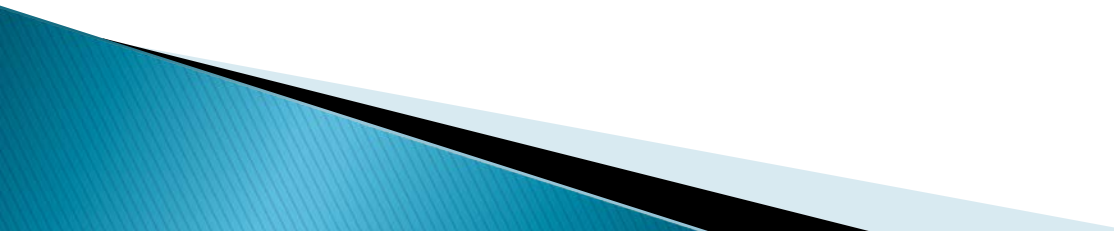
Recommendations for controlling Fraud, Waste & Abuse (cont'd)

Non-Financial controls

- ▶ Pre-screen potential employees
 - ▶ Communicate often with current employees
 - ▶ Communicate the consequences of committing fraud
 - ▶ Set a good example by following the rules
 - ▶ Conduct anti-fraud training for managers and employees
 - ▶ Implement an anti-fraud policy
- 

Recommendations for controlling Fraud, Waste & Abuse (cont'd)

Develop a Mechanism for Reporting Fraud:

- ▶ Internal controls communication policy
 - ▶ Clearly communicated
 - ▶ Periodically reviewed
 - ▶ If possible, provide anonymity
- 

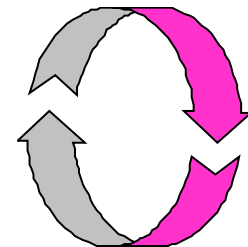


OSC Internal Control Checklist for Local Governments & School Districts

Internal Control Checklist



- Adhere to policies & procedures
- Physically safeguard assets
- Train employees
- Segregate duties or provide additional controls
- Clear lines of authority
- Rotate duties (if possible)



Internal Control Checklist



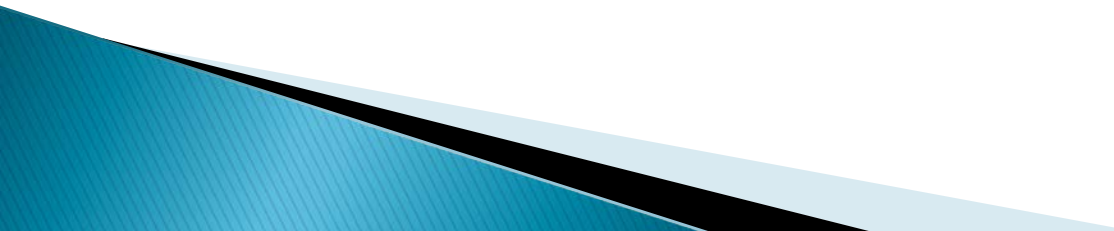
- Ensure that employees take vacations
- Schedule independent audits of areas susceptible to fraud
- Background checks on financial employees
- Make sure controls are followed

Internal Control Checklist



- Review staff's work
- Ask for documentation
- Evaluate performance
- Report suspicious activity

Stay on “Top” of Controls

- Analyze Transactions in your office
 - Determine key Objectives
 - Verify you have Procedures in place
- 

Audit Follow-Ups

Our office performs a significant number of Audit Follow-Ups if:

- ▶ There was fraud, waste & abuse
- ▶ Significant weaknesses in internal controls
- ▶ Apparent lack of internal controls



Thank You



**Division of Local Government and
School Accountability**

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