



Carthage-West Carthage Water Pollution Control Facility

Cash Disbursements

Report of Examination

Period Covered:

June 1, 2013 — August 31, 2014

2015M-35



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2015

Dear Water Pollution Control Facility Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Carthage-West Carthage Water Pollution Control Facility, entitled Cash Disbursements. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Carthage-West Carthage Water Pollution Control Facility Management Board (Board) oversees the joint water pollution control facility's (Facility) waste treatment operations. The Facility was built to benefit the residents of the Villages of Carthage and West Carthage (Villages), pursuant to an intermunicipal agreement.¹ The Villages, located in Jefferson County, have a combined population of 5,760. The Facility's budgeted appropriations for the 2014-15 fiscal year were approximately \$1.3 million funded primarily by contributions from each Village and revenues from other users.²

The Villages entered into an inter-municipal agreement in September 1969 to construct the joint waste treatment facility and officials of both Villages have entered into subsequently updated agreements as recent as 2012. These agreements outline the Board's powers and authority, including Facility ownership, operation and maintenance.

The Facility's seven-member Board comprises three Village of Carthage Trustees, two Village of West Carthage Trustees, the Village of Carthage President and the Village of West Carthage Mayor. A Village of Carthage Trustee serves as Board Chairman and the Village of Carthage acts as the Facility's lead fiscal agent. As such, the Village of Carthage's Clerk-Treasurer is responsible, along with the assistance of a deputy, for Facility accounting and bookkeeping duties.

During our audit period, the Clerk-Treasurer processed over 500 cash disbursements totaling approximately \$1.4 million.

Objective

The objective of our audit was to review internal controls over the Facility's financial operations. Our audit addressed the following related question:

- Did the Board ensure that internal controls over cash disbursements are appropriately designed and operating effectively to safeguard Facility resources?

Scope and Methodology

We examined the Facility's cash disbursement processes and records for the period June 1, 2013 through August 31, 2014.

¹ General Municipal Law authorizes local governments to enter into inter-municipal agreements with other local governments.

² Each Village is responsible for billing its residents for sewer use. The Facility's Clerk-Treasurer bills and collects fees from sludge haulers for sewage transported to and disposed at the Facility.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Facility officials and their comments, which appear in Appendix A, have been considered in preparing this report. Facility officials agreed with our recommendations and indicated they have initiated corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Clerk-Treasurer's office.

Cash Disbursements

The Board is responsible for overseeing the Facility's financial operations. Oversight becomes particularly important in operations where adequate segregation of duties is not practical. No individual should control all aspects of a transaction. By separating tasks and responsibilities such as recording cash disbursement transactions; making online payments and bank transfers; preparing, signing and disbursing checks; and reconciling bank accounts, management can reduce the risk of an error occurring and going undetected. When segregating duties is not practical, the Board should implement compensating controls to help safeguard assets. Such controls could consist of supervisory reviews of activity and transactions by the Board or a designated official.

Both the Clerk-Treasurer and her deputy were able to perform all cash disbursement functions and have full access rights to record financial transactions in the accounting system. The deputy was responsible for entering invoices and payroll information, making bank transfers and printing and distributing checks. The Clerk-Treasurer was also responsible for making bank transfers and online payments, recording journal entries and reconciling the bank accounts. Although the Clerk-Treasurer reviewed the deputy's work, no one reviewed the Clerk-Treasurer's work. As a result, errors and irregularities could occur without detection.

The Clerk-Treasurer told us she reviews the deputy's work by printing the preliminary abstract³ and comparing it to the invoices and reviewing the biweekly payrolls. Although the Clerk-Treasurer's bank reconciliations served as an additional supervisory review for the deputy's work, a Facility official, independent from the cash disbursement process, did not review the Clerk-Treasurer's bank reconciliations, the bank statements or canceled checks. This is particularly important because the Clerk-Treasurer routinely pays bills online, makes bank transfers and has the ability to print disbursement checks. As a result, an improper disbursement could go undetected.

Because of these weaknesses, we examined 109 cash disbursement transactions totaling \$456,465 paid during our audit period to determine whether they were adequately supported and approved and accurately recorded in the accounting records. We reviewed 40 external bank transfers totaling \$145,205⁴ and two interbank account

³ An abstract is a list of all claims audited and approved for payment. The Board signs and approves the abstracts at its monthly Board meetings.

transfers totaling \$154,300. We verified that these external transfers and online payments were adequately supported and that interbank account transfers were deposited in other Facility bank accounts. We also compared 67 check disbursements totaling \$156,960 with Board-approved abstracts.⁵ In addition, we scanned all the bank statements and the canceled check images for any unusual payments to the Clerk-Treasurer or the deputy.

Our review disclosed minor discrepancies that we discussed with Facility officials. However, without an independent review of bank reconciliations and bank statements and a comparison of canceled check images and online payments with approved abstracts, there is an increased risk that inappropriate disbursements could occur and go undetected and remain uncorrected.

Recommendations

The Board should:

1. Require the Clerk-Treasurer to provide it with monthly bank reconciliations, including the related bank statements and canceled check images.
2. Establish compensating controls to routinely monitor and review the Clerk-Treasurer's work. Such compensating controls could include having a Board member review bank transfers reflected on bank statements and compare canceled check images and online payments to Board-approved abstracts.

⁴ This includes six payroll transfers (\$46,884), 21 online payments (\$66,028) and all 13 other bank transfers (\$32,293).

⁵ During our audit period, 377 checks were issued totaling \$803,340. If a payment was not listed on a Board-approved abstract, we then traced the payment to the claim packet. Two Board members typically sign the claim packets to document their approval of claims.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.

CARTHAGE/WEST CARTHAGE WATER POLLUTION CONTROL FACILITIES
MANAGEMENT BOARD
120 South Mechanic Street
Carthage, NY 13619

Rebecca Wilcox, Chief Examiner
State Office Building
Room 409
333 E. Washington Street
Syracuse, New York 13202-1428

**RE: Comptroller's audit of Cash Disbursements for Carthage - West Carthage
Water Pollution Control Facilities (WPCF)**

June 1, 2013 - August 31, 2014 2015M-35

Dear Ms. Wilcox,

At the direction of [REDACTED], and with the approval of the WPCF Board of Directors, I am sending this letter. This combined response will serve as our Audit Response and Action Plan.

Audit Response: The Carthage - West Carthage Water Pollution Control Facilities Board of Directors are in agreement with the following recommendations:

1. Require the Clerk-Treasurer to provide it with monthly bank reconciliations including the related bank statements and cancelled check images; and
2. Establish compensating controls to routinely monitor and review the Clerk-Treasurer's work.

Corrective Action Plan:

1. Prior to each monthly board meeting, the existing Audit Committee, comprised of two (2) board members, will review all bank transactions reflected on the monthly bank statement and compare the canceled checks/check images/online payments to the Board approved abstracts.
2. At the direction of the Chairman of the Carthage - West Carthage Water Pollution Control Facilities, said plan was implemented immediately after [REDACTED] brought it to the attention of the Clerk-Treasurer.
3. Said implementation took place for November's 2014 meeting of the Carthage - West Carthage Water Pollution Control Facilities.
4. At the November 24, 2014 meeting of the Carthage - West Carthage Water Pollution Control Facilities, [REDACTED] unofficial recommendations were explained to the Board of Directors by the Chairman of the Board. The Chairman also informed the Board that immediate action was taken by the Clerk-Treasurer to implement said changes. At the same time, the Audit Committee was informed of said recommendation/actions.

Audit Response - Corrective Action Plan continued:

page 2

April 21, 2015

5. At its April 15, 2015 monthly meeting, the Carthage - West Carthage Water Pollution Control Facilities Board of Directors approved for the Chairman, Michael F. Astafan, to send a combined Audit Response and Corrective Action Plan.

On behalf of the Board of Directors of the Carthage - West Carthage Water Pollution Control Facilities, I would like to thank the Comptroller's Office and [REDACTED] for assisting the Board to strengthen its fiduciary duty to the tax payers of the Villages of Carthage and West Carthage.

Very truly yours,

Michael F. Astafan, Chairman
Carthage - West Carthage Water Pollution Control Facilities

cc: Kristy O'Shaughnessy, Clerk-Treasurer
Mr. Wayne McIlroy, President - Village of Carthage
Mr. Scott Burto, Mayor - Village of West Carthage
Office of the State Comptroller

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of internal controls put in place by Facility officials to safeguard assets. To accomplish our objective and obtain valid audit evidence, we tested selected records and examined pertinent documents for the period June 1, 2013 through August 31, 2014. Our procedures included the following:

- We interviewed Facility officials to gain an understanding of internal controls over cash disbursements.
- From the bank statements, we identified the population of cash disbursements for the audit period by type (checks, payroll transfers, online payments and other bank transfers).
- We traced all 67 check payments that cleared the bank in November 2013 and July 2014 to Board-approved abstracts or claim packets and verified they were recorded in the accounting records. We selected these two months with no expectation that more or fewer errors would occur in the months selected than any other month.
- We reviewed 21 online utility payments and six routine external bank transfers for payroll. We traced these disbursements from the bank statements to approved abstracts or payroll registers and the general ledger. We selected our sample using a random number generator.
- We reviewed all other bank transfers (13 external and two interbank transfers) made during the audit period and verified they were adequately supported and properly recorded.
- We verified there were no unusual payments to the Clerk-Treasurer or her deputy during the audit period by scanning the bank statements for all canceled checks during the audit period.

We conducted this performance audit in accordance with GAGAS. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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