

COUNTY OF ERIE
COUNTY CONTROLLER'S AUDIT REPORT
FOR THE YEAR ENDING DECEMBER 31, 2011



MARY E. SCHAAF
COUNTY CONTROLLER

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COUNTY CONTROLLER



County of Erie

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Mary E. Schaaf

County Controller

William F. Amick

Manager of Internal Audits

TO COUNTY COUNCIL:

This report covers the examination of selected cash accounts and related records of the General, Special Revenue, Debt Service and Trust and Agency Accounts, for the year ended December 31, 2011.

The examination was conducted in accordance with Auditing Procedures as described on Page 2.

The Findings and Recommendations, as a result of the aforementioned auditing, are described on Page 3.

Mary E. Schaaf
Erie County Controller

William F. Amick
Manager of Internal Audits

March 30, 2012

AUDIT PROCEDURES

Cash Accounts

The following audit procedures have been applied to the cash accounts contained within this report.

1. Bank statements were reconciled at December 31, 2011.
2. Total deposits per the bank statements for the year ended December 31, 2011 were compared to total receipts written.
3. Total disbursements per the bank statements for the year ended December 31, 2011 were compared to total disbursements.

Disbursements

Domestic Relations, E-911, Emergency Management, General Fund, Planning and Public Health Disbursements were tested for legality of claim, existence of proper documentation and proper account coding. Legality of claim includes examination of purchase orders, where appropriate, review of proper approval, examination of invoices for mathematical accuracy and comparison of disbursements with budgeted amounts. Appendix A lists the exceptions for the year ended December 31, 2011.

Payroll

The Controller's Office receives notification of employee terminations, hiring and payroll rate changes from the Personnel Office. Gross pays are examined for the first pay period of new employees and the last pay period of terminated employees to assure a proper payroll cut off. We examine authorizations for payroll rate changes and retroactive pays, where appropriate, so as to compare them to the payroll register.

FINDINGS AND RECOMMENDATIONS

The prior Audit Report contained Findings and Recommendations for improvements that we believed to be significant.

The following Findings and Recommendations for improvement were reported in the 2010 Controller's Audit Report and have been acted upon or resolved favorably:

Tax Collectors' Remittances

We had recommended that the Director of Finance request that a Tax Collector issue receipts for the individual tax that he collects. We examined the remittances for the Tax Collector who was not issuing receipts in prior years. We found that receipts are now being issued.

Unemployment Compensation Records

We had recommended that the Director of Personnel develop written procedures related to the examination and review of the listing of persons filing for unemployment benefits against the County. The Office of Personnel receives and reviews the quarterly report of persons filing for unemployment benefits.

Recording Gambling Forfeitures

We had recommended that the Director of Finance determine where to record gambling forfeitures. After discussions with the District Attorney, the Office of Finance determined that the gambling forfeiture should be recorded in the General Fund.

Vehicular Insurance

We had recommended that the Director of Finance monitor both the reimbursement for business use insurance coverage and the employee's insurance coverage for those who transport children. Discussions with the Finance office reflects the opinion that as long as the employee's insurance agent signs the authorization letter stating the amount of "business use" expense then the payment is correct. It should be noted that during the last contract negotiations, the County attempted to reduce this reimbursement. The Controller's office will re-examine this issue at sometime in the future.

FINDINGS AND RECOMMENDATIONS

The following Findings and Recommendations for improvement reported in prior Controller's Audit Reports have not been resolved:

Tax Claim - Credit Cards

We noted several credit card receipts did not have a corresponding wire on the bank statement. New procedures were put in place to ensure payments were processed properly. The Tax Claim Accountant also began reviewing an online report to see credit card payments that are pending. This year we found one receipt for \$139.33 that did not get charged to the taxpayer's card. We recommend the Tax Claim Accountant compare the total credit card receipts to the online report on a daily basis.

Petty Cash Funds

We recommended that the Director of Finance adjust the County's records to properly reflect the current balance in the change and petty cash fund. This still has not been done, therefore, we continue to recommend that the County's records be adjusted to properly reflect the correct balance in the Revenue/Tax Claims office.

Control Of Overtime

For the year ended December 31, 2011, the County paid \$1,273,600 in overtime to County employees. The County budgeted \$1,307,478 for overtime for that period. As a result the County was under budget by \$33,878. The tighter administrative controls implemented in 2009 are working. However, the Edmund L. Thomas Center overspent their allotted overtime budget by over 58%; \$100,000 budgeted and \$158,115 spent. We recommend that the Director of OCY ensure that funds are transferred to the overtime appropriation to cover these expenses in future years.

Bank Reconciliations – Unresolved Discrepancies

We noted several bank reconciliations contained reconciling items that were being carried for over a year. In March of 2010 the Finance Office set up new procedures to resolve discrepancies. Since that time most of the old reconciling items have been resolved. Several items remain unresolved.

General Fund

During 2010 a transfer was made to the Library in the amount of \$562.32. The finance office has no record for this transfer. It is being carried as a reconciling item on the General Fund bank reconciliation. It was also a reconciling item on the Library bank reconciliation until it was receipted on 12/20/11. Since the transaction has been recorded in the Library account we recommend recording the transfer in the General fund.

Library

The bank reconciliation has several old outstanding reconciling items the oldest is an NSF dating back to 7/22/10. We recommend the Director of Finance investigate these items to determine if the funds can be recovered. If the funds cannot be recovered then they should be written off.

Inadequate Audit Coverage

At the present time the Internal Audit function in Erie County is not providing the level of audit coverage necessary to ensure the taxpayers that the existing internal controls are functioning properly. With the elimination of a Senior Auditor position in 2009 and increased time being spent on the pension activities, internal auditing is being short changed. During 2011, six of the fifteen Magisterial District Judges were not audited. Currently the County Controller's office is operating at maximum efficiency. In order for the County Controller's office to fulfill the duties outlined in the Administrative Code, we recommend that the Senior Auditor position be restored.

The following Findings and Recommendations for improvement are a result of this year's auditing.

Planning – Investment Interest

Interest earned on investments through PA Invest has not been receipted and recorded in the cash ledger. The interest is automatically reinvested by PA Invest. The Planning Accountant does a journal entry to record the interest as deferred income. It should be receipted and recorded to cash then a journal entry to move it from cash to investments should be done. Since the time the County has started using PA Invest interest totaling \$1,689.46 has not been receipted. The Planning Accountant was made aware of the issue and is taking corrective action.

Erie County Retirement Fund

During 2011 the Erie County Retirement Fund paid \$898,746 for investment expenses. Of this amount, \$141,908 was paid to relationship managers. These relationships were approved by the previous Retirement Board. These payments are not necessary expenses of the Retirement Fund. It is recommended that the Retirement Board re-examine these contracts and eliminate them.

FINANCE OFFICE

GENERAL FUND ACCOUNTS

**FINANCE OFFICE
GENERAL FUND ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Cash and Temporary Investments at <u>Beginning of</u> <u>Year</u>	<u>Cash Receipts</u>	<u>Cash</u> <u>Disbursements</u>	Cash and Temporary Investments at <u>End of Year</u>
General Account	\$20,090,345	\$164,351,588	\$160,371,174	\$24,070,759
Jury Reimbursement Account	(15,030)	99,383	101,179	(16,826)
County Records Improvement Account	352,057	309,003	154,713	506,347

See Accompanying Notes to Financial Statements.

**NOTES TO GENERAL FUND ACCOUNTS
DECEMBER 31, 2011**

NOTE 1 - GENERAL ACCOUNT

The General Account is maintained to account for all financial transactions not properly accounted for in another fund.

The General Account is under budgetary control required by law. Each year the budget must be approved by County Council. The annual budget is a comprehensive financial plan for the year, which incorporates both estimates of proposed expenditures and the revenues required to finance them.

NOTE 2 - JURY REIMBURSEMENT ACCOUNT

The Jury Reimbursement Account is used to account for payments to individuals serving on Jury Duty.

NOTE 3 - COUNTY RECORDS IMPROVEMENT ACCOUNT

Pursuant to HB 196 of 1998, the County has established a County Records Improvement Account. This Bill stated that a fee in the amount of \$2.00 should be charged and collected for each document recorded. This fee shall be split equally between the "County Records Improvement Account", included as part of this report, and a separate account within the Office of the Recorder of Deeds.

Pursuant to HB 1923 of 2002, the fee charged and collected for each document recorded was increased to \$5.00. The \$5.00 fee will now be allocated with \$2.00 going to the County Records Improvement Fund and \$3.00 being retained in a separate account within the office of the Recorder of Deeds. Funds shall be expended in accordance with a comprehensive records management plan based on the goal of standardizing and equalizing the capabilities of all county offices consistent with their need to receive, manage and provide information to the public as efficiently as possible.

SPECIAL REVENUE ACCOUNTS

**FINANCE OFFICE
SPECIAL REVENUE ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Cash and Temporary Investments at Beginning of <u>Year</u>	<u>Cash Receipts</u>	<u>Cash Disbursements</u>	Cash and Temporary Investments at <u>End of Year</u>
Mental Health/Mental Retardation Account	\$2,336,114	\$28,528,892	\$29,970,545	\$894,461
Drug & Alcohol Account	375,714	5,346,499	5,362,799	359,414
Children & Youth Account	1,781,798	64,952,756	65,427,026	1,307,528
Domestic Relations Account	254,920	5,180,846	5,368,580	67,186
Liquid Fuels Account	332,366	769,825	903,992	198,199
Public Health & Safety Account	(219,099)	7,650,699	7,549,958	(118,358)
Library Account	(682,643)	6,372,017	6,672,292	(982,918)
Planning Account	437,479	3,659,689	3,597,105	500,063
E-911 Account	534	3,628,463	3,628,482	515
Emergency Management Account	27,482	850,526	808,792	69,216
Employee Fringe Benefit Account	(180,292)	17,662,321	18,210,290	(728,261)
Gaming Funds Account	6,757,328	12,081,362	14,187,977	4,650,713
Public Safety Act 56	1,898,839	2,234,075	1,663,158	2,469,756
Healthchoices	4,518,532	79,717,646	74,846,444	9,389,734

See Accompanying Notes To Financial Statements.

**NOTES TO SPECIAL REVENUE ACCOUNTS
DECEMBER 31, 2011**

NOTE 1 - MENTAL HEALTH/MENTAL RETARDATION ACCOUNT

Administers local agency providers and passes through State Funds along with County Funds to their MH/MR activities. This fund also includes administration of adult services and in-home health services.

NOTE 2 - DRUG AND ALCOHOL ACCOUNT

State Funds are passed through to local agency providers along with County Funds for identification and treatment programs.

NOTE 3 - CHILDREN AND YOUTH ACCOUNT

Act 148 and County Funds are used to provide caseworkers for Child Protective Services. This account is also used to administer the County's Day Care Programs and the Juvenile Detention Center. This account is also used to administer Act 148, Title IV-A, Title IV-E and County funds used to pay for Court Ordered placement of dependent and delinquent children in protective and correctional institutions.

NOTE 4 - DOMESTIC RELATIONS ACCOUNT

Receives cash from defendants under Court Order and disburses the cash to the designated party either the State or plaintiff. These accounts are maintained by Domestic Relations personnel responsible to the Judges of the Court of Common Pleas.

NOTE 5 - LIQUID FUELS ACCOUNT

Tax funds received from the Commonwealth are passed through to local municipalities for road and bridge maintenance.

NOTE 6 - PUBLIC HEALTH ACCOUNT

Funds are provided by Act 315, Act 12, other grants, and the County. The funds are used to administer personal health services such as clinics, environmental protection services and other health and safety related programs.

NOTE 7 - LIBRARY ACCOUNT

Funding comes primarily from the County with additional grants from the Commonwealth of Pennsylvania and certain local municipalities. Several branch libraries are operated throughout the County and bookmobile service is also provided.

NOTE 8 - PLANNING ACCOUNT

Accounts for the activities of the County's Planning Department. Funds are received from various State and Federal Agencies including Community Development Block Grants, Coastal Zone Management, Pennsylvania Department of Transportation and County of Erie.

NOTE 9 - E-911 ACCOUNT

This account was established to account for the activities of E-911 expenses and revenues as approved by County Government.

NOTE 10 - EMERGENCY MANAGEMENT ACCOUNT

This account was established to separate Emergency Management funds from Public Health funds. Funds are provided by PEMA, other grants and the County. The funds are used to administer Emergency Management services.

NOTE 11 - EMPLOYEE FRINGE BENEFIT ACCOUNT

This account was established by Ordinance Number 144-2005, as an Internal Service Fund for County-wide fringe benefits.

NOTE 12 - GAMING FUND ACCOUNT

Gaming funds received from the Commonwealth are deposited in the "Restricted Gaming Funds Account". Half of these funds are then transferred to the "Unrestricted Gaming Fund Account". The "Restricted Funds" are to be used for municipal grants for health, safety, and economic development projects. The "Unrestricted Funds" can be used at the County's discretion. Restricted funds not committed to a project are classified as uncommitted funds and are paid to the Erie County Gaming Revenue Authority.

NOTE 13 - PUBLIC SAFETY ACT 56

This account was established to account for the activities of wireless E911 expenses and revenues as approved by County Government.

NOTE 14 - HEALTHCHOICES

State funds are passed through to local agency providers for the medical assistance funding for mental health, drug and alcohol and Children's services programs.

**SPECIAL REVENUE ACCOUNTS
SUPPLEMENTAL INFORMATION**

**LIQUID FUELS ACCOUNT
 DETAILED SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash at Beginning of Year	\$332,366
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RECEIPTS

Commonwealth of Pennsylvania	\$380,534	
Commonwealth of PA/AR	389,291	
		<u>769,825</u>
		1,102,191

DISBURSEMENTS

Various County Municipalities	\$712,715	
Various County Muni/AP	134,480	
Bridge Inspection	56,797	
		<u>903,992</u>

Cash and Accrual Transactions	<u>\$198,199</u>
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**GAMING FUNDS ACCOUNT
 DETAILED SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash at Beginning of Year \$6,757,328

RECEIPTS

Commonwealth of PA	\$12,013,228	
Interest Restricted Checking	18,141	
Interest Unrestricted Checking	<u>49,993</u>	
		<u>\$12,081,362</u>
		\$18,838,690

DISBURSEMENTS

Restricted		
Project Grants	18,658	
Transfer to ECGRA	6,170,573	
Transfer to General Fund	2,202	
Bank Fees	<u>203</u>	
		6,191,636

Unrestricted Disbursements		
Project Grants	1,639,542	
Transfer to Debt Service	3,316,093	
Transfer to Library	1,053,070	
Trans. to ECGRA	1,933,165	
Salaries	27,320	
Fringe Benefits	20,994	
Office Supplies & Expense	43	
Bank Fees	187	
Audit Fee	<u>5,927</u>	
		<u>7,996,341</u>
		14,187,977

Cash at End of Year \$4,650,713

DEBT SERVICE FUND ACCOUNTS

**FINANCE OFFICE
DEBT SERVICE FUND ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash and Investments at Beginning of Year	\$1,768,791
Receipts	9,286,387
Disbursements	<u>9,274,455</u>
Cash and Investments at End of Year	<u>\$1,780,723</u>

See Accompanying Notes To Financial Statements.

NOTES TO DEBT SERVICE FUND ACCOUNTS
DECEMBER 31, 2011

NOTE 1 - DEBT SERVICE FUND ACCOUNT

This fund is used to retire County debt obligations.

NOTE 2 - GENERAL OBLIGATION BONDS

During 2005, General Obligation Bonds Series A, B and C totaling \$40,815,000 were issued. The Series A Bonds were issued to advance refund certain of the Series B bonds of 2003 maturing on and after September 1, 2014. The Series B Bonds were issued to fund various capital projects. The Series C Bond proceeds were used to make a loan to the Greater Erie Industrial Development Corporation for the development of an Industrial Park. As of December 31, 2011 the balance of the 2003 issue is \$17,895,000.

The County issued 2005 Series A Bonds to provide resources to purchase direct obligations of the United States of America that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on the 2003 Series A Bonds with a face amount of \$12,295,000. As a result, the refunded Bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. As of December 31, 2011 the balance of the 2005 issue is \$15,065,000.

The County issued 2007 General Obligation Bonds, Refunding Series of 2007 to advance refund a portion of the General Obligation Bonds, Series B of 2005. As a result of the refunding, debt service payments have decreased by \$662,252 and resulted in a net economic gain of \$469,889. As of December 31, 2011 the balance of the 2007 issue is \$25,070,000.

During 2008 the County issued \$22,055,000 in General Obligation Bonds. The Bonds mature in varying amounts annually through 2017. These bonds are to be used to finance the County's obligation to the Erie Regional Airport Project (\$21,500,000) and the Erie County Courthouse Project (\$1,000,000). As of December 31, 2011 the balance of the 2008 issue is \$15,430,000. The 2009 Debt Service payment was made directly from the Gaming fund.

During 2009 the County issued \$10,205,000 in General Obligation Bonds. The Bonds mature in varying amounts annually through 2021. These bonds are to be used to finance the local portion of the renovations to the Tullio Arena and related area. As of December 31, 2011 the balance of the 2009 issue is \$10,200,000.

The Bank called the County guarantee of CamTech during July 2004. The result was a restructuring of the CamTech loan from National City in the amount of \$1,502,613. This amount will be paid in \$95,000 installments, twice a year. As of December 31, 2011, \$475,347 remains outstanding.

**DEBT SERVICE FUND ACCOUNTS
SUPPLEMENTAL INFORMATION**

**DEBT SERVICE FUND ACCOUNTS
 DETAILED SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash and Investments at Beginning of Year \$1,768,791

RECEIPTS

Interest Earnings	\$10,380	
Transfer from General Fund	5,269,829	
Transfer from Gaming	3,316,093	
Transfer from Emergency Management Account	433,511	
Transfer from 911 Account	<u>256,574</u>	<u>9,286,387</u>
		\$11,055,178

DISBURSEMENTS

Principal & Interest on 2003 (1993) General Obligation Bonds	3,563,843	
Principal & Interest on 2005 General Obligation Bonds	1,039,881	
Principal & Interest on 2007 General Obligation Bonds	1,161,889	
Principal & Interest on 2008 General Obligation Bonds	2,951,600	
Principal & Interest on 2009 General Obligation Bonds	361,392	
CamTech Loan (NOTE 2)	190,000	
Professional Fees (Trustee)	<u>5,850</u>	<u>9,274,455</u>

Cash and Investments at End of Year \$1,780,723

TRUST AND AGENCY FUND ACCOUNTS

**TRUST AND AGENCY FUND ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Cash at Beginning <u>of Year</u>	<u>Cash Receipts</u>	Cash <u>Disbursements</u>	Cash at End <u>of Year</u>
State Account	\$5,420	\$239,609	\$240,684	\$4,345
Retirement Account	291,312	11,388,858	11,494,820	185,350

**NOTES TO TRUST AND AGENCY FUND ACCOUNTS
DECEMBER 31, 2011**

NOTE 1 - STATE ACCOUNT

The State Account is maintained to account for funds collected which are a function of issuing State Licenses, Permits, etc. The various types of licenses and permits issued by the Revenue Department include dog, fishing, bingo, small games of chance and hunting licenses from which the County receives a commission. The amount of the commission varies with type of license or permit issued.

NOTE 2 - RETIREMENT ACCOUNT

The County of Erie Employees' Retirement Plan is in effect for all eligible employees and is administered by three members of County Council, the Director of Finance and County Controller. The plan is contributory whereby the County and the employees contribute to provide retirement benefits. The County is obligated to contribute sufficient funds to assure payment of all promised benefits.

TRUST AND AGENCY FUND ACCOUNTS

SUPPLEMENTAL INFORMATION

**STATE ACCOUNT
 DETAILED SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash at Beginning of Year		\$5,420
RECEIPTS		
Dog Licenses	\$83,226	
Fishing Licenses	4,378	
Hunting Licenses	90,731	
Bingo Licenses	5,120	
Commissions	28,402	
Small Games of Chance Licenses	25,650	
Pistol Permits	1,101	
NSF Check Fees	1,000	
Misc.	<u>1</u>	<u>239,609</u>
		\$245,029
DISBURSEMENTS		
Commonwealth of Pennsylvania	\$179,985	
Erie County General Fund:		
Commissions	28,626	
Bingo Licenses	4,920	
Pistol Permits	1,059	
NSF Check Fees	993	
Small Games of Chance Licenses	25,100	
Misc.	<u>1</u>	<u>240,684</u>
Cash at End of Year		<u>\$4,345</u>

**RETIREMENT ACCOUNT
 DETAILED SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

Cash at Beginning of Year			\$291,312
RECEIPTS			
Members Contributions		\$2,829,980	
Erie County Contribution		5,187,838	
Interest on Savings		650	
Withdrawal from Money Managers		3,300,055	
Transfer from Money Managers		1,734	
Loss Recovery		42,745	
Securities Lending		23,622	
Sale of Stock		<u>2,234</u>	<u>11,388,858</u>
			\$11,680,170
DISBURSEMENTS			
Retirees Net Benefits		\$8,197,839	
Death Benefits		803,526	
Member Withdrawals		282,138	
Investment Expense		898,746	
Administrative Expense		171,805	
Deductions from Retirees Pay:			
Hospitalization	379,114		
United Way	336		
Federal Withholding	<u>761,316</u>	<u>1,140,766</u>	<u>11,494,820</u>
Cash and Stock at End of Year			<u>\$185,350</u>
Cash		183,616	
Stock – 100 Share of Nabors Industries Ltd		<u>1,734</u>	
Total		<u>\$185,350</u>	