

**BROOME COUNTY
DEPARTMENT OF
AUDIT AND CONTROL**

TRUST ACCOUNT AUDIT

December 2016

Alex J. McLaughlin, Comptroller



Broome County Department of Audit and Control

Alex J. McLaughlin, Comptroller . Daniel J. Reynolds, Chairman of the Legislature

December 13, 2016

Debra A. Preston, County Executive:

The Department of Audit and Control has completed an audit of trust accounts. The principal objective was to identify all on-ledger trust accounts maintained by Broome County, quantify purpose and insure that funds are being used as intended.

The audit was conducted in accordance with generally accepted auditing standards. Such standards require that the Department of Audit and Control plan and perform the audit to adequately assess the accuracy of the financial records and adequacy of the internal controls, and that we examine, on a test basis, sufficient, competent and relevant evidence to afford a reasonable basis for our conclusions.

Based on the results of our examination, it is our opinion that funds, held in trust accounts by Broome County, are being used as intended. It is also our opinion, however, that most, if not all, of the funds categorized as trusts by Broome County are not properly accounted for as such and should be reclassified.

Sincerely,

Alex J. McLaughlin
Comptroller

AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES

Background:

Broome County maintains 58 on-ledger trust accounts, totaling more than \$900k.

The objective of our Audit was to identify all on-ledger trust accounts maintained by Broome County, quantify purpose and insure that funds are being used as intended.

We first identified all on-ledger trust accounts and their balance. Then, we determined if all accounts were properly established and what the intended purpose was for each account. After choosing a sample of transactions we met with each department and tested transactions to insure that funds are being used as intended.

Overall, the results of our audit found that departments are using the trust accounts as intended, but the accounts are not properly classified as trusts.

AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES

FINDING 1: FUNDS NOT PROPERTY CLASSIFIED

Broome County uses trust funds to account for monies donated to or procured by the County that are earmarked for a particular use.

These funds are used by the County to procure items for the use of and/or to deliver programs or services offered by, the County.

In accordance with the standards promulgated by the Governmental Accounting Standards Board (GASB), monies used by a government in this way are not properly accounted for as trust funds.

Specifically, GASB advises that "...trust funds may never be used to report government programs, even if those programs do provide specific benefits to specific beneficiaries."

Additionally, it should be noted that the use of trust funds to support County programs undermines budgetary control and reduces transparency.

Expense transactions processed against trust accounts simply reduce the liability associated with the trust account. There is no verification of funds availability as there is with expenses processed against an appropriation. From a transparency standpoint, spending that comes from trust funds is never appropriated in a budget or subjected to public scrutiny.

The Office of Management and Budget already reclassifies 10 of the 58 funds for financial reporting purposes, transferring activity for the period being reported on to the fund where the balance of the trust fund owner's activity is reported. This step is designed to insure compliance with GASB for financial reporting, but it is not comprehensive, as 48 of the 58 trust funds are not reclassified.

RECOMMENDATION:

We recommend that all County trust funds that do not meet GASB's criteria for classification as such be reclassified to an appropriate category, for both budgetary and financial reporting purposes.

MANAGEMENT RESPONSE:

Starting with the Calendar Year Ending December 31, 2016, all County trust funds will be reclassified for financial reporting purposes so that the consolidated financial statements meet all the appropriate GASB criteria.

AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES

FINDING 2: INACTIVE TRUST ACCOUNTS SHOULD BE CLOSED

During the course of our audit, we examined all on-ledger trust accounts maintained by Broome County. Presently, Broome County has 58 trust accounts. Of these, there are 26 trust accounts that are no longer active.

Best practices dictate that when a trust account is no longer used it should be closed.

Closing trust accounts when they are no longer used enhances management's ability to manage and control.

RECOMMENDATION:

We recommend that all inactive trust accounts be closed.

MANAGEMENT RESPONSE:

Management agrees to close all the inactive trust accounts as identified during the course of this audit.