



Rushford Lake Recreation District Internal Controls Over Cash Receipts and Consultant Services

Report of Examination

Period Covered:

January 1, 2010 — August 5, 2011

2011M-209



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 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 governance. Audits also can identify strategies to reduce costs and strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Rushford Lake Recreation District, entitled Internal Controls Over Cash Receipts and Consultant Services. 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 Rushford Lake Recreation District (District) was created by an act of the State Legislature in 1981. The District lies within the Towns of Caneadea and Rushford in Allegany County and is governed by a five member Board of Commissioners (Board). The Board is responsible for the general management and control of the District. The District's operating budget for the 2011 fiscal year is approximately \$300,000.

Scope and Objective

The objective of our audit was to determine if the District is operating efficiently and protecting assets from loss or misuse, for the period January 1, 2010 to August 5, 2011. Our audit addressed the following related questions:

- Are internal controls over cash receipts appropriately designed and operating effectively?
- Did the District solicit proposals for dam consultant services and ensure that payments for services were supported and in accordance with written contracts?

Audit Results

Our audit disclosed significant weaknesses in the District's internal control structure that may place the District's cash assets at risk. District officials failed to adopt comprehensive policies and procedures for cash collection at both the District office and the boat launch facility. Additionally, the District secretary could not provide us with all duplicate receipts for our audit period. As a result of not properly maintaining District financial records, we could not confirm that all cash collected was appropriately accounted for and subsequently deposited in District accounts as required.

In addition, the District paid a consultant, a former District Commissioner, to provide dam consulting services without soliciting proposals from other professionals or entering into a written contract to indicate the scope of services or basis for compensation. To date the District has made three payments to this consultant totaling \$12,100. Therefore, District officials cannot assure taxpayers that they are obtaining consultant services of the appropriate quality and cost, and that services are provided as expected.

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 that they have taken, or plan to initiate corrective action.

Introduction

Background

The Rushford Lake Recreation District (District) was created by an act of the State Legislature in 1981. The District encompasses the entire surface area of the lake including the shore line, up to the 1,450 foot elevation line. The District lies within the Towns of Caneadea and Rushford in Allegany County. It was created to maintain the Caneadea dam and preserve Rushford Lake and its recreation facilities for the use and enjoyment of the public.

The District is governed by the Board of Commissioners (Board) which comprises five members, three elected, and one each appointed by the Town Boards of Caneadea and Rushford. The Board is responsible for the general management and control of the District. To assist the Board with its administrative responsibilities, the District has appointed a part time secretary responsible for most office management duties, including revenue collection. The District's operating budget for the 2011 fiscal year is approximately \$300,000.

Objective

The objective of our audit was to determine if the District is operating efficiently and protecting assets from loss or misuse. Our audit addressed the following related questions:

- Are internal controls over cash receipts appropriately designed and operating effectively?
- Did the District solicit proposals for dam consultant services and ensure that payments for services were supported and in accordance with written contracts?

Scope and Methodology

We interviewed local officials and examined cash receipt procedures and records, as well as payments made to the dam consultant for the period January 1, 2010 to August 5, 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 that 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.

Cash Receipts

The Board is responsible for establishing a system of internal controls to address individual responsibilities for cash receipts, including the collection, recording, safeguarding, and depositing of cash assets. Comprehensive policies and procedures should be in place to govern the receipt of cash for all officers and employees of the District.

We found that the Board failed to adopt comprehensive policies and procedures governing the receipt of cash. Therefore, there was no requirement that duplicate press-numbered receipts be issued for all transactions, and that deposits be made timely and intact. In addition, the current secretary¹ did not retain, or could not locate, all of the duplicate receipts that were issued during our audit period by her and the previous secretary. Due to these missing financial records, we could not determine if all cash collections made by District personnel were appropriately recorded and subsequently deposited in District accounts.

An effective system of internal controls consists of policies, practices, and procedures that should provide some assurance that moneys received by District personnel are properly receipted and recorded, adequately secured on District premises, and deposited timely and intact. These controls could include the required issuance of a receipt for all fees collected, and, if no fee is collected, personnel should adequately document the reason, for example, by including the District issued launch pass identification number.

The Board failed to establish adequate internal controls by adopting policies, practices, and procedures over collections at the launch facility. Currently, launch personnel only issue a receipt when one is requested and launch personnel do not consistently record launch pass identification numbers. Additionally, launch fees collected by the launch attendants are forwarded to the Commissioner responsible for the launch facility and not kept on District property until it is deposited.

Due to these weaknesses, we reviewed launch collections recorded by launch personnel from January 1, 2010 through June 30, 2011, totaling approximately \$7,500, and found that receipts were not always issued for all collections, nor were all receipts deposited timely or intact. For example, while the total amount recorded as being collected appears to have been deposited eventually, launch records indicate that between May 27 and June 11, 2010 \$1,155 was collected

¹ The current secretary was hired in November of 2010.

by launch personnel. However, only \$910 was included in the deposit on June 14, 2010 and the remainder was apparently included in the next deposit, which did not occur until June 21, 2010, a week later. Further adding to the apparent control weaknesses, while waiting to be deposited, funds are either kept in unsecure locations on District property or in the possession of the Commissioner responsible for launch activity.

Given the lack of adequately established internal controls, such as issuing receipts for all collections, depositing timely and intact, or recording launch pass numbers of boats launched with no charge, we could not confirm that all fees collected by launch attendants were recorded and deposited in District accounts as required.

Currently, the secretary collects all fees for dock license permits and boat launch passes, records their receipt, and makes deposits. However, the secretary was unable to provide us with all of the District's copies of receipts issued during our audit period. Due to these missing financial records, we could not determine if all collections made by the secretary were appropriately recorded and subsequently deposited in District accounts.

Recommendation

1. The Board should adopt comprehensive policies and implement written procedures that govern the receipt of cash for all officers and employees of the District.

Dam Consultant

The General Municipal Law² (GML) requires that local governments adopt a policy for the procurement of goods and services when competitive bidding is not required; for example, payments for professional services, which are exempt from competitive bidding requirements. The policy should provide that alternative proposals or quotations be periodically solicited through requests for proposals, written or verbal quotations, or other similar method, except in limited circumstances. Once a contractor is selected, it is important that payment for services be based upon a duly executed written contract that clearly indicates the scope of services, the rate and manner of compensation, and the extent to which costs will be reimbursed upon presentation of suitable documentation.

The Board's procurement policy does not address soliciting proposals or quotations for professional service providers. Moreover, District officials did not solicit proposals or quotations for dam consulting services. According to one Commissioner, a former board member was selected as a dam consultant based on his knowledge of dam maintenance and operations he acquired while a District Commissioner.³ No one else was considered for the position and the position did not exist prior to his being hired. The only documentation of the consultant being hired was in the Board minutes of July 10, 2009. Although the consultant provided the Board with a list of services⁴ he could provide, a written contract between the District and the consultant could not be located by District personnel. Furthermore, the Chairman indicated he did not have a clear understanding of the consultant's job duties or qualifications. From January 2010 to June 2011, payments were made to the consultant totaling \$12,100⁵ without documentation of what services were actually provided.

By not soliciting proposals or quotations, District officials provide less assurance to taxpayers that they are obtaining services of the appropriate quality and cost, and protecting against favoritism, extravagance, fraud, or abuse. In addition, without written contracts, District officials are not in a position to effectively monitor the consultant's activity and ensure services were provided as expected.

² GML Section 104-b

³ The consultant served as a District Commissioner from May 21, 1999 to August 1, 2008.

⁴ Dated August 7, 2009

⁵ District officials budgeted \$8,000 for 2010 and \$8,200 for 2011, payable in two installments each year.

Recommendations

2. The Board should revise its procurement policy to address the solicitation of proposals or quotations from professional service providers.
3. District officials should seek competition for dam consulting services.
4. District officials should ensure that services are provided and payments are made in accordance with written contracts.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

Rushford Lake Recreation District

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January 14, 2012

Re: Rushford Lake Recreation District Audit, January 1, 2010 – August 5, 2011

Dear Mr. Meller:

Thank you for this opportunity to provide our response to the draft report of your audit of our district, entitled Internal Controls Over Cash Receipts and Consultant Services. We believe the audit results and recommendations will be valuable in assisting the RLRD Board in managing our office and boat launch operations more effectively.

As further background information to District operations, our five commissioners are unpaid volunteers who donate their time and energies on a part-time basis. Our Secretary is appointed by the Board and is paid an hourly wage for a part-time work week. Our Boat Launch Manager is a commissioner and is not paid for his services. The Boat Launch attendants are high school students who work on a part-time schedule and are paid at an hourly rate.

In late June 2011, we hired a full time Lake Manager to oversee district operations. He has been undergoing on the job training during this first year. Having this position has already proven to be an essential ingredient to the timely and effective management of the district.

We agree with the audit findings regarding cash receipts as well as the recommendation to adopt comprehensive policies and implement written procedures that govern the receipt of cash for all officers and employees of the District. Significant strides have already been made to shore up weaknesses in our handling of cash receipts in our office. The Board will address cash receipt concerns at the boat launch prior to the upcoming boating season.

We are also in agreement with the recommendation to revise our procurement policy to address the solicitation of proposals or quotations from professional service providers. A request for proposals (RFP) should have been a more proper course of action when the previous board selected a former commissioner as our Dam Consultant. Even with his unique knowledge and experience overseeing the maintenance of the Caneadea Dam, using the RFP process would have helped to diminish any questions regarding the selection process and provided greater assurance to our taxpayers that their money was being spent wisely.

Finally, we further agree that a written contract should have been entered into that stipulated the services to rendered and the remuneration to be paid. Effective January 1, 2012, dam consulting work is being paid on an hourly basis and subject to the oversight of our Lake Manager to insure work assigned is completed timely and satisfactorily.

This was the first audit by your office, since I have been a Board member (9/09) and Chairman (02/11). I welcomed your auditor, [REDACTED] hoping his experience and training would prove helpful in our ongoing effort to create a professional, organized, efficient District operation that has been lacking in many ways. He did not disappoint. We look forward to your final report to which we will respond with our Action Plan. I can be reached by telephone at [REDACTED] or email:
[REDACTED]

Sincerely,



Douglas E. Crandall
Chairman, Board of Commissioners

DC:dw

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by District 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: the Treasurer's records and reports, cash receipts and disbursements, purchasing, and payroll and personal services. During the initial assessment, we interviewed appropriate District officials, 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 upon the reported objective and scope by selecting for audit those areas most at risk. We selected cash receipts and consultant services for further audit testing. Our audit included various procedures to gather relevant evidence concerning our stated objective, including:

- We interviewed District officials and reviewed District policies and procedures to gain an understanding of the practices used to control, record, and monitor cash assets and transactions.
- We traced cash receipts recorded and made available to us by the secretary and launch personnel for the period January 1, 2010 through June 30, 2011 to deposits made, in an attempt to verify whether all cash reported as collected was deposited.
- We reviewed Board minutes from January 2010 through July 2011.
- We interviewed District officials and employees concerning agreements with and the job duties of the contracted dam consultant.

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. However, the secretary could not provide us with the certain cash receipts records necessary to complete our audit. Due to this scope limitation, we were unable to determine if all cash receipts have been recorded and deposited. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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