



Mattituck Park District Credit Cards and Segregation of Duties

Report of Examination

Period Covered:

January 1, 2010 — June 30, 2011

2011M-255



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2012

Dear Park 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 of Park District Commissioners 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 Mattituck Park District, entitled Credit Cards and Segregation of Duties. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Mattituck Park District (District) is located in the Town of Southold in Suffolk County. It covers approximately 63 acres and has approximately 4,500 residents. The District's primary function is to provide park and recreational facilities to District residents and maintain and enhance the 10 parks located within the District.

The District is governed by an elected three-member Board of Commissioners (Board), which is responsible for managing District operations, including establishing internal controls, preparing the annual budget, monitoring District finances, procuring goods and services, and overseeing the work of the District Treasurer (Treasurer) and District Clerk (Clerk).

Scope and Objective

The objective of our audit was to examine the District's internal controls over selected financial operations for the period January 1, 2010, to June 30, 2011. Our audit addressed the following related questions:

- Has the District established adequate internal controls over the use of credit cards?
- Did the Board adequately segregate or implement compensating controls over the Treasurer and Clerk's duties to ensure that District assets are safeguarded?

Audit Results

The District did not have adequate internal controls over the use of credit and purchase cards, did not adequately segregate the financial duties of the Treasurer and Clerk, and did not provide any oversight over of the Treasurer's and Clerk's work.

The Board did not adopt a credit card policy to govern the use of the District's three general-purpose credit cards, six gasoline credit cards, and six store purchase cards. As a result, the District does not maintain a list of individuals who are issued the credit and purchase cards¹ and routinely paid credit and purchase card bills without adequate documentation to support the nature and validity of each purchase. We identified concerns with the documentation and support for \$12,536 of the \$20,704 of

¹ We were able to determine whom the credit and purchase cards were issued to by reviewing credit and purchase card statements, interviewing District officials, and observing the names printed on the credit and purchase cards.

purchases made on these cards. In addition, we found that the District paid approximately \$910² in various taxes on gasoline purchases that it was exempt from paying.

The Board did not adequately segregate the financial duties of the Treasurer and Clerk. Although the Treasurer performed most key aspects of the District's financial operations including all payroll processes, the Board did not implement compensating controls. Additionally, the Clerk controlled most aspects of payments collected for property rentals with minimal management oversight. Although we did not find any discrepancies, the District's failure to segregate cash receipt and disbursement duties or establish compensating controls increases the risk that the Treasurer and/or Clerk could misplace or misappropriate District cash and hide the transaction in the accounting records without detection.

Comments of Local Officials

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 planned to initiate corrective action.

² We calculated the approximate State and local sales and excise taxes on a gallon of gasoline during the audit period as being \$0.45 per gallon purchased.

Introduction

Background

The Mattituck Park District (District) is located in the Town of Southold in Suffolk County. It covers approximately 63 acres and has approximately 4,500 residents. The District's primary function is to provide park and recreational facilities to District residents and maintain and enhance the 10 parks located within the District.

The District is governed by an elected three-member Board of Commissioners (Board). The District's 2011 budgeted operating expenditures totaled \$566,680 for the general fund. These expenditures were funded with revenues from real property taxes and permit and rental fees.

The District made approximately \$589,000 in cash disbursements during our audit period, including \$160,572 in disbursements made for payroll. The District collects fees for permits issued for the use of its Lodge and Community Room. It collected a total of \$27,113 in fees for permits issued for park activities, including property rental, during our audit period.

Objective

The objective of our audit was to examine the District's internal controls over selected financial operations for the period January 1, 2010, to June 30, 2011. Our audit addressed the following related questions:

- Has the District established adequate internal controls over the use of credit cards?
- Did the Board adequately segregate or implement compensating controls over the Treasurer's and Clerk's duties to ensure that District assets are safeguarded?

Scope and Methodology

We examined the District's internal controls over credit cards and segregation of duties for the Treasurer and Clerk for selected financial operations for the period January 1, 2010, to June 30, 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.

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 planned 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.

Credit Cards

An effective system of internal controls requires that the Board adopt a sound credit card policy. It is important that the policy identifies the individuals who are authorized to use the credit or purchase cards, provides dollar limits for purchases, describes the types of purchases allowed and the documentation to support the purchases, establishes control procedures over the custody of the credit or purchase cards and the monitoring of their use, and addresses the methods to recover moneys from improper use of the credit or purchase cards. Gasoline purchases made by local governments are exempt from sales tax, motor fuel tax, and State excise tax.

The District has a general-purpose credit card account with three cards: one for the Treasurer and two assigned to one of the Commissioners. The District has six gasoline credit cards with four assigned to specific vehicles and two assigned to laborers. In addition, the District has three office supply purchase cards issued to one of the Commissioners, the Clerk, and the District Secretary, and three home improvement store purchase cards issued to one of the Commissioners, the Treasurer, and two laborers.

The Board did not adopt a credit card policy. As a result, the District does not maintain a list of individuals who are issued the credit and purchase cards³ and routinely paid credit and purchase card bills without adequate documentation to support the nature and validity of each purchase.

General-Purpose Credit Cards – We reviewed all 28 general-purpose credit card charges totaling \$10,423 that the District made during our audit period and found the District paid for 16 charges totaling \$5,912 without adequate supporting documentation, as follows:

- Four charges totaling \$2,967 did not have itemized receipts.
- Seven charges totaling \$2,192 did not have adequate information provided on the credit card statements to identify the purchases as being legitimate District expenditures.
- Three charges totaling \$507 were not supported by credit card statements or itemized receipts.

³ We were able to determine whom the credit and purchase cards were issued to by reviewing credit and purchase card statements, interviewing District officials, and observing the names printed on the credit and purchase cards.

- Two charges totaling \$246 had both itemized receipts and adequate support provided on the credit card statement, but the District made the payment prior to receiving the statement. Therefore, the credit card statement was not available at time of payment to provide District officials with documentation that would prove the legitimacy of the expenditures.

Gasoline Credit Cards – We examined all available gasoline credit card statements for our audit period. During this period, the District purchased approximately 2,020 gallons⁴ of gasoline totaling \$6,303 using the gasoline credit cards, which are generally used for purchasing fuel for District vehicles and equipment. The District maintains a mileage log that records the daily odometer readings of the four District vehicles; however, it does not record when the vehicles receive fuel. In addition, the District does not maintain records indicating when fuel is purchased for equipment. Because District employees are not required to maintain receipts for gasoline credit card purchases or a fuel log, District officials do not have sufficient information regarding 1,980 gallons of gasoline purchases totaling \$6,131 of the \$6,303 in gasoline purchases. Furthermore, of the \$6,303 spent on gasoline, the District paid approximately \$910⁵ in various taxes on gasoline purchases that it was exempt from paying.

Purchase Cards – We reviewed all home improvement store purchase card charges totaling \$2,771 and office supply store purchase card charges totaling \$1,207 made during our audit period and found that two charges totaling \$154 made at the office supply store and six charges totaling \$339 made at the home improvement store did not have itemized receipts.

Without a comprehensive, enforced credit card policy, the District has little control over the use of District credit and purchase cards. District officials have little assurance that credit and purchase cards are being used properly by authorized individuals, and the District has an increased risk that it will pay for unauthorized or excessive purchases. In addition, without any specific policies in place, the District may have difficulty collecting reimbursement for any unauthorized or questionable charges.

⁴ The District could not provide us with two gasoline credit card statements generated during the audit period. We estimated the cost of the gallons of gasoline purchased by the District during those two months based on the average price of gasoline during the period of the missing statements.

⁵ We calculated the approximate State and local sales and excise taxes on a gallon of gasoline during the audit period as being \$0.45 per gallon purchased.

Recommendations

1. The Board should adopt a comprehensive credit card policy.
2. The Board should ensure that all credit card claims contain adequate supporting documentation to indicate that they are legitimate District charges.
3. The Board should ensure that the District does not pay taxes from which it is exempt. The Board also should seek reimbursement for the taxes previously paid.

Segregation of Duties

Good management practices require that no individual control all aspects of a financial transaction. To better safeguard cash, the same individual should not prepare and disburse checks, record the transactions in the accounting records, perform cash reconciliations, and prepare and process payroll. In addition, one person should not be able to collect cash, prepare receipts, and prepare and make deposits. If it is not practicable to segregate duties, it is important that the Board implement compensating controls such as periodically reviewing accounting records, bank statements, and reconciliations, and comparing actual receipts to amounts deposited as stated in the accounting records and bank statements.

The Board did not adequately segregate the financial duties of the Treasurer and the Clerk. Although the Treasurer performed most key aspects of the District's financial operations, including all payroll processes, the Board did not implement compensating controls. Additionally, the Clerk controlled most aspects of payments collected for property rentals with minimal management oversight. Without adequate segregation of duties and management oversight, there is an increased risk that errors and irregularities will not be detected and corrected in a timely manner.

Treasurer – The Board did not properly segregate the Treasurer's duties, and it did not establish compensating controls, such as reviewing the Treasurer's bank reconciliations. The Treasurer performs most key aspects of District financial operations, including preparing and signing checks, transferring money between bank accounts, recording cash receipts and disbursements in the accounting records, and performing cash reconciliations with no oversight from the Board. Because the Treasurer performed these incompatible duties without Board oversight, the District has an increased risk that the Treasurer could initiate inappropriate cash disbursements and subsequently cover those transactions without detection.

Additionally, the Treasurer prepares and processes the District's payroll, including adding new employees, posting the payroll disbursements in the District's financial records, preparing the payroll checks, and signing the payroll checks with no independent review to serve as a compensating control. Because the Treasurer has access to all aspects of the payroll process, he has the ability to use the system inappropriately, such as by increasing payroll benefits for himself or others, or by creating a fictitious employee.

For the month of July 2010,⁶ we reviewed all cash disbursements totaling \$33,450,⁷ verified the check sequence, compared canceled check images to the Treasurer’s monthly abstracts, and performed a bank reconciliation. We did not find any discrepancies. Additionally, we reviewed compensation pay totaling \$11,217 for all employees for the first payroll period in July 2010 and found that all employees were approved by the Board to work for the District, and they were paid at Board-approved pay rates. Although our procedures did not disclose any irregularities, the failure to segregate financial duties or establish compensating controls increases the risk that District funds could be misappropriated.

Clerk – The Board did not segregate the Clerk’s cash receipts duties or implement compensating controls. The Clerk prepares all receipts and receives collections for permits issued for the use of both the Lodge and the Community Room. In addition, the Clerk prepares and makes all deposits for receipts collected. The Clerk prepares a monthly report for the Board that summarizes the total fees collected for the month; however, the Board does not review the actual receipts or bank statements to ensure that the information in the report is complete and accurate.

We reviewed all cash receipt reports, physical cash receipts, corresponding deposit slips, and bank statements for all cash collections totaling \$5,275 received by the Clerk from January 1, 2011, through March 31, 2011.⁸ Although we did not find any discrepancies, the District’s failure to segregate cash receipt duties or establish compensating controls increases the risk that the Clerk could misplace or misappropriate District cash and hide the transaction in the accounting records without detection.

Recommendation

4. The Board should segregate the Treasurer’s and Clerk’s duties so that they do not control key aspects of financial transactions. Where it is not feasible to segregate these duties, the Board should establish compensating controls to routinely monitor and review their employees’ work.

⁶ From September to May, the District has six employees. However, during the District’s beach permit season (June to August), the District employs more individuals and collects fees for beach permits, which causes more payroll check disbursements and more cash deposits. We selected a non-biased judgmental sample of the July 2010 cash receipts and disbursements to determine whether all funds collected and disbursed during that month were accounted for properly in the District’s financial records.

⁷ This amount includes 124 checks disbursed for payroll (98 checks totaling \$25,357) and non-payroll disbursements (26 checks totaling \$8,093).

⁸ The Community Room was constructed in 2010 and became available for rental in March 2011. We chose to review all cash collections received by the Clerk from January 1, 2011, through March 31, 2011, so that we could include the March 2011 cash receipts for the rental of the Community Room in our sample.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

The District's response letter refers to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.



MATTITUCK PARK DISTRICT

P.O. BOX 1413 • MATTITUCK, NEW YORK 11952

March 19, 2012

Ira McCracken, Chief Examiner
Division of Local Government and
School Accountability
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250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear Mr. McCracken:

This letter is in response to the Draft Report of Examination of the Mattituck Park District by the Office of the NY State Comptroller for the period covering January 1, 2010 - June 30, 2011, document 2011M-255. The District appreciates the opportunity to reflect on – and to improve – its operations and internal controls with guidance from the Comptroller's office.

The Mattituck Park District takes its fiduciary responsibility to the taxpayers of our District very seriously. The District's strong commitment to prudent fiscal management practices has resulted in stabilizing District finances in uncertain economic times.

We are extremely pleased that the report found no discrepancies or irregularities in the audited records of the Treasurer and Clerk. The question of segregation of duties in a small district with limited staff can be challenging. However, after discussions with your staff, we believe the actions outlined below will ensure compliance with your recommendations.

Acknowledgement of Audit Findings

The Board would like to acknowledge the thorough work of the New York State Comptroller's Audit staff for their thoughtfulness and professionalism during the audit review, and subsequent discussions. We have reviewed the report and concur with the findings.

Combined Response

As authorized in the Office of State Comptroller publication "Responding to an OSC Audit Report", the Board has elected to combine the Audit Response Letter and Corrective Action Plan into one document. The OSC report contained four recommendations. Each one is addressed below as follows:

Credit Card Policy

1. The Board should adopt a comprehensive credit card policy.

The Board adopted a comprehensive credit card policy on October 13, 2011, which is attached as an addendum to this response.

Credit Card Documentation

2. The Board should ensure that all credit card claims contain adequate supporting documentation to indicate that they are legitimate district charges.

The policy requires that every credit card holder shall have a receipt signed by the person who charged the item and received the goods. The receipt will be attached to the monthly statement presented to the board prior to payment.

Tax Exempt

3. The Board should ensure that the district does not pay taxes from which it is exempt. The Board should seek reimbursement for the taxes previously paid.

The Board will take the appropriate action to recover any taxes paid in error. The Board will promptly notify the vendors involved that the district is tax exempt and procure refunds.

Segregation of Duties

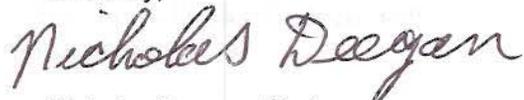
4. The Board should segregate the Treasurer and Clerk's duties so that they do not control key aspects of the financial transactions. Where it is not feasible to segregate these duties, the Board should establish compensating controls to routinely monitor and review their employees' work.

The Board has agreed to routinely monitor and review the work of the Treasurer and the Clerk as follows:

- periodically review bank statements and the general ledger balance and bank reconciliations along with comparing the deposits to the monthly Clerk's report
- review monthly Treasurer's records to verify all employee payments and pay rates
- review monthly itemized revenue report prepared by Treasurer and reconciled with bank statements and Clerk's report
- review Clerk's report with monthly bank deposit receipts and verify receipts against deposits
- verify that all receipts are attached to invoices and acknowledged in writing by a district employee as having been received prior to the invoice being submitted for payment

We appreciate your recommendations and the opportunity to correct our procedures and to be more accountable to our taxpayers. The Comptroller's office staff was very professional in conducting the audit, including the exit conference, and the Mattituck Park District shall benefit as a result.

Sincerely,



Nicholas Deegan, Chairperson
Board of Commissioners
Mattituck Park District

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected the internal controls over credit cards and the segregation of key financial duties for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We reviewed the minutes of the Board's meetings and the Board's policy manual.
- We examined District audit reports and corrective action plans.
- We interviewed the Treasurer to gain an understanding of the District's financial operations and the duties he performs.
- We interviewed the Clerk to gain an understanding of the receipt process and the duties that she performs.
- We examined selected bank statements and canceled checks, payroll registers, bill registers, cash ledgers, and payroll documents to determine if cash receipts and disbursements were accounted for properly.
- We examined selected cash receipt reports, physical cash receipts, corresponding deposit slips and bank statements, and general ledger entries to determine if cash receipts were accounted for properly. We examined all available general-purpose credit cards and supporting documentation for the audit period.
- We examined all available gasoline credit card statements and supporting documentation for the audit period.

- We examined all purchase card statements and supporting documentation for the audit period.

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 objectives.

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