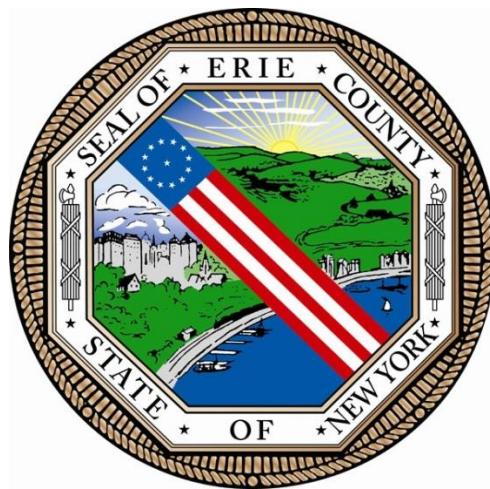


OCTOBER 2019

**ERIE COUNTY DEPARTMENT OF PUBLIC WORKS
AUDIT OF CHIPS REIMBURSEMENT CLAIMS
JANUARY 1, 2018 THROUGH DECEMBER 31, 2018**



**STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER**

**HON. STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER'S OFFICE
DIVISION OF AUDIT & CONTROL
95 FRANKLIN STREET
BUFFALO, NEW YORK 14202**



March 19, 2019

Erie County Legislature
92 Franklin Street, 4th Floor
Buffalo, New York 14202

Dear Honorable Members:

The Erie County Comptroller's Office (Comptroller's Office) has completed an audit of the Erie County (County) Department of Public Works (Public Works) Consolidated Local Street and Highway Improvement Program (CHIPS) for the period January 1, 2018 through December 31, 2018.

We conducted our audit in accordance with 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 objectives. Our objectives were to evaluate and test internal controls over the preparation and submission of reimbursement claims, including the proper recording of revenue and receipt of payments, as well as to evaluate and test compliance with CHIPS guidelines published by the New York State Department of Transportation (NYSDOT). To accomplish these objectives, we tested all reimbursement claims filed during the scope of the audit. Our testing did not identify any weaknesses in Public Works' practices. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Management of Public Works is responsible for establishing and maintaining a system of internal control. The objectives of such a system are to provide management with reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorization and are recorded properly. Because of inherent limitations in the system of internal control, errors or irregularities may nevertheless occur and not be detected.

Basis for Qualified Opinion

In connection with our audit, we noted that Public Works failed to comply with the provision of Section II, Part H, "Limits on Work Completed / Performed by Municipal Forces" of the NYSDOT CHIPS guidelines. Our decision is based on reported total project costs as filed by Public Works on Form(s) CP73.

Our audit was not directed towards the determination of the total project cost for each amount claimed. Had we performed additional procedures, we may have determined the exact amounts by which the NYSDOT CHIPS guideline limit was exceeded.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the “Basis for Qualified Opinion” paragraph, the internal controls over the preparation, submission, recordkeeping, and receipt of payments related to reimbursement claims and compliance with NYSDOT CHIPS guidelines are adequately designed and operating effectively.

No other specific matters adversely affecting compliance with NYSDOT CHIPS guidelines and procedures came to our attention. Our audit was made for the purpose previously discussed, and would not necessarily disclose all instances of noncompliance with respect to areas of operations not audited.

BACKGROUND

The Consolidated Local Street and Highway Improvement Program (CHIPS) was established by the New York State (State) Legislature in 1981. CHIPS provides funds to municipalities to support the construction and repair of highways, bridges, highway-railroad crossings, and other facilities that are not on the State highway system. CHIPS program guidelines are published on the NYSDOT website.

Upon approval of the State budget, the NYSDOT determines each municipality's final CHIPS capital apportionment for the new fiscal year. Municipalities are given an award notice from NYSDOT stating the amount of aid for the upcoming year, in addition to any unused (rollover) funds from prior years. In 2018, the balance apportioned to the County was \$8,859,075, with a cumulative rollover balance from 2017 in the amount of \$2,028,209, totaling \$10,887,284.

AUDIT RESULTS

The Erie County Public Works Highways Division (Highways) records CHIPS revenue in the operating budget for the Highways Division, Business Area 123, Fund 210, Account 407000.

In 2018, three (3) reimbursement claims, consisting of 22 total construction projects, were recorded in the Erie County accounting software (SAP). We tested 25 of 81 total invoices that were submitted for reimbursement, amounting to 86% of the revenue recorded. The invoices tested were in agreement with SAP.

The 22 construction projects were individually tested for compliance with the major provisions of the NYSDOT CHIPS guidelines, including project eligibility, eligible costs and reimbursements, reimbursement certification, limits on work completed / performed by municipal forces, and timely expenditure of CHIPS funds. The compliance testing was performed based on project information submitted on Form(s) CP73 and project information provided by Public Works. Individual project details were not audited. The three (3) reimbursement claims were filed within the appropriate timeframe in accordance with the NYSDOT CHIPS payment schedule.

AUDIT COMMENTS

LIMITS ON WORK COMPLETED / PERFORMED BY MUNICIPAL FORCES

Section II, Part H of the NYSDOT CHIPS guidelines limits work performed by a municipality's own forces to projects with an estimated construction cost of \$250,000 or less. Eight (8) projects with work performed by County forces exceeded the \$250,000 limit based upon total project costs reported by Public Works on Form(s) CP73. We recommend that Public Works review all projects (planned for 2019 and previously submitted for reimbursement) for compliance with NYSDOT CHIPS guidelines, and initiate corrective action.

REVENUE ACCRUAL

CHIPS Claim 2 (Document No. 1800050688), posted to SAP on April 1, 2018, included invoices for construction work which was performed in 2017. Revenue should be posted to the year in which it was earned. CHIPS Claim 2 (Document No. 1800053512), submitted in February 2019, was properly posted to SAP on December 31, 2018. Testing of the expense accruals for individual invoices was outside of the scope of this audit. We recommend that Public Works discuss this comment with the Division of Budget and Management.

SUBSEQUENT EVENTS

This section provides information on events which occurred after fieldwork for this audit ended, and before the release of the audit report. The information is related to the audit comments presented in the report.

The Comptroller's Office contacted the Division of Legal Affairs at the New York State Department of Transportation to obtain clarification on the interpretation of Section II, Part H of the NYSDOT CHIPS guidelines. The response received from the Division of Legal Affairs stated that the office is in agreement with our interpretation of Section II, Part H of the NYSDOT CHIPS guidelines and that they were unable to find anything in search of legal documents that contradicts our interpretation.

RESULTS OF EXIT CONFERENCE

An exit conference was held on April 29, 2019 with the Secretary to the Commissioner of Public Works, a member of his staff, and a representative from Budget and Management. The draft of the audit report was reviewed and included a discussion of the audit results and comments. The Erie County Comptroller's Office received the auditee's response to the audit on May 17, 2019. Both the DPW response and the Comptroller's Office response are included with this report in Appendix A and Appendix B respectively.

The Erie County Comptroller's Office would like to thank the Commissioner and staff of the Department of Public Works for the courtesy extended to us during the audit.

ERIE COUNTY COMPTROLLER'S OFFICE

Cc: Hon. Mark C. Poloncarz, County Executive
William Geary, Commissioner of Public Works
Robert W. Keating, Director of Budget and Management
Erie County Fiscal Stability Authority