

CITY OF ALBANY

Office of Audit and Control

Performance Audit of the Department of Youth & Workforce Services - Grant Records Reconciliation

**Audit Report
July 2012**

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PREFACE

The Office of Audit and Control exists to provide oversight, transparency and public accountability as a means to improve City services. This performance audit is a part of that function.

When the Office of Audit and Control takes on an audit client and, absent evidence of misconduct, that client addresses the audit's findings; it is our commitment to support and encourage their use of the audit process to improve their operations.

This audit was conducted with the full cooperation of the Department of Youth and Workforce Services and the Commissioner has committed to addressing its findings.

The proper use of the audit findings in these circumstances is to provide for oversight of the resulting changes and as the basis for informed public policy discussions.

Given that the Department of General Services has given their full cooperation, it would be unfair and damaging to the audit process for this audit's findings to be used for political gain. As such, the Office of Audit and Control will view the political use of this audit's findings as detrimental to our mission.

We thank the Department of Youth and Workforce Services for their cooperation and commitment.

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Summary

Historically, due to a number of factors, The Department of Youth and Workforce Services (the Department) has had difficulty reconciling their grant financial records with the corresponding records in the City's general ledger. The objective of this audit was to compare the department's grant records with the City's financial records to identify inconsistencies as well as opportunities to improve the Department's record-keeping process.

Objective:

Compare the department's grant records with the City's financial records to identify inconsistencies as well as opportunities to improve the record-keeping process.

Findings

This audit identified two primary areas for concern:

1. There were significant differences between the Department's grant records and the City's corresponding financial records.
2. There are City accounts receivable recorded that will not be paid because the Department has not identified unfunded expenses.

Causes

There are four primary causes for the two concerns listed above:

1. The Department had not requested access to the City's financial record system for a key staff member. Access would enable her to conduct effective ongoing reconciliation activities.
2. Department staff did not utilize the City reports that they receive and indicated that they were unaware of other information that they could request that could be used to improve their reconciliation efforts.
3. The Department's records were not fully reconciled with City financial records on a regular basis. Errors or omissions were not identified and corrected on a timely basis.
4. The Department's records frequently contained inaccuracies that made the unfunded expenses difficult to identify.

Recommendations

This report recommends three steps to addressing the findings:

1. All relevant staff should be trained to use the City's electronic financial records and have easy access to them.

2. Department staff should regularly reconcile the Department's grant reports to the City's General Ledger reports and address discrepancies as they are identified.
3. The Department should implement a procedure to identify and report unreimbursable and/or unreimbursed expenditures and funding shortages to the City Treasurer and City Administration for accounting, budgeting and program planning purposes.

The scope of this audit was the 2011 GD fund revenues and expenditures. The GD Fund is the fund used to account for the financial activities of the Department of Youth and Workforce Services.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards.

We thank the Department of Youth and Workforce Services for their cooperation in providing reports, answering questions and meeting with us to explain their processes.

This audit was initiated because the Audit staff has been aware of longstanding difficulties in reconciling the Department's grant records with the City's financial records.

Audit Background

This audit was initiated because the Office of Audit and Control (OAC) staff has been aware of the longstanding difficulties in reconciling the Department's records with the City's financial records. In previous years OAC (and previously the City Comptroller) had provided the Department with significant assistance in correcting discrepancies between the two sets of records. However, in 2011 OAC adopted Government Auditing Standards and under those standards OAC staff can no longer provide this non-audit service.

As a result of these circumstances, the OAC decided to provide similar services for the 2011 records in the form of an audit. The goal is for the Department to utilize the findings and recommendations to make the necessary changes for the department to be able to reconcile their records without OAC assistance.

The City's financial records are maintained on New World System AS400 software (NWS) while the Department's records are maintained on Cougar Mountain grant management software (CMS). The following sections provide background information on the two

systems along with information about the reconciliation of their two sets of records.

The City General Ledger Activity

The City of Albany uses the New World System's General ledger, revenue, accounts payable, and payroll packages for activities such as revenue recording, expense recording and issuing checks for accounts payable and payroll. The following items describe the Department's activities that are recorded in the City's NWS.

Depositing Grant Funds:

Most grant funds are deposited directly from the funding source to the City's bank account via ACH Credit.

Grant funds that are mailed to the Department are brought to the City Treasurer's office for deposit.

These deposits should be accurately reflected in both the City's and the Department's records.

Grant revenues are deposited either by ACH Credit (direct from funding source to the City's bank account) or checks that are received by the department. Checks are recorded in the Department's "Turn-in" book and brought to the City Treasurer's office for deposit. Funds are deposited directly into the City's General Fund Bank Account or the City's Federal Miscellaneous Bank Account.

ACH deposits are identified and recorded in the department's "Turn-in" or deposit books which are brought to the Treasurer's office where a teller records an "instant" deposit. This instant deposit record updates the general ledger for the amount of the revenue received.

Expenditures are recorded on the City's General ledger through accounts payable, payroll or by manual journal entries.

Accounts Payable - Most invoices are entered into the City's NWS software at the Department of Youth and Workforce Services by the Accounts Payable clerk. The invoices are sent to the Office of Audit and Control for audit, and when audited are given to the Treasurer/Accounts Payable office where the invoices are posted and subsequently paid. The Department's few invoices with purchase orders are first sent to the Purchasing department for approval/review, then sent to Audit & Control for audit, and lastly sent to the City Treasurer/ Accounts Payable office to be entered and paid.

Payroll is entered into the NWS at the Department of Youth and Workforce Services and then processed by the City Treasurer's Payroll department.

Manual journal entries - The Deputy Treasurer allocates certain expenditures to departments either by actual expense such as

liability insurance expense, or by allocation such as NYS Retirement and Liability Insurance.

Due From Account - Amounts owed to a particular fund by another fund for goods sold, services rendered, or advances made.

GAAP - Generally Accepted Accounting Principles. A widely accepted set of rules, conventions, standards, and procedures for reporting financial information, as established by the Financial Accounting Standards Board.

The City maintains accounting records on an accrual basis (in accordance with GAAP), which means that revenue and expenditures are recorded in the year incurred. The City's accounting period is January 1 through December 31 while grants generally begin in July and end in September.

The Department's Cougar Mountain Grant Reporting Software (CMS)

Cougar Mountain Software (CMS) is used to record expenditures and revenues by grant program. CMS records are maintained on a cash basis by the Department. This means that expenditures are recorded when they are paid and revenues are recorded when they are received.

Cash vs. Accrual

The City maintains accounting records on an accrual basis, which means that revenue and expenditures are recorded in the year incurred.

The Department's records are maintained on a cash basis in the CMS software. This means that expenditures are recorded when they are paid and revenues are recorded when they are received.

Because key Department staff members do not have access to NWS, the department relies on weekly reports faxed from OAC for accounts payable and payroll disbursement data. The Department also relies on emails about reimbursement receipts from the Treasurer's office. In addition to those regular emails, the Treasurer's office periodically emails information about NYS retirement and liability insurance to the department. The Department maintains a separate payroll distribution worksheet for Payroll and NYS retirement information.

The department's Adult Workforce Services grant funds are drawn down weekly from Rensselaer County based on what has been paid or will be paid. In contrast, the Youth and Family funds are reimbursement grants, and the department uses CMS reports to submit for reimbursement funds.

The Department's Grants have different accounting periods than the City accounting period and grants generally begin in July and end in September.

Reconciliation:

Departmental and City records should agree once the Department's expenses and revenues have been adjusted to reflect an accrual basis of accounting

Reconciliation of the CMS reports to the AS400/NWS

The reconciliation of the CMS's cash-based records with the NWS's accrual-based records should amount to adjusting the CMS expenses and revenues to reflect an accrual basis of accounting. The records should agree once this process is complete.

The current reconciliation process is to back out prior year accruals from the CMS grant activity and add the current year accruals to the CMS grant activity. Historically, once this process has been completed, the records have not agreed and the Department has worked with OAC/Comptroller staff to identify and correct other differences.

Audit Results

Audit Findings:

- 1. There were significant differences between the Department's grant records and the City's financial records.**
- 2. There are City accounts receivable recorded that will not be paid because the Department has not identified unfunded expenses.**

Two findings were identified in this audit. The first is that there were significant differences between the Department's grant records and the City's corresponding financial records. The second is that there are accounts receivables that will not be paid because the Department has not identified unfunded expenses.

Both of these findings can be addressed with new procedures, better communication, and improved access to the City's financial records. The following observations detail the lack of congruence between the Department's grants records and the City's financial records.

Observations

The Department's CMS grant reports, which track revenues and expenditures by grant program, are a subsidiary detail of the City's financial records. Differences between the Department's CMS grant reports and the City's NWS financial records should only be a result of the cash versus accrual accounting methods used by the two systems. Unfortunately, there were other differences between the NWS and the CMS reports.

Some records that are entered into the City's NWS financial system are not accurately or consistently recorded on the Department's CMS. For example, the 2011 insurance and NYS retirement expenses were not recorded accurately on CMS while some of the Department's revenues were not entered into CMS at all.

Many of the Department's expenditures are not completely reimbursable by Federal, NYS and local grants. Some grants require local matching funds while others do not cover employee benefits. Additionally, funding levels for ongoing grants can change due to a lack of available funds even after programs have been initiated. The Youth Bureau Grant experienced this in 2011 with a reduction of \$33,603.

The City's budget currently treats the Department's revenues and expenditures as if the grants are completely reimbursable when they are not. Deficits are not reported to the Budget Office. Unreimbursable expenditures need to be identified and included in the City's budget if the City continues to accept grants that require a

local match and grants that do not reimburse fringe benefits. As a result, GD Fund expenses exceeded revenues in 2011 by \$80,270.42.

Finding 1

Revenues and expenditures on the Department's Cougar Mountain Software reports do not agree to the City's NWS General Ledger.

Condition: Significant discrepancies exist between the CMS records and the City's NWS General Ledger Records. The following were identified:

Some Department expenditures were not accurately recorded in the Department's records while some revenues were not entered at all.

- The amount used to record NYS Retirement on the CMS reports was not the actual 2011 amount.
- Worker's compensation claims and benefits paid in 2011 were not recorded on CMS, but were recorded on the NWS General Ledger.
- Revenues of at least \$167,691 were omitted from the 2011 CMS reports.
- Health Insurance is estimated and may be different on CMS than the actual expense on the NWS.
- 2011 CMS revenues (adjusted for accruals and omitted amounts) are lower than the City's General Ledger by \$9,704.
- 2011 CMS expenditures (adjusted for accrued expense) are higher than the City's General Ledger by \$24,222.

Criteria: Revenues and expenditures on the Department's Cougar Mountain Software should agree with the City's general ledger to ensure the accuracy of the CMS reports which are used to document the use of grant funds.

Effect: Incorrect CMS data can result in errors on grant reimbursement requests and on required reporting of expenditures of federal assistance on the City's Single Audit.

Causes:

1. The Department's Fiscal and Data Management Coordinator did not have access to the NWS General Ledger Records.

2. The Department’s Fiscal and Data Management Coordinator was unaware of all revenues and all expenditures recorded on the NWS General Ledger.
3. The CMS records were not regularly reconciled with City’s NWS records and errors or omissions were not identified and corrected on a timely basis.

Recommendation 1: All relevant staff should be trained to use the City’s NWS financial records and have easy access to them.

Recommendation 2: Department staff should regularly reconcile the CMS reports to the NWS General Ledger reports and address discrepancies as they are identified.

Finding 2

There are City accounts receivable recorded that will not be paid because the Department has not identified unfunded expenses.

Condition: Not all of the Department’s expenditures are reimbursed by grant funding. There are local matching requirements and other expenses that are not reimbursable. As a result there was a deficit in the GD Fund that was not identified, quantified, and reported to City management.

Criteria: Unreimbursed expenses should be identified, quantified, and reported to City management (The Budget Director and the City Treasurer) so those expenses can be included in the budget and the GD Fund can be balanced.

Effect: Department of Youth and Workforce Services expenditures are paid out of the City’s General Fund. This is recorded on the General Fund as a receivable (a due from account). Cash is decreased and the receivable account is increased, therefore total assets and fund balance on the General Fund are not affected. In actuality, Department of Youth and Workforce Services will not be reimbursed for all expenditures and cannot reimburse the General fund for the full amount. As a result, the General Fund carries a due from account that will not be paid.

Cause: The Department’s records frequently contained inaccuracies that made the unfunded expenses difficult to identify.

The Department will not be reimbursed for all expenditures and cannot reimburse the General fund for the full amount.

YOUTH & WORKFORCE SERVICES – AUDIT RESULTS

Recommendation 3: In addition to Recommendation 2, the Department should implement a procedure to identify and report unreimbursable and/or unreimbursed expenditures and funding shortages to the City Treasurer and City Administration for accounting, budgeting and program planning purposes.

APPENDIX 1-A

Management Response



CITY OF ALBANY, NEW YORK
DEPARTMENT OF RECREATION

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Gerald D. Jennings
Mayor

John D'Antonio
Commissioner

Leif Engstrom
Chief City Auditor:

The Department of Recreation is pleased to respond to the Performance Audit of the Youth and Workforce Service's Grant Records. We welcome the impartial review of our operations and the coinciding recommendations. The Office of Audit and Control has made several observations and three recommendations which we have reviewed. Our responses are as follows:

Recommendation 1: All relevant staff should be trained to use the City's New World System financial records and have easy access to them.

Response: The Department agrees with this recommendation. We recognize that New World System is the main system used to keep financial records for the City. Even though Youth and Workforce Services use Cougar Mountain Software, which is specifically designed for nonprofit accounting, we agree that it would be practical and beneficial for our staff to know how to maneuver AS400 and utilize the system's reports. Appropriate staff are being trained now for use of the NWS.

Recommendation 2: Department staff should regularly reconcile the Department's grant reports to the City's General Ledger reports and address discrepancies as they are identified.

Response: The Department agrees with this recommendation and is in discussions with the appropriate staff members over what a reasonable schedule for the reconciliation of reports is.

Recommendation 3: Implement a procedure to identify un-reimbursable and/or unreimbursed expenditures and funding shortages and report them to the City Treasurer and City Administration for accounting, budgeting and program planning purposes.

Response 3: The Department agrees that a procedure needs to be put in place and are working with the Budget Office to rectify this issue.

Thank you again for the recommendations and input. We look forward to continuing to work with your office to continually improve our Department's operations, and our effectiveness and efficiency.

John J. D'Antonio
Commissioner