



Town of Allen

Town Clerk Receipts

Report of Examination

Period Covered:

January 1, 2010 — September 9, 2011

2011M-281



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2012

Dear Town 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 Town of Allen entitled Town Clerk Receipts. 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 Town of Allen (Town) was incorporated in 1823 and is a rural community located in Allegany County. According to the 2000 Census, the Town had a population of 462. The Town Board (Board) consists of an elected Supervisor and four elected Council members and is the legislative body responsible for overall Town operations. The Supervisor also serves as the Town's chief executive and chief fiscal officer. The elected Town Clerk (Clerk) serves as Clerk to the Board and issues and collects fees for licenses and permits.

The Town's general fund appropriations in the 2011 budget totaled \$132,960. The Town derives its revenue mainly from State aid, departmental fines and fees, and a tax levy on real property. The Clerk reported cash receipts totaling \$14,283 for 2010 and \$5,739 for the period January to August 2011.

Objective

The objective of our examination was to evaluate the Clerk's financial management practices. Our audit addressed the following related question:

- Are internal controls over the Town Clerk's financial activities appropriately designed and operating effectively to adequately safeguard cash receipts?

Scope and Methodology

We examined the Clerk's financial activities for the period January 1, 2010, to September 9, 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 Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they 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 Clerk's office.

Town Clerk Receipts

The Clerk is responsible for receiving, recording, depositing, disbursing, and reporting all moneys collected in an accurate and timely manner. It is essential for the Clerk to account properly for all transactions by issuing press-numbered duplicate receipts,¹ accurately recording transactions, and depositing receipts timely and intact.² The Board is required to audit the books and records of the Clerk on an annual basis. The Clerk collects cash receipts for a variety of items and services provided by the Town, County, and State, including fees for death certificates and marriage, hunting, fishing, and dog licenses.

Internal controls over the Clerk's financial activities were not appropriately designed or operating effectively to adequately safeguard cash receipts. The Clerk did not routinely issue duplicate receipts for transactions, prepare monthly accountability analyses, record all transactions accurately in the Clerk's accounting records, and did not deposit cash receipts intact or in a timely manner. In addition, the Clerk inappropriately intermingled her own personal financial business with the Town's financial business. Without adequate documentation of cash receipts and accurate accounting records, the Board cannot be sure that the Clerk is depositing all cash collections. The Board also did not provide adequate oversight over the Clerk's work and, as a result, it was unaware of discrepancies in the Clerk's accounting records and that the Clerk's account had a small shortage. Also, the Board did not document its audit steps and related results of its annual audit of the Clerk's records in the minutes of its proceedings.

Receipts and Records

Properly recording the amount and form of payment received (i.e., cash or check) and issuing a duplicate receipt for payments received enables Town officials to trace transactions from the point of collection through the accounting records to bank deposits and monthly reports. It is important that the Clerk prepares monthly accountability reports, which compare cash on hand and on deposit in the bank to a detailed list of liabilities. The Clerk must deposit all moneys collected intact so that Town officials can track cash receipts through the accounting records to the bank statements to ensure that all Town moneys collected are properly deposited. Not recording receipts that are paid

¹ A "duplicate" receipt is one that has more than one copy associated with each single receipt issued to a payer. For example, one receipt issued may have two copies associated with it: one given to the payer, and one retained by the payee. These duplicate copies allow the individual who paid the monies, and the entity that received the monies, to each retain a receipt as proof of that payment.

² Moneys collected must be deposited intact, that is, in the same order and form (cash or check) in which they were received.

by check and then substituting the unrecorded checks for receipts paid in cash is called substitution. Substitution allows daily recorded receipts to agree with the bank deposits, even though cash payments were taken from the original deposit.

The Clerk did not routinely issue a duplicate receipt for every transaction where no other evidence of receipt was available and did not always properly record cash receipts in her cashbook. The Clerk maintained evidence of transactions for Department of Environmental Conservation (DEC) computerized receipts and marriage and dog licenses, but issued receipts for other Town-related transactions only occasionally. Without adequate supporting documentation there is no way to determine that cash is properly recorded in the accounting records and that all moneys collected are accounted for.

The Clerk also did not prepare monthly accountability analyses. We used available evidence of receipts and bank deposit compositions to perform an accountability analysis as of September 9, 2011, and found that the Clerk deposited three checks totaling \$52, but did not record them in her cashbook, or report them on her monthly report.³ In addition, the Clerk did not issue duplicate receipts for these payments. The Clerk told us that she had overlooked adding these three cash receipts into her cashbook.

In addition, we analyzed the Clerk's monthly cash receipt activity during our audit period and found the following deficiencies:

- The Clerk did not properly record a \$120 payment in her cashbook. In January 2011, the Clerk's cashbook reflects a payment of \$38 in cash received from one individual for dog licenses. However, when we reviewed bank deposit compositions, we found that the individual had actually paid by check for \$120. The Clerk told us that this individual used the \$120 check to pay for a \$45 building permit, \$38 for dog licenses,⁴ and the remainder was intended to reimburse the Clerk for purchasing farm supplies totaling \$37 for the individual. The Clerk stated that she deposited this entire check and then deducted and retained for herself \$37 from other receipts of cash that she had not yet deposited.
- The Clerk routinely substituted her personal checks for cash collections. On 12 occasions from January 1, 2010, to September 9, 2011, the Clerk deposited personal checks totaling \$965, substituting them for cash collections. The Clerk told us that she did this because the Town did not

³ This created a small shortage of \$43 in the Clerk's account.

⁴ The Clerk recorded the payments for the building permit and dog licenses.

authorize her to keep a petty cash or change fund, so she used both Town cash collections and her own money to make change. Because the Clerk did not always issue receipts, Town officials cannot track whether the personal checks that the Clerk deposited to cover Town cash collections, retained in her personal change fund, truly reflected all of the Town's cash collections, or whether the Clerk had misappropriated a portion of the Town's cash collections.

- The Clerk did not deposit DEC receipts intact into the DEC account, but instead deposited only the amount that the DEC would withdraw from the bank account. To make this possible, she deposited cash and/or checks with smaller dollar amounts from DEC - transactions and/or her personal checks into the DEC account. For example, in April 2011, the Clerk collected \$222 in DEC cash receipts, but only deposited \$191 into the DEC account. Of the \$222 in DEC receipts collected, the DEC's portion totaled \$212, and the Town's portion was \$10. According to the Clerk, prior to April, the DEC bank account had an existing unidentified balance of \$21 and had she deposited all of the April 2011 DEC cash receipts into the DEC account, the account would have totaled \$243. Instead of depositing all \$222 into the DEC account, the Clerk deposited only \$191, bringing the total in the DEC account to \$212.⁵ Of the remaining \$31 of April 2011 DEC cash receipts, the Clerk told us that she paid the Town portion of \$10 to the Supervisor and retained \$21 of the DEC cash receipts for her change fund. The Clerk told us that she did this to clear out the unidentified balance of \$21 that had been in the DEC account for more than one year.
- The Clerk did not always deposit receipts in a timely manner. For example, on April 22, 2011, the Clerk had in her possession cash receipts totaling more than \$250, but she did not deposit them until May 4, 2011, which was eight business days later.

The ability of the Clerk to accept cash receipts without issuing duplicate receipts and recording them increases the risk that other receipts, especially those paid in cash, could be received and diverted for other than municipal purposes, rather than being properly recorded

⁵ This is DEC's portion of the April 2011 DEC collections. When the Clerk sells and prints a hunting license, these DEC receipts are automatically recorded in the DEC's electronic system. The Clerk is responsible for depositing DEC receipts into a designated bank account the Town has established for DEC deposits. Once per month, DEC withdraws only the portion of the cash receipts designated for DEC from that account. The Clerk must transfer the Town's portion into her Town Clerk bank account and remit this amount to the Town Supervisor by check.

and deposited. Because the Clerk is combining her personal business with the Town's business, there is a substantial risk that the Clerk could receive cash and not appropriately record and report it, and that Town officials would not detect it. When press-numbered duplicate receipts are not issued for all transactions and receipts are not correctly recorded in the accounting records, Town officials cannot track all cash receipt transactions and the risk of fraud increases.

Board Oversight

Because the Clerk's office is a one-person operation – which creates an inadequate segregation of duties where the Clerk could receive cash payments, fail to record the cash collections in the accounting records, and then misappropriate Town moneys without detection – it becomes essential for the Board to provide adequate oversight over the Clerk's work. Although the Board is required to examine the Clerk's records on an annual basis, it is important that the Board also periodically examines the Clerk's records to ensure that someone other than the person responsible for collecting and depositing money, and preparing records and reports, effectively reviews these activities. More frequent monitoring of the Clerk's financial activities further reduces the risk that errors or irregularities could occur and remain undetected. An annual audit gives the Board an opportunity to monitor its fiscal records and procedures. The audit of these records and reports serves an important internal control function by providing independent verification that the records have been maintained in accordance with established procedures, transactions have been properly recorded, and cash has been properly accounted for. It is important that the Board document in the minutes of its proceedings the activities it performs to carry out the mandated annual audit of the Clerk's records to verify that the records are accurate, the results of the audit, and any corrective action that the Clerk must take.

The Board did not provide adequate oversight over the Clerk's financial activities by periodically reviewing the Clerk's records. The Board also did not document its audit steps and related results of its annual audit of the Clerk's records. The Board minutes of February 2010 and 2011 indicated that the Board "approved the audit of the Town Clerk's receipt book." However, there was no evidence in the minutes or the Clerk's records to indicate what audit steps were performed, what the results were, and whether any corrective action was needed.

The Board told us that it had performed an annual audit of the Clerk's records. However, because the Clerk was not complying with Town Law regarding the accuracy and completeness of her accounting records, the Board could not perform an adequate audit of her records. In addition, without documentation of the Board's audit steps, results, and required corrective action in the minutes of its proceedings, Town

taxpayers do not have any assurance that the Board performed a thorough audit and communicated its findings to the Clerk so that she could take action.

Recommendations

1. The Clerk should issue press-numbered duplicate receipts for all Town transactions where no other form of receipt is available.
2. The Clerk should perform monthly accountability analyses.
3. The Clerk should properly record cash receipts in her cashbook.
4. The Board should ensure the Clerk addresses and resolves the shortage in her accounts.
5. The Clerk should deposit all moneys collected intact and in a timely manner.
6. The Board should consider providing a petty cash fund for the Clerk.
7. The Board should periodically examine the Clerk's records by reviewing the Clerk's monthly accountability report and comparing it against the Clerk's monthly report and bank statements.
8. The Board should document the audit steps and related results of its annual audit of the Clerk's records in the minutes of its proceeding.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF ALLEN

4949 Klein Rd

Fillmore, NY 14735

Phone: 585-567-8320

Judith Allen
Town Supervisor

Eric Brodman
Highway Superintendent

Councilmen

Donna Dorvit
Bonnie Leigh
Edgar Allen
Kevin Redman

April 19, 2012

**Office of the State Comptroller
Division of Local Government and School Accountability
Buffalo Regional Office
Robert Meller, Chief Examiner
295 Main St
Suite 1032
Buffalo NY 14203-2510**

**Re: Preliminary draft findings of recent examination
Town of Allen, Clerk**

In response to your draft audit report and corrective action plan (CAP), our Town Board has gone over the draft and concur there needs to be changes made.

The previous Clerk, Patricia Hopkins, is no longer available for comment. She has moved out of the State.

We have, however, discussed the recommendations at our Board meeting and with our current Clerk. It is agreed that all 7 of the 8 recommendations will be acted upon immediately. Unfortunately, recommendation #4 cannot be accomplished due to the fact we no longer have contact with previous Clerk.

The following will be in effect immediately:

- 1. The Clerk will issue press-numbered duplicate receipts for all Town transactions**
- 2. The Clerk will perform monthly accountability analyses.**
- 3. The Clerk will properly record cash receipts in her cashbook.**
- 4. (see above)**
- 5. The Clerk will deposit all moneys collected intact and in a timely manner.**
- 6. The Board will provide a petty cash fund for the Clerk.**
- 7. The Board will periodically examine the Clerk's records by reviewing the Clerk's monthly accountability report and comparing it against the Clerk's monthly report and bank statements.**
- 8. The Board will document the audit steps and related results of it's annual audit of the Clerk's records in the minutes of it's proceeding.**

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If there is any other information you may need, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Judith Allen".

Judith Allen
Town Supervisor

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 Town 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, and payroll and personal services. During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions, and reviewed pertinent documents, 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 the Clerk's management of cash receipts.

We performed the following procedures:

- We interviewed appropriate Town officials and employees to gain an understanding of the internal control policies and procedures relating to the Clerk's management of cash receipts.
- We reviewed daily cash receipts recorded in the Clerk's cashbook for the months selected for audit to determine if they were receipted, recorded, reported accurately on the Clerk's monthly report, and deposited intact and in a timely manner.
- We performed a cash count and an accountability as of September 9, 2011, to determine the amount of cash and checks that the Clerk had on hand since her last bank deposit for comparison to the cash receipts journal.
- We obtained compositions of deposit for all deposits during our audit period to determine if the deposits were made intact and in a timely manner.
- We reviewed the minutes of the Board's meetings and the Clerk's records for evidence of the Board's annual audit of her records and books.

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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Steven J. Hancox, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

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