

Herkimer County Industrial Development Agency

Claims Auditing

APRIL 2022



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Herkimer County Industrial Development Agency

Audit Objective

Determine whether the Herkimer County Industrial Development Agency's (HCIDA) claims were adequately supported, for appropriate purposes and independently reviewed and approved prior to payment.

Key Findings

We reviewed 100 claims totaling \$846,279 and determined they were for appropriate purposes and generally supported by adequate invoices and/or other documentation. However, none of these claims were independently reviewed and approved prior to payment. We also found:

- The Board did not appoint someone to audit claims and did not develop and adopt written policies, procedures or other guidance to communicate expectations for the claims audit process.
- The Secretary of the Board (Secretary) reviewed the tested claims between one and 146 days after payments were made.

Key Recommendations

- Develop and adopt written policies and procedures for the claims audit process.
- Ensure all claims are audited and approved prior to payment.

HCIDA officials agreed with our recommendations and indicated they plan to initiate corrective action.

Background

HCIDA is an independent public benefit corporation established in 1970. HCIDA's Board is composed of seven members appointed by the Herkimer County Legislature and responsible for HCIDA's general management and financial and operational affairs.

The Board-appointed Executive Director serves as the chief executive officer and is responsible for day-to-day operations.

Two office employees perform administrative functions, including maintaining the accounting records and processing claims.

Quick Facts Total Claims in Audit Period

Non-Payroll Claims	585
Claims Paid	\$4,618,081
Claims Tested	\$846,279

Audit Period

January 1, 2020 – August 31, 2021

As described in Appendix B, we extended the audit period to review the auditing and approval of claims.

Claims Auditing

What Is an Effective Claims Audit Process?

An effective claims audit process ensures that every claim against an industrial development agency (IDA) is subject to an independent, thorough and deliberate review, and that each claim contains adequate supporting documentation to determine whether it complies with IDA policies and represents actual and necessary expenditures.

To fulfill the need for a thorough and deliberate audit of claims, a governing board may appoint an officer or employee to serve as a claims auditor. A claims auditor is responsible for authorizing the payment of claims and should be independent of both the purchasing and treasury (check-signing) functions to maintain the proper segregation of duties. A board should provide guidance, such as written policies and procedures, to communicate the claims auditor's responsibilities. Establishing and communicating effective claims auditing policies and procedures helps decrease the risk that errors or irregularities in processing and paying claims could occur and not be detected in a timely manner.

A claims auditor should audit every claim against the IDA before payment to determine whether the claim contains adequate supporting documentation, is for valid and legal purposes, is mathematically accurate, complies with IDA policies, and includes evidence that the goods or services were received. Upon review, the claims auditor should indicate his or her approval of claims by signing or initialing each individual claim packet, or signing a listing of the claims audited and approved, which would then be forwarded to the officer responsible for preparing and signing checks.

Claims Were Not Audited Prior to Payment

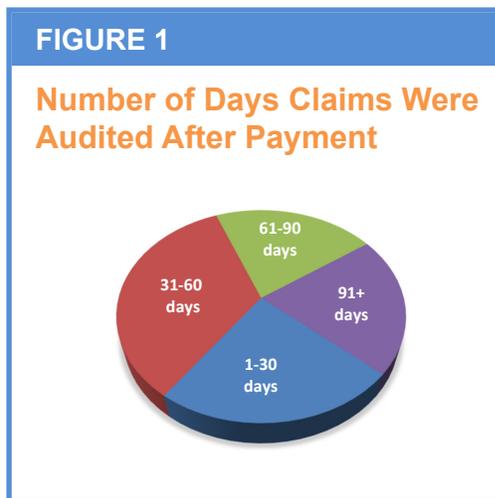
HCIDA officials should ensure all claims are properly audited and approved before payment. Although the Secretary reviewed claims, the Board did not formally appoint him to be the claims auditor and provide written policies, procedures or other guidance detailing his responsibilities and expectations for the claims audit process.

Typically, the Executive Director and two HCIDA employees collectively reviewed claims during weekly meetings. After their review, one employee entered claims into the accounting system and the other employee processed the checks. While checks were normally signed by two of these three individuals, all Board officers, including the Secretary, had check-signing privileges. Therefore, the Secretary could both authorize the payment of claims and sign checks to make the payments, which are duties that should be segregated to provide strong internal controls.

A claims auditor should audit every claim against the IDA before payment. ...

Once checks were printed and signed, they were sent to vendors and other payees prior to audit. The Secretary later reviewed the claims packets consisting of check stubs and other supporting documentation, such as invoices and receipts, and he initialed and dated each claim packet to evidence his review.

We reviewed 100 claims paid during the audit period totaling \$846,279, and determined they were for legitimate purposes, generally supported by adequate invoices and/or other documentation and we had no exceptions with goods and services being received.¹ However, none of these claims were reviewed prior to payment. The Secretary reviewed the claims between one and 146 days after payment was made (Figure 1).



While we did not find inappropriate payments, when the Board allows payments to be made prior to the audit and approval of claims, there is an increased risk that inaccurate or improper payments could be made.

The Executive Director told us he was unaware that someone independent of the disbursement process should review and approve claims before they are paid. The Secretary told us he attempted to review claims on a monthly basis, but other obligations prevented him from performing the reviews each month.

During the early stages of our audit, we discussed claims auditing best practices with the Executive Director. Subsequent to our discussion, in September 2021, the Board formally appointed the Secretary to serve as the claims auditor, and another Board member as the deputy claims auditor when the Secretary is absent. The Board assigned the claims auditor the responsibility to audit and

¹ See Appendix B for our audit sampling and testing methodology.

approve claims prior to the release of funds to payees. Also, the Secretary told us he no longer has check signing privileges for HCIDA bank accounts. We confirmed with the bank and other HCIDA officials this was the case.

In response to our audit findings, HCIDA officials implemented a new process for auditing and approving claims before payment. We selected and reviewed 10 claims paid after October 1, 2021, totaling \$20,658, to determine whether the new process was working as intended. We found that the claims auditor or deputy claims auditor reviewed and approved all 10 claims prior to payment.

What Do We Recommend?

The Board should:

1. Develop and adopt written policies and procedures for the claims audit and approval process.
2. Ensure the claims auditor does not have check signing capabilities.
3. Ensure all claims are presented to one of the claims auditors for audit and approval before payment.

Appendix A: Response From IDA Officials



March 29, 2022

STAFF

JOHN J. PISECK, JR.
Executive Director

STACEY J. HOLLERAN
Office Manager

VICTORIA L. ADAMS
Administration & Grant
Coordinator

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Re: Claims Auditing Draft Report of Examination 2022M-12-Written Response

Dear Ms. Wilcox:

Please consider this the Agency's written response to the subject audit.

We are in agreement with the key findings included in the report. Prior to the audit, the Agency was unaware of any such best practice suggesting that someone independent of the disbursement process should review and approve claims before they were paid.

As soon as the agency was made aware of this claims auditing best practice, the Board appointed the Secretary to serve as claims auditor along with another board member as the deputy claims auditor when the Secretary is not available. The Secretary was removed from check signing privileges for all bank accounts. All claims are now reviewed and approved by the claims auditor or deputy claims auditor prior to payment.

We are in the process of developing a written policy and procedures for the claims audit process.

Sincerely,

Vincent J. Bono
Chairman

copy by email:
John Piseck, Jr., CEO
IDA Board of Directors

420 E. German Street, Box 1 Suite 101A, Herkimer, NY 13350 315-866-3000

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Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article X, Section 5 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed HCIDA officials and reviewed Board minutes to gain an understanding of the claims audit process and relevant policies and procedures.
- Using our professional judgment, we selected 50 high-risk claims totaling \$672,845 to determine whether the claims were audited and approved before payment was made, supported by adequate invoices and documentation, included evidence the goods or services were received and were for legitimate purposes. We selected claims that posed a higher risk for inappropriate HCIDA expenditures, including payments to HCIDA employees, unrecognized vendor names, credit card payments, and purchases from vendors that were potentially unrelated to HCIDA operations.
- Using a computerized spreadsheet function, we randomly selected an additional sample of 50 claims totaling \$173,434. We tested these claims for the same concerns identified in our high-risk sample.
- Using our professional judgment, we selected an additional 10 claims dated after October 1, 2021, totaling \$20,658, to determine whether these claims were audited and approved before payment in accordance with the September 23, 2021 Board resolution. We selected the first 10 claims dated after October 1, 2021.

We conducted this performance audit in accordance with GAGAS (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 objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to

Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the HCIDA's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/local-government/publications

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/local-government/publications

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

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www.osc.state.ny.us/local-government/publications

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