Office of the New York State Comptroller

Division of Local Government
& School Accountability

Niagara County Soil and Water Conservation District

Internal Controls Over Cash Receipts and Disbursements

Report of Examination

Period Covered:

January 1, 2011 — August 16, 2012

2012M-186

Thomas P. DiNapoli

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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

December 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 District 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 Niagara County Soil and Water Conservation District, entitled Internal Controls Over Cash Receipts and 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 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 Niagara County Soil and Water Conservation District (District) is one of 58 such Districts in New York State. These districts provide services and fund projects to improve and maintain wildlife habitat, help control and prevent water pollution from non-point sources,[1] and manage erosion control and other related land-use issues. The District is governed by a seven-member Board of Directors (Board) and has four employees. The District Engineer manages day-to-day operations, while the office secretary serves as the District's secretary and the Assistant Treasurer. The Board appointed one of its members as the District Treasurer. The Treasurer is responsible for receiving cash and checks, maintaining custody of the funds of the District, and making disbursements for authorized purposes on the order of the Board.[2] The District's revenues totaled $394,462 and include State and Federal aid and grants, a County appropriation, as well as sales and services to customers. General fund expenditures totaled $558,181 for the 2011 fiscal year.

Objective

The objective of our audit was to review the accounting records and internal controls of the District. Our audit addressed the following related question:

- Were the District's internal controls over cash receipts and disbursements designed and operating effectively to allow for the proper accounting for and safeguarding of District assets?

Scope and Methodology

We examined the accounting records and reports of the District for the period of January 1, 2011 to August 16, 2012.

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 agree with our findings and recommendations, and indicated that they will initiate corrective action.

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[1] Non-point source water pollution is the result of runoff from agricultural areas draining into a water source, generally caused by rainfall or snow melt.

[2] See Soil and Water Conservation Districts Law, Section 8(1)

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 District's office.

Cash Receipts and Disbursements

The Board is responsible for designing adequate internal controls to safeguard the District's cash resources. An effective system of internal controls over cash receipts ensures that all moneys received are properly recorded, deposited, and accounted for. The use of press-numbered duplicate receipts, which documents individual cash collection activities, helps to ensure that all transactions are properly recorded in the accounting records. Moreover, General Municipal Law requires that duplicate receipts be issued where no other form of documentation is available to evidence a receipt,[3] such as a copy of the check. The Board must also ensure that cash disbursements are made upon proper authorization by the Board. Furthermore, the Board should ensure that duties are segregated so that no one person controls all phases of a transaction. In an entity of this size, it may not be practicable to adequately segregate financial duties. Therefore, it is important for the Board to provide sufficient oversight of the District's operations. Additionally, the Board is required annually to audit, or cause the audit of, all departments that receive and/or disburse funds on behalf of the District.

Internal controls over cash receipts and disbursements were not appropriately designed or operating effectively. District employees did not always issue press-numbered duplicate receipts, and cash disbursements were made prior to Board authorization. The Board also did not adequately segregate duties or conduct an adequate annual review of District records. As a result, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

There is inadequate segregation of duties over the cash collection process. The secretary, who is also the Assistant Treasurer, receives cash and checks, prepares the deposit tickets, takes the deposit to the bank, maintains the accounting records and reconciles the bank account balances to the cash balances in the accounting records. These duties should not be performed by one individual without adequate compensating controls. District officials told us that the Treasurer reviews the bank reconciliation, but we found no evidence that this occurred, such as his initials on the reconciliation. In addition, District employees do not issue press-numbered duplicate receipts for all over-the-counter cash[4] transactions. Moreover, the Board approves

[3] See General Municipal Law, Section 99-b

[4] Collections received over-the-counter are primarily for the sale of tree seedlings, ground cover plants and similar items.

the vendor claims only after they are paid. As a result, the Board is not providing adequate oversight of cash disbursements and there is an increased risk of erroneous or improper payments.

The Board performs only a limited review of the District's accounting records on an annual basis. In the absence of compensating controls, a more frequent and comprehensive review, with the results documented in the Board meeting minutes, would provide greater assurance of safeguarding District moneys.

Due to these control deficiencies, we reviewed all fiscal year 2011 cash receipts, totaling $394,462, and all cash disbursements, totaling $558,181. Although we did not find any material discrepancies with money collected and disbursed, the District did not always issue duplicate receipts. Of the $54,628 in collections received over the counter, duplicate receipts were issued for only $2,804 (5 percent). District officials told us duplicate receipts were issued only at customer request. Given the lack of segregation of duties or other compensating controls, the potential exists for errors and irregularities to occur and not be detected and corrected. As of the end of audit fieldwork in August 2012, District officials had not addressed these deficiencies.

Recommendations

1. District employees who collect cash from customers should provide a press-numbered duplicate receipt to the customer at the time payment is received, when no other evidence satisfactory for the purpose of audit is available.

2. The Board should ensure that duties are segregated so that no one person controls all phases of a transaction.

3. The Board should review vendor claims and approve them before they are paid.

4. The Board should review the District's financial records more frequently and/or engage an auditor to perform a review of the records.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

NIAGARA COUNTY SOIL & WATER CONSERVATION DISTRICT
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November 30, 2012

Mr. Robert E. Meller, Chief Examiner
Office of the State Comptroller
Division of Local Government and School Accountability
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

Re: Niagara County Soil & Water Conservation District
Internal Controls Over Cash Receipts and Disbursements #2012M-186

Dear Mr. Meller:

Thank you for this opportunity to respond to the Draft Report of the audit examination. We were pleased with the professional manner in which both Examiner [redacted] and Principal Examiner [redacted] conducted the examination, allowing the assessment process to be completed with ease. We respect the thoroughness of their findings, and appreciated the courtesies given our opinions during the exit interview discussion. The Draft Report provided useful insights and recommendations for improving our operations.

We are a small office, having only 2-4 employees at any given time and each having a very specific job description. We are fortunate to have a staff that has longevity with the District and have proven to be honest, trustworthy employees. Our current Secretary/Assistant Treasurer to the Board has been with us for almost 23 years and our District Engineer for over 12 years. Both are signers on the District accounts, along with the Chairman and Treasurer of the Board.

We have in the past few years put into action many dual control measures to ensure oversight of our fiscal responsibilities, recognizing the need to structure a routine so whomever we have performing the tasks, we can trust the process will run smoothly and responsibly. We strive to keep our financial management efficient, without making it burdensome with too much duplication of duties. We also do our best to keep the cost of doing business to a minimum, acting responsibly with the funding we receive so not to waste taxpayer dollars.

Please consider the following to serve as our Corrective Action Plan, which will be implemented immediately. The four audit recommendations are listed below with our proposed plan for implementation of the recommendations and your comments during the exit interview. We believe this will ensure adequate control of the finances.

1. District employees who collect cash from customers should provide a press-numbered duplicate receipt to the customer at the time payment is received, when no other evidence satisfactory for the purpose of audit is available.

When the Secretary/Assistant Treasurer to the Board is not available to collect cash from customers at time of purchase and give them a computerized receipt, other District employees will provide the customer with a press-numbered receipt. As all receipts are ultimately entered into our computerized accounting system, the press-numbered receipt number will be printed on the computerized District receipt form to make tracking easier.

During the tree seedling program pickup days, we sell our extra stock as "cash and carry". We currently have the customers fill out an order form at the time of sale, which is used to enter the information into our computerized accounting program at the end of the day, as the sale occurs in an area without computer access. Until this time, we only issued receipts as requested due to the volume of customers and the time constraints. We plan on modifying the order form that is utilized when selling the extra stock during tree seedling pickup so that it can also serve as a numbered receipt. The forms will be numbered and have a section that can be filled in with the purchase information, torn off and given to the customer at the time of purchase. The forms will continue to be used to enter the sale into the computer and will be attached to the computerized District receipt for tracking purposes.

2. The Board should ensure that duties are segregated so that no one person controls all phases of a transaction.

After the Treasurer reviews the finances monthly, he will now initial the reconcilement sheets as proof of performing the review.

When an electronic transfer of funds is made, both the Secretary/Assistant Treasurer to the Board and the District Engineer will initial the computerized printout as a dual control method, to show that both were aware of the transfer.

Through a motion in past Board Meeting Minutes, the Secretary/Assistant Treasurer to the Board signs all paychecks and does all online payments for withholding taxes. Since we use a private payroll service and the District Engineer has already initialed the timesheets, we feel this is already segregation of duties. To increase Board oversight, the Secretary/Assistant Treasurer to the Board will complete a voucher for the withholding taxes, attaching the online computer printout, as proof that these payments have been made for the Board's review.

3. The Board should review vendor claims and approve them before they are paid.

Currently, the District policy is to allow the Secretary/Assistant Treasurer to the Board to pay any recurring and regular bills as needed, with the stipulation that each bill is attached to a voucher and presented to the Board at the next Board meeting where a minimum of two of the seven Board members review and initial the voucher. Non-recurring expenses must be presented to the Board and approved before being paid.

Understanding the importance for Board oversight, we will implement a policy to require the Board to review and approve all bills prior to payment. All bills will be prepared with vouchers for the Board to review and approve at the monthly Board meetings prior to issuing payment. Our creditors "payment due dates" will be changed, if possible, to coincide with our Board meeting dates, ensuring that the bills are presented to the Board for approval and paid well in advance of being due so that we do not incur any penalties for late payments.

In the case of a cancelled board meeting, or if there is a specific bill that needs to be paid so not to be late and incur a finance charge prior to a board meeting, the Secretary/Assistant Treasurer to the Board will contact the Board members by telephone or email to approve those specific bills. She will report back to the Treasurer and/or Chairman with any concerns or comments from the Board members. Based on those concerns or comments, the Treasurer and/or Chairman will decide to approve or disapprove payment of those bills. All vouchers for bills paid in this manner will be initialed by Board members at the next Board meeting and will be documented in the Minutes of the Board meeting.

4) The Board should review the District's financial records more frequently and/or engage an auditor to perform a review of the records.

The Board reviews the financial report at the monthly Board meetings by: reviewing and initialing each voucher with the actual bill attached, receiving a verbal report from the Treasurer of his findings on the reconciliation of accounts, and reviewing a monthly financial balance sheet prepared by the Secretary/Assistant Treasurer of the Board which matches the reconcilement and bank statements. Also, the Secretary/Assistant Treasurer to the Board will add to the Minutes "As per the Treasurer's review and approval of the finances…" to show the oversight of the Board, when a motion is made to accept the Treasurer's Report.

The Board also reviews and approves an annual report that is required by the NYS Soil and Water Conservation Committee, of which two pages are completed for the Office of the State Comptroller (OSC). This report requires the Treasurer's signature after his personal review, and the Board's approval in the minutes.

Two Board members, excluding the Treasurer, review all financial activity on an annual basis, utilizing the outline provided by the OSC in the Local Government Management Guide *"Fiscal Oversight Responsibilities of the Governing Board"*. Upon completion of the audit, the two Board members sign a statement that they have performed the audit of the books. This form is attached to the OSC outline and the Board members performing the audit provide a verbal report to the entire Board. The report is entered into the minutes as approved by the Board and the forms are kept in the District files.

We feel that our current procedure fulfills this recommendation and that there is no need to hire a CPA, costing thousands of dollars. We would prefer to use such taxpayer funds in a more beneficial way.

In conclusion, we hope that these changes meet with your satisfaction. If any further action is required on our part, please let us know.

Sincerely,

David C. Wilson
Chairman

DCW:drt

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

During our initial assessment, we interviewed appropriate District staff, evaluated internal controls, performed limited tests of transactions and reviewed pertinent documents, such as District policies, Board minutes, and financial records and reports. 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 objective and scope by selecting for audit those areas most at risk. We selected internal controls over cash receipts and disbursements for audit.

To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed District staff to determine what policies and procedures were in place for the cash receipt and disbursement functions.
- We examined the District's accounting records, bank statements and canceled checks, paid claims, payroll records, and duplicate receipts.
- We compared fiscal year 2011 cash receipt records with entries in the accounting records and bank deposits.
- We verified transfers of funds between bank accounts.
- We compared time sheets to payroll records and verified payroll tax filings.
- We traced canceled checks to the accounting records and vouchers.
- We reviewed claims paid in 2011 to determine if they were for appropriate District purposes and were adequately itemized and supported with appropriate documentation.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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