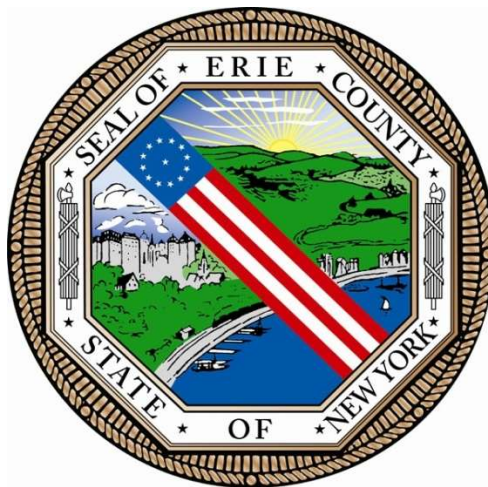


**MARCH 2021**

**ERIE COUNTY YOUTH SERVICES  
AUDIT OF REVENUE IN THE OPERATING BUDGET  
JANUARY 1, 2019 THROUGH JUNE 30, 2019**



**STEFAN I. MYCHAJLIW  
ERIE COUNTY COMPTROLLER**

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



September 23, 2019

Erie County Legislature  
92 Franklin Street, 4<sup>th</sup> Floor  
Buffalo, New York 14202

Dear Honorable Members:

The Erie County Comptroller's Office has completed an audit of Erie County Youth Services ("Youth") revenue in the operating budget for the period January 1, 2019 through June 30, 2019.

Management of Youth 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. Due to inherent limitations in the system of internal control, errors or irregularities may nevertheless occur and not be detected.

Our responsibility is to express an opinion based on our audit. 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 revenue in the operating budget. To accomplish these objectives, we tested a sample of revenue transactions recorded within the scope of the audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

**Opinion**

In our opinion, the internal controls over revenue in the operating budget are inadequately designed and do not operate effectively.

No other specific matters adversely affecting compliance 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 operation not audited.

## REPORTING REQUIREMENTS

A draft copy of this report was provided to Erie County Youth Services (“Youth”) for their review. Their comments were considered in the preparation of this report. A copy of their response to this report is included in Appendix A.

## BACKGROUND

Juvenile detention is the temporary and safe custody of juveniles who are accused of conduct subject to the jurisdiction of the court who require a restricted environment for their own or the community’s protection while pending legal action. Juvenile detention may range from the least restrictive community-based supervision (“non-secure detention”) to the most restrictive form of secure care (“secure detention”).

The New York State (“NYS”) Office of Children and Family Services (“OCFS”) provides reimbursement for eligible costs associated with administering and providing detention programs and services. Per the Erie County accounting software (“SAP”), Youth records state aid received for secure and non-secure detention services in the operating budget: Business area 125, fund 110. For the purpose of this audit, the following three general ledger revenue accounts were examined:

1. Account 407600: State Aid – Secure Detention (Out of County)  
State aid for providing secure detention services to out-of-county youth.
2. Account 407610: State Aid – Secure Detention (Erie County)  
State aid received for providing secure detention services to Erie County youth.
3. Account 407615: State Aid – Non-Secure Detention (Erie County)  
State aid for providing non-secure detention services to Erie County youth.

## AUDIT RESULTS and RECOMMENDATIONS

For the first six months of 2019, a total of 31 revenue transactions were recorded in the three accounts combined in SAP. We tested a sample of ten accrual transactions and two accounts receivable (“customer invoice”) transactions. The following deficiencies were noted during the testing:

### Unauthorized State Aid

Two accounts receivable transactions tested in the total amount of \$104,000 were determined to be recorded improperly in SAP, claimed without a legal right to the aid, and without

legislative authorization to accept the aid. The reimbursement funds for the capital project were incorrectly recorded in the general fund, in G/L account 407610 which is utilized for secure youth detention, rather than being deposited into a proper capital fund.

This finding is characterized by the lack of an executed agreement with OCFS which would establish a right to claim reimbursements including the total dollar award and compliance guidelines, and no authorizing resolution from the Erie County Legislature to accept funds from OCFS. In addition, no need for capital aid was established by Youth since this project was completed approximately fifteen years ago and included no budget for state aid.

The reimbursement claims were: (1) not supported with adequate documentation, (2) did not have a signed agreement between Erie County and OCFS, and (3) were not approved by a legislative resolution. In addition, we could not identify the total amount eligible for reimbursement.

We recommend that Youth submit a report to the legislature explaining all actions related to the reimbursement claims for this project. The report should include, but not be limited to, how Youth established a legal right to the aid, including the total dollar amount awarded and a schedule of aid claimed to date, why aid was accepted without a resolution approved by the legislature to accept aid, and the methodology employed to claim aid for a project which included no budget line for state aid, and was substantially completed over fifteen years ago (based on available accounting records).

We also recommend that Youth reclassify all capital funds that were deposited into the General fund operating budget accounts into a proper capital fund. In addition, Youth should determine if a liability has been created by accepting funds that Erie County may not be entitled to.

### **Lack of Segregation of Duties**

We noted that a single employee is responsible for the accuracy, certification, and recordkeeping of transactions recorded in the operating budget. Our inquiry and inspection revealed that the same employee is responsible for preparing, reviewing, and submitting the reimbursement claims for all three accounts. Additionally, we found no evidence of supervisory review to validate the accuracy, completeness, and existence of records.

We recommend that all entries, revenue and accrual, made by Youth should be reviewed and approved by individuals who understand the subject matter and are not involved in the reimbursement claim preparation or SAP recordkeeping functions.

### **Absence of Supporting Documentation**

We noted that transactions were not appropriately supported by documentation, lacked related source documents, and lacked supervisory approvals. All 31 transactions were recorded without basis such as an executed contract, and therefore, we were unable to determine whether Youth has a legal right to the aid.

We recommend that Youth obtain a written, signed contract or agreement with New York State for any state-aid funds recorded and prepare documentation to support end of period accruals.

## **AUDITOR COMMENTS**

### **Inaccurate Financial Reporting**

Ten of ten accrual entries tested recorded in all three accounts in SAP included and/or were based on estimates.

We noted that year-end accruals were recorded in all three accounts in SAP for 2018, and though reversing entries were processed in 2019, this did not preclude Youth from reporting the same revenue in two successive fiscal years. Youth included the 2018 year-end accrual in the calculation for the remaining accrual entries made, thereby overstating 2019 revenue.

## **RESULTS OF EXIT CONFERENCE**

An exit conference was held on December 22, 2020 with the Commissioner of Social Services (“Commissioner”), a member from her staff, a member from the Youth Services Division, a representative from the Division of Budget and Management, and three members of the Comptroller’s Office - Division of Audit and Control (“Audit Division”). During the conference, a member from the Audit Division discussed the audit draft report (“report”) in its entirety with the attendees. At the time of the conference, the Commissioner did not mention any concerns/issues about the audit findings or comments within the report.

A written response to the report from the Commissioner was received by the Comptroller’s Office on December 29, 2020. The Erie County Department of Social Services’ response to this audit report is included in Appendix A. The Audit Division has completed a written response to reply to the Commissioners response to the audit report. The Audit Division’s written response is included in Appendix B.

The Erie County Comptroller’s Office would like to thank the Commissioner of Social Services and staff of the Youth Services Division for the courtesy extended to us during the audit.

### **ERIE COUNTY COMPTROLLER’S OFFICE**

Cc: Hon. Mark C. Poloncarz, County Executive  
Marie Cannon, Commissioner of Social Services  
Paul S. Kubala, Deputy Commissioner-Youth Services, Youth Services Division  
Robert W. Keating, Director of Budget and Management  
Hon. Stefan I. Mychajliw, Erie County Comptroller  
Erie County Fiscal Stability Authority

## APPENDIX A

### Auditee's Response to Audit Report



## COUNTY OF ERIE

MARK C. POLONCARZ  
COUNTY EXECUTIVE

December 29, 2020

Hon. Stefan I. Mychajliw  
Erie County Comptroller  
95 Franklin St, Floor 11  
Buffalo, NY 14202

**RE: Response to Draft Audit of Erie County Youth Services Revenue in the Operating Budget**

Dear Comptroller Mychajliw:

The Erie County Department of Social Services (ECDSS) writes to respond to the Draft Report of the Youth Services Audit of Revenue in the Operating for the period of January 1<sup>st</sup> 2019 to June 30<sup>th</sup> 2019. Our responses follow the audit and use the same section titles.

#### Unauthorized State Aid

The audit findings state that two accounts receivable transactions in the total amount of \$104,000 (\$103,728.10 to be exact) were determined to be recorded improperly in SAP, claimed without a legal right to the aid, and without legislative authorization to accept the aid. These statements are incorrect.

Per New York State Regulation 180.20 which covers state aid for construction or improvement of locally operated secure detention facilities, the regularly scheduled reimbursement funds for the capital project were correctly recorded in the general fund, in G/L account 407610 which is utilized for secure youth detention, due to the fact that these reimbursements date back to a capital project that had previously been closed out by Erie County.

As Erie County is both the administering and the operating agency for secure detention we are exempt from Regulation 180.5(a)(3)(ii) which states that a "written contract or agreement shall be required between agencies administering detention and persons or agencies operating detention facilities", and (iii) "contracts between agencies administering detention and persons or agencies operating detention facilities, shall be approved by the division for both programmatic and fiscal provisions".

As for there being no authorizing resolution from the Erie County Legislature to accept funds from OCFS please see the 2019 Book B – Special Funds, page R-26, citation #57 which states “Resolved, that the County Executive is hereby authorized to execute a contract for 2019 with the State of New York Division for Youth for the operation and maintenance of a secure detention program at the Erie County Youth Services Detention Center; through funds been appropriated in the 2019 Erie County Budget.”

We ask that this entire section be removed from the final audit report.

**Lack of Segregation of Duties**

The audit findings indicate that a single employee is responsible for the accuracy, certification, and recordkeeping of transactions recorded in the operating budget. It also noted that the same employee is responsible for preparing, reviewing, and submitting the reimbursement claims for all three accounts with no evidence of supervisory review to validate the accuracy, completeness, and existence of records. These statements are incorrect.

The organizational structure of the Department of Social Services does in fact provide accountability for all fiscal functions through oversight and multiple approvals of all responsibilities by the Deputy Commissioner (approves claims), the Department of Social Services Chief Fiscal Officer (reviews budget and submissions), Senior Supervisor of Claims Administration (approves claims), Department of Social Services Legal Department (bids and contracts), Erie County Purchasing (review of purchasing procedures and petty cash), Erie County Comptroller’s Office (review of payments), Erie County DPW (review of capital projects), and the Erie County Budget Department (review of budget and accounting entries). The New York State Office of Children and Family Services (OCFS) also reviews and audits all submitted claims.

We ask that the sentence “Additionally, we found no evidence of supervisory review to validate the accuracy, completeness, and existence of records.” to be removed from the final report.

**Absence of Supporting Documentation**

The audit findings indicate that transactions were not appropriately supported by documentation, lacked related source documents, and lacked supervisory approvals. It went on to state that all 31 transactions were recorded without basis such as an executed contract, and therefore, we were unable to determine whether Youth has a legal right to the aid. As was stated in “Unauthorized State Aid” Erie County is both the administering and operating agency of the Youth Detention Center, therefore, we are not required to have a written, signed contract or agreement with New York State for any state-aid funds recorded. The Supervisor of Claims Administration maintains books and records that support all claims that are submitted including reconciliations of budget to actual and state funds received with state funds claimed.

We ask that this entire section be removed from the final audit report.

**Inaccurate Financial Reporting**

The audit findings indicate that ten of ten accrual entries tested recorded in all three accounts in SAP included and/or were based on estimates. The definition of accrual is "relating to or being a method of accounting that recognizes income when earned and expenses when incurred regardless of when cash is received or disbursed". The Youth Services Division uses estimates that are based on information known at the time, including a percentage decrease for disallowed items, to create a month or year-end accrual to correctly recognize revenue and expense in the period that it occurred. Accruals are reversed in the next month to ensure that there is no chance of double reporting in two successive periods thereby ensuring that there is no overstatement in revenue or expense. This is a recognized and New York State approved accounting practice.

We request that this section be removed in its entirety from the final report.

Finally, I would like to note that in your letter to the Legislature, your office renders an opinion that "the internal controls over revenue in the operating budget are inadequately designed and do not operate effectively". There is no basis for this finding. The preparation of reimbursement claims worked as intended. ECDSS filed claims in compliance with New York State. All claims were reviewed, approved and paid in full, and any lag in payment is during this audit period is due to New York State delays, and not any issue with the claims made by Erie County.

Sincerely,



Marie A. Cannon, MWS, Commissioner  
Erie County Department of Social Services

CC: Paul S. Kubala, Deputy Commissioner, Youth Services  
Ben Swanekamp, Deputy Budget Director  
Scott Kroll, Deputy Comptroller for Audit  
Dave Capodagli, Director of Accounting services  
Peggy Krathaus, Chief Fiscal Officer



## APPENDIX B

### Audit Division's Response to Auditee's Response



ERIE COUNTY COMPTROLLER  
HON. STEFAN I. MYCHAJLIW

March 3, 2021

Marie A. Cannon  
Commissioner  
Erie County Department of Social Services  
95 Franklin Street, Floor 8  
Buffalo, NY 14202

**Subject:** Comptroller's response to DSS letter "Response to Draft Audit of Erie County Youth Services Revenue in the Operating Budget", dated December 29, 2020.

Dear Commissioner Cannon:

The Erie County Comptroller is in receipt of your letter listed in the Subject line above.

We are disappointed that you chose to dismiss the audit findings and the opinion in our audit report.

An exit conference was held on December 22, 2020 with staff from the Department of Social Services, a representative from Budget and Management, and Comptroller's audit staff. The purpose of the exit conference was to review and discuss the contents of the draft audit report, with input from the auditee regarding the audit opinion, audit findings, and audit comments being of particular importance. Unfortunately, during the meeting, you, your staff, and the Budget representative chose not to provide any feedback to the audit staff on the audit opinion, audit findings or audit comments.

Audit reports are evidence-based. The opinion, findings, and comments in the audit report are supported by evidence, therefore, the report in its entirety will not be modified. Your written response does not offer evidence-based reasons supporting a change to the audit report. Again, we remain concerned and confused as to why you chose to remain silent during the exit conference.

Sincerely,

A handwritten signature in blue ink that reads "Scott Kroll".

Scott W. Kroll  
Deputy Comptroller – Audit

cc: Paul S. Kubala, Deputy Commissioner, Youth Services  
Dave Capodagli, Director of Accounting Services  
Ben Swanekamp, Deputy Budget Director, Division of Budget and Management  
Peggy Krathaus, Chief Fiscal Officer