



Town of Hannibal

Internal Controls Over Cash Receipts

Report of Examination

Period Covered:

January 1, 1010 — May 31, 2011

2011M-245



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 Town 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 Hannibal, entitled Internal Controls Over Cash 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 Hannibal is located in Oswego County and has a population of approximately 4,850. The Town contains the incorporated Village of Hannibal. The Town Board, composed of five members, is the legislative body responsible for the general management and control of the Town's financial and operational affairs. The Town provides various services to its residents, including street maintenance and improvement, parks and recreation, water, lighting and general government support. The Town's operating expenditures for 2010 were approximately \$1.6 million. These expenditures were primarily funded with revenues from local property and sales taxes, State aid, water rents and Town Court revenues. The Town employs 30 officials and employees.

The Town Supervisor (Supervisor), who is a member of the Board, has the overall responsibility for the receipt of Town moneys, the accounting records, and for providing financial reports to the Board. The Supervisor has appointed a bookkeeper to assist him with these responsibilities. The Bookkeeper, who is also the Town Clerk and the Clerk-Treasurer for the Village of Hannibal, performs most of the day-to-day financial operations. Her responsibilities include receiving Town moneys, maintaining the Town's accounting records, preparing and distributing monthly financial operating reports to the Board and department heads, and preparing and filing annual financial reports.

Objective

The objective of our audit was to examine internal controls over the Town Clerk's cash receipts process. Our audit addressed the following related question:

- Are internal controls over cash receipts for which the Town Clerk is responsible appropriately designed and operating effectively to adequately safeguard Town assets?

Scope and Methodology

We examined internal controls over cash receipts for the period January 1, 2010 to May 31, 2011. We expanded our review of bank reconciliations to July 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.

**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 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 Town Clerk's office.

Cash Receipts

Board members should provide effective oversight of those charged with handling public moneys, and ensure an adequate segregation of financial duties so that the work of one employee is verified in the course of another employee's regular duties. If it is not practical to segregate financial duties, the Board should establish compensating controls such as reviews of activity and transactions by supervisory personnel including an annual Board audit.

The Town has annual revenues of \$1.6 million. The Town Clerk, who is also the bookkeeper to the Supervisor, has cash receipt duties that are not segregated and there are no compensating controls. Furthermore, the Town Clerk should not hold the position of bookkeeper to the Supervisor because the two positions are incompatible. The positions have functions that serve as checks against one another that do not exist unless they are performed by separate individuals. As a result, there is an increased risk that the Town Clerk could misappropriate funds and conceal transactions from Town officials.

Segregation of Duties

An effective internal control system over cash receipts includes procedures to ensure that cash transactions are properly documented, and recorded, and that cash is safeguarded to prevent loss or theft. It also consists of effective management oversight of those charged with handling public moneys, and the segregation of financial duties so no one individual can control all aspects of financial transactions. For example, the same employee should not collect and deposit cash, and record transactions in the accounting records.

The Town Clerk's duties are not segregated. She receives cash from the Supervisor and cash payments directly from customers and taxpayers by mail or in person. The Town Clerk records receipts into the accounting records, enters adjusting journal entries, and prepares and makes the deposits. She also receives the bank statements and performs the bank reconciliations. These duties are incompatible because they would allow the Town Clerk to misappropriate funds and conceal transactions from Town officials.

The Supervisor told us that he reviews journal entries, and budget to actual reports, and may recognize whether a cash receipt he gave to the Town Clerk was not recorded in the accounting records. However, the Supervisor does not maintain a log of cash receipts received by him, and his review of journal entries and budget to actual reports does not ensure that recorded receipts were deposited into the bank. The Supervisor also told us that he does not review the accuracy of

bank reconciliations performed by the Town Clerk but does scan bank statements¹ about every other month. For cash received directly by the Town Clerk and given to her by the Supervisor, no one compares the cash she enters into the accounting records to the bank statements to ensure receipts were deposited timely and intact.

The same person should not hold both the positions of Town Clerk and bookkeeper to the Supervisor. Certain functions of the Town Clerk's office and the Supervisor's office provide checks against one another when they are performed by separate individuals. For example, the Town Clerk records the audit and allowance of claims by the Town Board in its official meeting minutes and prepares and files abstracts of audited claims directing the Supervisor to pay them. The Town Clerk, as Bookkeeper to the Supervisor, also records the payment of claims into the Supervisor's accounting records. Additionally, the Town Clerk, on a monthly basis, remits certain fees of that office to the Supervisor. In her capacity as bookkeeper, the Town Clerk records the receipt of such fees for the Supervisor.

The Supervisor told us that he and the other Board members are aware of the insufficient segregation of the Town Clerk's duties. Although he believes that his review of journal entries, budget to actual reports, and Town Supervisor bank statements are adequate compensating controls, they are not. For example, the Supervisor's review does not include a comparison of cash in the accounting records to the bank statements.

Revenues

The Town has annual revenues of \$1.6 million. The Clerk is responsible for ensuring tax receipts and water rents are properly billed, and that all revenues are recorded and deposited upon receipt. We reviewed tax, water rent and Supervisor's receipts and found that they were correctly reflected in the Town's records.

For example, we traced the 2011 tax levy of about \$983,000, and 2010 tax levy of about \$975,000, from the budgets to the revenues in the accounting records and to the bank deposits. We also verified that total tax penalties and interest as recorded in the tax payment registers, \$7,537 in 2011 and \$6,406 in 2010, were deposited and appeared reasonable as compared to amounts collected in previous fiscal years. In addition, we verified that the amount of each water rent payment register during the audit period, a cumulative total of \$48,264, was properly recorded as revenue in the accounting records and deposited in the bank. We also selected 30 individual customers from meter reading sheets and verified that water usage

¹ The Supervisor does not review either of the Town Clerk's bank statements showing the receipts and disbursements of Town Clerk funds and real property taxes.

and associated charges totaling \$1,893, during one quarterly billing, were correctly reflected in the billing and payment registers and the individual customer accounts.

The Supervisor's receipts include revenues from State aid payments, payments from Oswego County including sales tax, reimbursement for snowplowing, and monthly remittances from the Justice Court. We verified that the Town Clerk properly recorded and deposited \$602,182 in expected revenues. We also traced quarterly franchise fees totaling \$24,240 from the quarterly statements to deposits in the bank and verified general journal entries for the audit period. We identified 21 other miscellaneous revenue transactions totaling \$225,720, and verified that these revenues were correctly deposited.

The Town Clerk also receives moneys in her capacity as Town Clerk and turns them over to the Supervisor on a monthly basis.² We reviewed six month's worth of sales transactions, totaling \$14,285, which were recorded in revenue journals to determine whether these revenues were deposited. We also reviewed all 111 building and zoning permit applications during the audit period, totaling \$10,696, to determine whether the Town Clerk recorded these sales in the revenue journals.

Although our tests of revenue collections identified no exceptions, concentrating key duties (e.g., collecting, receipting, recordkeeping, and depositing) with one individual significantly increases the risk that errors and irregularities might occur and go undetected and uncorrected. Given the poor segregation of duties, it would be possible for the Town Clerk to accept checks and currency, not deposit all funds in the bank, and make adjusting journal entries into the accounting records (or no journal entries at all) for the funds received.

Bank Reconciliations

Cash balances recorded in the general ledger must be periodically reconciled to the amount of cash in the bank. Any differences must be promptly documented and resolved to ensure that financial activities are accounted for in a proper and timely manner, and that cash is safeguarded. It is important for the Board to review the accuracy of the reconciliations to ensure that all discrepancies are resolved.

We found the Town Clerk was not performing an adequate bank reconciliation for the trust and agency account. We identified numerous errors over the entire audit period including on-line debits and wire transfers for payroll withholdings that were not recorded

² Revenues include the sale of hunting, fishing, dog, and marriage licenses; building and zoning permits; and copies of official documents.

as a reduction in the general ledger cash account, errors in recording deposits in transit, and a failure to maintain outstanding checklists.

The Clerk entered an adjusting entry at the end of July 2011 to reduce the general ledger cash account by \$6,644 to force the trust and agency cash account to agree with the adjusted bank balance at July 31, 2011. Due to this difference, we reviewed all trust and agency bank statements and canceled checks during the audit period. Although we found no improper or unusual activity, the Town Clerk's failure to properly reconcile and resolve trust and agency bank account discrepancies increases the risk that errors or irregularities could occur and go undetected.

Bank Deposits

Town Law requires the Town Clerk to deposit moneys received in her capacity as Town Clerk no later than the third business day after total collections exceed \$250. The Clerk should document the composition of the receipt, either cash or check.³ This information should follow the receipted cash through to the deposit in the bank, which should be documented by a detailed deposit slip. It is important that collections be deposited intact and that detailed records and deposit tickets be maintained for verification purposes.

However, we found that the Town Clerk deposits revenues only once a month, at the beginning of the succeeding month. As a result, collections accumulate in excess of \$250 and therefore are not deposited within the timeframes stipulated in law. Table 1 shows the amounts and dates of deposit for the six months we reviewed.

Cash Book Monthly Report	Amount Deposited (lump sum)	Date of Deposit to Town Clerk's Bank Account
March 2010	\$1,472	April 2, 2010
April 2010	\$2,659	May 3, 2010
August 2010	\$3,510	September 1, 2010
October 2010	\$4,442	November 1, 2010
February 2011	\$638	March 2, 2011
April 2011	\$1,564	May 2, 2011

In addition, there was no indication on the cash book transactions report whether cash or checks were received, and copies of detailed deposit tickets were not maintained. As a result, the Town Clerk could not demonstrate that deposits were made intact. The failure

³ Documenting the composition of the receipt allows a third party reviewer to determine whether deposits are made intact, defined as the same form in which the money was received.

to deposit collections timely and intact increases the risk that cash receipts could be lost or stolen.

Annual Audit

Town Law requires the Board to annually audit, or provide for the audit of, the records and reports of any Town officer or employee who received or disbursed moneys on behalf of the Town in the preceding fiscal year. An annual audit helps the Board fulfill its fiscal oversight responsibilities by providing an opportunity to assess the reliability of the books, records, and supporting documents. An annual audit is particularly important in smaller operations which may not have an adequate system of controls because employees are required to perform duties that should be segregated.

The Board did not perform, or provide for, annual audits of the records of the Supervisor, Town Clerk, or the Justice Court for fiscal years ended 2009 or 2010. The Board's reorganizational meeting minutes state that it has reviewed and audited the Town Supervisor's records and Town Justice's records for the year. However, Board members told us that the annual audit consists of reviewing the monthly financial reports, including the budget to actual reports, journal entries, and trial balances, which were already reviewed in previous monthly meetings, and also the annual review of bank statements. Board members told us that they believed that their review satisfies the annual audit requirement. However, their review is inadequate because the intent of the annual audit is for the Board to gain an understanding of operations and determine whether financial records are up-to-date, transactions are recorded properly, accountability is computed monthly, and required reports are timely and accurate.

The Board did not realize that the annual audit is intended to be a more thorough and deliberate process. Without an annual audit, Town officials are at risk of mishandling public moneys and failing to detect and correct errors, irregularities, or fraudulent activity in a timely manner.

Recommendations

1. The Supervisor should designate a person other than the Town Clerk as the bookkeeper to the Supervisor.
2. The Board should segregate the bookkeeper to the Supervisor's duties so that one person does not control all aspects of the cash receipts process. Where it is not feasible to adequately segregate duties, Town officials should establish compensating controls such as having a Board member routinely compare cash balances in the accounting records to the bank statements.
3. The Supervisor should create and maintain a log of cash receipts for comparison to the deposits made in the bank statements and in the accounting records.

4. The bookkeeper to the Supervisor should investigate and resolve any discrepancies identified during the reconciliation of the Town's bank accounts.
5. The Board should review the accuracy of the monthly bank reconciliations performed by the bookkeeper to the Supervisor to ensure all discrepancies are resolved.
6. The Town Clerk should deposit Town Clerk receipts no later than the third business day after total collections exceed \$250.
7. The Town Clerk should record the form of each deposit (cash or check) and keep the detailed deposit tickets on file.
8. The Board should annually audit, or arrange for an audit of, the records and reports of all Town officials and employees who receive or disburse money during the fiscal year.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF HANNIBAL

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January 31, 2012

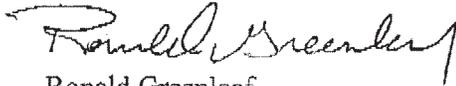
Office of the State Comptroller
Rebecca A. Wilcox Chief Examiner.
333 E. Washington St. Room 409
Syracuse, NY 13202

RE: Audit reply

Dear [REDACTED],

Thank you for being courteous and helpful during the audit process.
We appreciate your concerns and will be working on your recommendations.

Sincerely,



Ronald Greenleaf
Supervisor
Town of Hannibal

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1400 Independence Ave, S.W. Washington, DC 20250-9410 or call (800) 795-3272
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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to examine internal controls over the Town Clerk's cash receipts process. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures.

- We interviewed the Town Clerk and Supervisor to gain an understanding of the internal controls surrounding cash receipts and to determine how cash was collected, entered into appropriate forms, recorded in the accounting records, and deposited. We also interviewed Board members to gain an understanding of the procedures performed in completing the annual audit.
- For tax receipts, we traced the 2011 tax levy of about \$983,000, and 2010 tax levy of about \$975,000, from the respective budget to the tax warrants, the revenues entered in the accounting records and the bank deposits. We also verified that total penalties and interest recorded in the tax payment registers, totaling \$7,537 in 2011 and \$6,406 in 2010, were deposited and appeared reasonable compared to the amounts collected in previous fiscal years.
- For water rents, we verified that the amount of each payment register during the audit period, totaling \$48,264, was properly recorded as revenue into the accounting records and was deposited into the bank. We selected 30 individual customers, from the meter reading sheets of one randomly selected quarterly billing, to verify that water usage for each customer agreed to the billing register, and to verify that total charges of \$1,893 from the billing register were correctly reported in the payment registers. We also verified that the water usage, and associated charges, were properly reported in each individual account record. Our customer sample included every 10th customer listed in the meter reading sheets, or 26 customers in total, and the customer account records for the Town Clerk, Supervisor, Deputy Town Clerk, and Chief Water Operator. We reviewed each customer account record for the audit period to verify that any adjustments to user charges were adequately explained and approved.
- For Supervisor receipts, we obtained a list of payments made to the Town Supervisor from New York State, Oswego County, and the Town Justices, and traced the payments to the Town's accounting records and deposits on bank statements. These revenues, totaling \$602,182 during the entire audit period, included sales tax totaling \$261,975 and snow plowing reimbursements totaling \$157,342, Justice Court fines and penalties of \$118,610, and State aid totaling \$64,255. We also reviewed the general journals for the audit period and identified 21 receipt transactions, totaling \$225,720, which were not included in our review of revenues above, and verified that these recorded revenues were deposited into the bank by the Town Clerk. These revenues included additional grants and State aid of \$185,498, mortgage tax of \$21,562, reimbursement from the Town's water district of \$13,529, sale of recyclable material of \$1,949, refunds and rebates of \$1,168, reimbursement for service provided to the Village of Hannibal of \$1,037, a total of \$977 in dog fee apportionments from Oswego County, a donation, and an insurance recovery. We traced in utility franchise fees totaling \$24,240 from quarterly statements.

- For Town Clerk's receipts, we reviewed six month's worth of sales transactions, totaling \$14,285, that were recorded in revenue journals, to verify that the funds were deposited into the Town Clerk's and Supervisor's bank statements. We selected one month per quarter of these revenue journals during the audit period. We selected these months with no expectation of more or fewer errors occurring in any particular month of the audit period. We further examined these revenue journals by tracing the following point-of-sale transactions recorded on receipt forms and register tapes during the month to the journals: \$5,194 in hunting and fishing licenses, \$1,983 in dog licenses, and \$1,200 in marriage licenses.⁴ We reviewed all building and zoning permit applications for the entire audit period, or 111 applications totaling \$10,696, to verify that the Town Clerk recorded these sales in the revenue journals.
- For the Town's trust and agency bank account reconciliations, we compared the general ledger detail of the trust and agency cash account to each transaction listed in the bank statement from December 2010 to July 2011. Based on this comparison, we calculated the totals for outstanding checks and deposits in transit, and compared the adjusted bank balances to the balances reported in the Town's general ledger cash account. We reviewed the trust and agency bank statements and canceled checks from January 2010 to July 2011 to ensure no improper or unusual activity occurred.⁵

We conducted our 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.

⁴ The remaining revenues in our six-month sample were for building and zoning permits; however, we selected all building and zoning permits during the audit period for further testing.

⁵ Unusual activity could include checks payable to Town employees, in-bank withdrawals, phone transfers other than to Town accounts, or debit transactions not for payroll withholdings.

APPENDIX C

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