



Hamilton College Sewer District Internal Controls Over Sewer District Financial Operations

Report of Examination

Period Covered:

January 1, 2010 — December 31, 2011

2012M-161



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2012

Dear District 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 Hamilton College Sewer District, entitled Internal Controls Over Sewer District Financial Operations. 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 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 Hamilton College Sewer District (District) is a special district created in 1910 and is located in the Town of Kirkland (Town) in Oneida County. The District is governed by a Board of Sewer District Commissioners (Board), comprising three members who are appointed by the Kirkland Town Board. The Board is responsible for the general management and control of the District's financial affairs, including the audit of claims. One Board member serves as Treasurer and is responsible for the District's finances, accounting records and financial reports. The Treasurer is assisted by a District Clerk (Clerk).¹

The District is comprised of Hamilton College (College)² and 62 residences. It is part of the Clinton Sewer Service Area which was formed under an agreement between the District, Town, and Village of Clinton (Village). The Village operates and maintains a sewage treatment facility that accepts waste water from the District, Town, and Village, which are billed for use of the sewer facility based on metered water use. The Clerk bills and collects sewer usage fees from the College and the 62 individual residences (customers) to pay the District's apportioned costs for operations and maintenance of the sewer facility.

Operating expenditures of the District were approximately \$169,000 for the year ended December 31, 2011. These expenditures were funded primarily with revenues from sewer usage fees.³

Objective

The objective of our audit was to review internal controls over District financial operations for the period January 1, 2010 to December 31, 2011. Our audit addressed the following related question:

- Are internal controls over District financial operations appropriately designed and operating effectively?

Scope and Methodology

We examined internal controls over District financial operations for the period January 1, 2010 to December 31, 2011.

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 are included in Appendix B of this report.

¹ The District Clerk is an employee of Hamilton College.

² 129 meters located at various buildings at the College

³ Approximately \$140,000 in sewer user fees are collected from the College and approximately \$5,000 are collected from 62 residences in the District.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they have taken or plan to initiate 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 Secretary's office.

Controls Over Sewer District Financial Operations

An effective system of internal controls over sewer financial operations includes policies and procedures to address the duties, records, and oversight required to ensure that District funds are safeguarded and used as intended. The Board is responsible for directing and overseeing the District's financial activities. This includes providing for a proper segregation of duties to ensure that no person controls all phases of a transaction. In addition, the Board should provide adequate oversight of the claims audit process and the Treasurer's financial reporting to ensure appropriateness and accuracy of moneys paid and reported.

The Board has not segregated the duties of the Clerk, who is responsible for maintaining the customer file, preparing and mailing sewer bills, and collecting, recording and preparing deposits. Although the Treasurer does periodically review the Clerk's sewer billing and receipt records, there are no procedures to ensure that all customers are billed accurately or that all payments are deposited in the same form as received. As a result, the District overbilled its customers by approximately \$7,900. In addition, the Board does not review supporting documentation for claims or cash balances reported by the Treasurer.

Billings

District customers are billed semi-annually.⁴ The Clerk maintains an electronic list of all customers to be billed for sewer usage and has the capability to add or delete customer information. The Clerk enters manual water meter readings to calculate semi-annual usage by customer and generates customer bills, then provides an itemized customer list, with billed amounts, to the Treasurer. In addition, the Clerk prepares a control record summarizing the total semi-annual amount that was billed to the College and the 62 customers and provides this record to the Treasurer.

The Treasurer compares the total amount billed from the Clerk's control record to the total of the itemized customer billing list to ensure the amounts agree. However, the District does not maintain a separate master list of all District customers, independent of the list maintained by the Clerk, for the Treasurer to ensure all District customers are billed or verify its accuracy. A customer master list, maintained by someone independent of the billing, would be an

⁴ Customers are billed semi-annually in October for the first six months (January to June) and then in April for the second six months (July to December). Therefore, the District's annual revenues consist of the last six months of the previous year's activity (billings) and the first six months of the current year's activity (billings).

additional control to check the accuracy of the customer billing list and prevent errors and irregularities; for example, omitting a customer from billing, miscalculating a customer's bill, or not recording and depositing moneys collected.

We tested all four semi-annual billings, totaling approximately \$284,000, during our audit period to assess the accuracy of the amounts billed. Approximately \$264,000, or 93 percent, of the total billings were to the College and approximately \$20,000, or 7 percent, were to the District's 62 residential customers. Overall, the results of our testing found that customer billings were accurate, with the exception of approximately \$7,900⁵ in net overbillings, or 3 percent of the total amount billed. These billing errors resulted because the Clerk incorrectly entered meter readings.

Due to the lack of procedures to ensure all customers are billed and/or an independent master customer list, we reviewed the Town's tax roll and compared District properties to the Clerk's list of customers billed to ensure the Clerk's records reflected all customers to be billed for sewer usage, and that the records did not omit customers. We found no significant exceptions. However, the risk remains that the Clerk could erroneously omit a customer from billing that is included on the tax roll, or bill a customer and not record the customer's bill or payment received.

Receipts and Deposits

The Clerk collects receipts, records customer payments in the detailed customer list, and prepares the deposits, which are taken to the bank by the College's Campus Safety Department. However, the Clerk does not maintain a chronological cash receipt journal to record moneys received and the date collected, separate from the individual customer payments recorded in the detailed customer list, and does not keep copies of the deposit slips. As a result, there is not sufficient information for management to review the receipts that make up each deposit and the composition of the moneys deposited (checks and/or cash).⁶

The Clerk also provides the Treasurer with an updated control record that shows the total amount billed to customers in comparison to the total payments received and/or outstanding or delinquent. The Treasurer told us he compares the total amounts from the bank deposit tickets to the total amounts that the Clerk reports as deposited on the control record, which the Clerk updates throughout the collection period. The Treasurer also compares the total amount of bills, or

⁵ Approximately \$8,400 overbilled to the College and \$500 under-billed to individual customers

⁶ The deposit ticket that the bank returns to the Clerk after the moneys are deposited shows only the total dollar amount of the deposit.

moneys expected to be received, to the total moneys reported as collected to monitor any variances. However, the Treasurer relies on the Clerk to report all moneys billed, collected, received and deposited without any independent verification to ensure the completeness and accuracy of bills and moneys deposited.

Without adequate documentation of all receipts in a separate cash receipt journal or detailed compositions of bank deposits, the Treasurer cannot ensure that all moneys collected were deposited as received. As a result, there is an increased risk that the Clerk could potentially adjust or omit bills and/or deposits from District records to conceal a theft of moneys.

Board Oversight

The Board is responsible for the oversight of the District's financial operations. The Board fulfills this responsibility in part by instituting appropriate internal controls over the audit of claims and the financial reporting activities of the Treasurer. It is essential that Board members understand the extent of oversight required to meet their responsibilities to District customers.

Although the Board approves all claims for payment and reviews the financial reports provided by the Treasurer, its oversight is inadequate because the claim approval is based solely on the Treasurer's reading of the claims during the Board meetings. The Board does not review claims to ensure that they are adequately supported and payable to the correct payee, that they do not duplicate a prior payment, and that they represent appropriate District expenses. As a result, the Board could be approving inappropriate or incorrect claims for payment. In addition, the Treasurer records the payments, signs the checks, and reconciles the bank accounts without any effective oversight. Although the Treasurer provides the Board with budget-to-actual reports and cash balances in the District's bank accounts, no one other than the Treasurer reviews the District's bank statements or bank reconciliations to verify the cash balances reported by the Treasurer are accurate and disbursements are authorized.

To address these risks, we reviewed all 25 claims paid by the District during our audit period, totaling \$322,920,⁷ for adequate support and appropriateness. We also reviewed the related canceled checks and bank statements and verified that the ending cash balance in the Treasurer's checkbook register agreed to the adjusted bank balance. While our review identified no exceptions, there is a risk that District funds could be expended for unauthorized purposes and remain undetected due to a lack of oversight of the claims and cash balances maintained by the Treasurer.

⁷ Includes \$310,567 paid to the Village for the District's apportioned cost of operations and maintenance of the sewer facility

Recommendations

1. The Board should establish a master customer list to ensure all customers are accounted for. Any changes to the master customer list should be made by someone independent of the billing process.
2. The Board should establish procedures for someone independent from the billing process to periodically compare the master customer list to the billing records and spot-check bills to verify they are complete and accurate.
3. The Board should ensure that any overbilled customers are properly credited and that customers who were underbilled are properly billed.
4. The Clerk should maintain a separate cash receipt journal to document all moneys collected by date and retain copies of detailed bank deposit slips. The Treasurer should periodically review these records and compare them to the control record.
5. The Board should review monthly bank reconciliations prepared by the Treasurer along with the related bank statements and canceled checks.
6. The Board should audit claims prior to payment and ensure that all claims contain appropriate supporting documentation and are for valid District purposes.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Hamilton College Sewer District

198 College Hill Road
Clinton, NY 13323

13 November 2012

Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
333 East Washington Street
Syracuse, NY 13202-1428

Dear Ms. Wilcox,

In accordance with your letter of 16 October 2012, the Hamilton College Sewer District is responding to the Audit conducted by the State's Comptroller Office.

Please note that this response is also serving as our correction action plan. This plan is attached and provides the corrections planned, implementation date and those responsible for the implementation of each recommendation. We have no dispute with any of the recommendations.

The Commissioners of the Hamilton College Sewer District have approved this report.

Sincerely,

 S. J. Bellona
Treasurer

Encl: Corrective Action Plan

Hamilton College Sewer District

198 College Hill Road

Clinton, NY 13323

Unit Name: Hamilton College Sewer District

Audi Report Title: Internal Controls over Sewer District Financial Operations

Audit Report Number: 2012M-161

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed. For recommendations where corrective actions has not been taken or proposed, we have included explanations.

Audit Recommendation 1. The Board should establish a master customer list to ensure all customers are accounted for. Any changes to the master customer list should be made by someone independent of the billing process.

Implementation Plan of Action: Hamilton College's Business Office has been retained to oversee bill processing and collection for the Sewer District. Two clerks, one senior and one junior, will be used to provide separate billing and collection support. The senior clerk will maintain the master customer list and review the billing records prior to the bills being mailed. The Treasurer will periodically review the master customer list, cash receipt journal and the bank deposits.

Implementation Date: 30 April 2012

Person Responsible for Implementation: Hamilton College Business Office Senior Clerk in concert with the Treasurer, Hamilton College Sewer District

Audit Recommendation 2. The Board should establish procedures for someone independent from the billing process to periodically compare the master customer list to the billing records and spot-check bills to verify they are complete and accurate.

Implementation Plan of Action: The junior clerk will be responsible for customer billing, recording payments and preparing the bank deposits. Copies of the bank deposit slip along with copies of the checks/cash will be maintained for our records. The junior clerk will maintain a cash receipt journal which will be approved by the senior clerk monthly. In addition, when the payments come into the office, they will be directed to the senior clerk. All envelopes will be opened by the senior clerk and recorded. This will be used as a comparison to the cash receipt journal that the junior clerk maintains. The senior clerk will maintain the master customer list and review the billing records prior to the bills being mailed. Billing errors are to be identified and corrected prior to the bills being mailed. If an error is identified after the bills are mailed, the junior clerk will bring the correction to the senior clerk for approval prior to sending a revised bill to the customer. The senior clerk will also review and verify the copies of the bank deposits to the bank statements each month.

Implementation Date: 30 April 2012

Hamilton College Sewer District

198 College Hill Road

Clinton, NY 13323

Person Responsible for Implementation: Hamilton College Business Office Senior Clerk in concert with the Treasurer, Hamilton College Sewer District

Audit Recommendation 3. The Board should ensure that any overbilled customers are properly credited and that customers who were under billed are properly billed.

Implementation Plan of Action: The senior clerk will maintain the master customer list and review the billing records prior to the bills being mailed. Billing errors are to be identified and corrected prior to the bills being mailed. If an error is identified after the bills are mailed, the junior clerk will bring the correction to the senior clerk to approve before sending a revised bill to the customer.

Implementation Date: 30 April 2012

Person Responsible for Implementation: Hamilton College Business Office Senior Clerk in concert with the Treasurer, Hamilton College Sewer District

Audit Recommendation 4. The clerk should maintain a separate cash receipt journal to document all moneys collected by date and retain copies of detailed bank deposit slips. The Treasurer should periodically review these records and compare them to the control record.

Implementation Plan of Action: Copies of the bank deposit slip along with copies of the checks/cash will be maintained for our records. The junior clerk will maintain a cash receipt journal which will be approved by the senior clerk monthly. In addition, when the payments come into the office, they will be directed to the senior clerk. All envelopes will be opened by the senior clerk and recorded. This will be used as a comparison to the cash receipt journal that the junior clerk maintains. The Treasurer will periodically review the cash receipt journal and the bank deposits.

Implementation Date: 30 April 2012

Person Responsible for Implementation: Hamilton College Business Office Senior Clerk in concert with the Treasurer, Hamilton College Sewer District

Audit Recommendation 5. The Board should review monthly bank reconciliations prepared by the Treasurer along with the related bank statements and canceled checks.

Implementation Plan of Action: The Board will designate a commissioner to review the monthly bank statements, reconciliations and cancelled checks to ensure they are in concert with invoices paid by the Treasurer. District Counsel will review the records with the board at the end of the year. All reviews will be recorded in the minutes of the Board, which will include any discrepancies and corrections required.

Implementation Date: 13 December 2012 at the next meeting of the Board.

Person Responsible for Implementation: Hamilton College Sewer District Board President.

Hamilton College Sewer District

198 College Hill Road

Clinton, NY 13323

Audit Recommendation 6. The Board should audit claims prior to payment and ensure that all claims contain appropriate supporting documentation and are for valid District purposes.

Implementation Plan of Action: All claims for payment will be reviewed by the Board at the time of approval for payment by the Commissioners of the Sewer District. Claims and documentation will be provided by the Treasurer to the Commissioners for review and approval to ensure they are valid for District purposes. All claims will be noted in the minutes of the Board.

Implementation Date: 25 October 2012

Person Responsible for Implementation: Hamilton College Sewer District Treasurer

Signed:

S. J. Bellona
Treasurer, Hamilton College Sewer District

13 Nov 2012

Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

During this audit, we examined the District's internal controls over sewer financial operations for the period January 1, 2010 through December 31, 2011. To accomplish our audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed District officials to gain an understanding of the policies and procedures used to account for sewer financial operations, to include sewer usage billing and cash receipt collection, claims audit and cash.
- We analyzed all semi-annual customer bills during the period July 1, 2009 through June 30, 2011, totaling \$284,000. We traced meter readings recorded by the meter reader to the current period billing reports to verify the Clerk entered the correct meter readings on the bills mailed out to customers. We verified the billings were computed correctly, including any late fees, and traced moneys received to bank deposits.
- We reviewed the Town's 2011 tax roll for individuals listed in the District for comparison to the customer list maintained by the Clerk to assess if all customers are included in the Clerk's billing registry.
- We reviewed all 25 disbursements recorded in the Treasurer's checkbook register and the related claims and supporting documentation for evidence of audit. We also reviewed the Board minutes for evidence of Board approval of claims for payment.
- We scanned the bank statements and/or canceled check images for the audit period for any unusual and/or suspicious withdrawals. We verified the Treasurer's checkbook register cash balance agreed to the adjusted bank balance at December 31, 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards (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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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