



Town of New Scotland Internal Controls Over Transfer Station Collections

Report of Examination

Period Covered:

January 1, 2010 — October 31, 2011

2012M-45



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 New Scotland, entitled Internal Controls Over Transfer Station Collections. 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 New Scotland (Town) is located in Albany County. The Town covers 58 square miles and has a population of almost 9,000 residents. During the 2010 fiscal year, the Town had 27 full-time and 42 part-time employees.

The Town Board (Board) is comprised of four elected council members and an elected Town Supervisor (Supervisor). The Board is responsible for overseeing the Town's operations, finances, and overall management. The Supervisor, who serves as the Town's chief fiscal officer, is responsible for overseeing the financial management of the Town's moneys. The Town's Highway Superintendent is also an elected official and is responsible for overseeing highway operations, Highway Department employees, and two part-time transfer station attendants.

The Town provides various services to its residents, including highway, water, sewer, refuse and recycling, recreation, and general government support. For the 2011 fiscal year, the Town's budgeted expenditures were \$5.4 million for the general and highway funds, which were financed primarily by real property taxes and sales tax.

Objective

The objective of our audit was to examine the internal controls over transfer station collections. Our audit addressed the following related question:

- Are internal controls over collections at the Town's transfer station appropriately designed and operating effectively to adequately safeguard Town assets?

Scope and Methodology

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 a review of Board oversight and monitoring and evaluations of the following areas: financial condition, governing board, chief financial officer,¹ payroll, information technology, real property taxes, Town Clerk, justice court, Highway Department, and water and sewer charges. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the area of transfer station collections and, therefore, we assessed

¹ The review in this area included evaluations of cash receipts and disbursements, accounting records, banking, and claims processing.

the controls over transfer station collections for the period January 1, 2010, to October 31, 2011. We expanded the scope of our audit to review disposal trends for the period January 1, 2008 to December 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 agreed with our recommendations and indicated they planned to take 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.

Transfer Station

The Board is responsible for establishing adequate internal controls to properly safeguard the Town's assets, especially cash. It is important for the Board to establish policies and procedures to provide reasonable assurance that cash transactions are properly executed, accurately recorded, and appropriately reviewed and documented. The Board also must provide sufficient oversight of those officers and employees who receive cash.

The Town provides refuse and recycling services (i.e., trash collection) to its residents through a third-party contract. The Town also operates a transfer station for residents to use to dispose of various materials² for established fees. The transfer station is open Saturdays year round, and Wednesdays from May through September. The Town employs two part-time attendants at the transfer station to determine charges, based on a Board-adopted fee schedule, and receive payments during the hours of operation. Over the past four years (2008 through 2011), the Town received average annual transfer station revenues in excess of \$28,000. Board-adopted rules and regulations, along with the fee schedule, are available on the Town's website and at the Town Hall.

We found that the Town could improve its controls over cash collections, the inventory of cash receipts and permits, and the physical security of cash and unused receipts and permits. Although procedural improvements were made during our audit period to improve accountability, additional measures should be taken. There is an inherent risk in this area that Town moneys could be misused without detection or correction.

Cash Receipt Process

A well-designed system of internal controls over cash receipts consists of policies and procedures that provide for timely supervision of those charged with handling moneys, and the issuance of duplicate press-numbered receipts in sequence for all cash collections. Additionally, when employees remit cash collections to other departments for deposit, they should provide adequate documentation to support the cash collections and obtain a receipt from the department to document transfer of the money. It is essential that a comparison of the amounts deposited with the amounts collected also be made, including a review of the receipt sequence.

² Acceptable items include tires, furniture, appliances, metal, construction debris, and other miscellaneous items

The Board has not adopted cash collection policies and procedures for transfer station operations. The Town's transfer station attendants are responsible for collecting fees for permits³ issued and materials disposed of at the transfer station. Prior to February 1, 2011, moneys collected at the transfer station were remitted to one of the highway clerks who would reconcile the cash remitted with the duplicate receipt forms and then send it to the Town Supervisor's clerk for deposit. However, because the highway clerks did not issue receipts for the moneys received from the attendants, there was no documented proof of the transfers. As of February 1, 2011, moneys collected at the transfer station are transmitted to the Town Clerk (Clerk), rather than one of the highway clerks, on a weekly basis for deposit. Upon transmittal, the Clerk counts the money and issues a receipt generated from her system to the attendant. The Clerk then deposits all moneys collected whether it is from the attendant or residents.

Even though procedural changes were made that improved accountability over cash, opportunities for improvement still exist. For example, the Board did not require subsequent reviews to ensure that collections agreed with deposits and receipts were sequentially issued. As such, there is an increased risk that cash could be misused.

Receipt Inventory

General Municipal Law requires every officer or employee who receives payment of money for or on behalf of a local government to issue a receipt to the person paying, when no other evidence satisfactory for the purpose of audit is available. The statute also requires that the officer or employee retain a copy of the receipt. The receipt and copy must be numbered consecutively and issued in sequence. Additionally, it is essential to maintain an inventory of receipt forms ordered and issued. An accurate inventory is an effective tool that allows Town officials to ensure that all duplicate receipt forms are accounted for and helps Town officials monitor sales more effectively.

Periodic reconciliations can help detect gaps or missing receipt forms in a timely manner. For example, Town officials could review the office copies of receipt forms to ensure the sequence is intact and identify any gaps or missing receipt forms. Officials could also compare the sequence to inventory logs. The documentation of such reconciliations helps to ensure that Town officials and employees are appropriately addressing any identified errors or irregularities.

³ Pre-numbered sticker permits are issued for a 3-year period at \$5 each. The Town Clerk (Clerk) also issues permits at the Town Hall.

⁴ Subsequent to our audit period

Prior to August 2011, unused receipt books were held by the highway clerks in a locked closet at the Town Hall. New books were given to the attendants upon request; however, such issuance was not documented. The Town lacked policies and procedures to provide guidance over the use of receipts, and there was no inventory maintained of duplicate receipts ordered and issued. Receipt numbers were not tracked from stock through issuance and there were no reconciliations or other reviews performed. However, as of August 2011, the Clerk took custody of the unused receipt books and maintains a log of the books issued. As of November 2011,⁴ the bookkeeper also began tracking numbers of the duplicate receipts forms turned in.

Maintaining inventory records and performing periodic reconciliations helps ensure that all receipt forms issued have been accounted for. A pattern of missing receipts is a red flag that should be investigated as it may indicate that funds have been stolen and the receipt destroyed to hide the theft. The failure to review the receipt sequence increases the risk of missing receipt forms and also makes it more likely that Town officials will not detect errors and/or irregularities in a timely manner.

Permit Inventory

A well-designed system of controls over transfer station cash receipts requires that the Board establish policies and procedures that provide for the issuance of transfer station permits in sequence. Additionally, it is essential to maintain an inventory of all permits that are ordered, issued, and sold. An accurate inventory is an effective tool that allows Town officials to ensure that all permit sales are accounted for and helps Town officials monitor permit sales more effectively.

Furthermore, periodic reconciliations can help detect errors or irregularities in a timely manner. It is important to verify the accuracy of records, including inventory records, and establish control over cash by reconciling permits monthly or more frequently. For example, permit stock issued to the attendant should be reconciled to permits sold and those still in his possession. The documentation of reconciliations helps to ensure that Town officials and employees are appropriately addressing any identified errors or irregularities.

The Town lacks policies and procedures that help to ensure that transfer station permits are issued in sequence. Prior to August 2011, permits were held by the highway clerks in a locked closet at the Town Hall. New stock was given to the attendants upon request in sequential groups of 25; however, stock issuance was not documented. When residents obtain a permit, they document their name, address, license plate information, issuance date and permit number on a Town form. The form has space for eight permits on each side. Town employees informed us that, when the form is filled

up completely (i.e., all 16 spaces filled out), it is remitted to the Clerk's office. The information from the form had previously been entered into the Clerk's system. However, there were no reviews or reconciliations of the information to the issued permits to ensure proper accountability.

We found that there was no inventory maintained of permits on hand, issued, and sold. Other than the permit form, which documented permits issued to residents, permit numbers were not tracked from stock through issuance through payment, and there were no reconciliations or other reviews performed.

Maintaining inventory records and performing periodic reconciliations helps ensure that all permits issued have been properly accounted for. The failure to reconcile permits increases the risk of unauthorized use or disposition of cash and makes it more likely that Town officials will not detect errors and/or irregularities in a timely manner.

Physical Security

The Board is responsible for establishing policies and procedures that address security over Town assets.⁵ Securing cash includes limiting unauthorized access. Undeposited cash must be secured in a vault or other locked storage media until deposited in the bank. Access to the vault or other storage media must be restricted. When cash is not secured, there is an increased risk of loss or misuse. It is also important to secure unused receipt forms and unissued permits. Throughout the audit period, while in the custody of the transfer station attendant, transfer station fees were held unsecured in the attendant's truck. In addition, unused receipt forms and permits in the attendants' possession were also unsecured. This occurred because the Board has not established policies or procedures to provide adequate security over these Town assets. The lack of adequate security increases the risk that assets will be lost, misused, or stolen.

As a result of the control weaknesses regarding the transfer station, we judgmentally selected and tested eight months⁶ of transfer station activity to determine if receipts were recorded in a timely manner and deposits were intact and timely. We found that all tested receipts were recorded in a timely manner and that all deposits were intact and made timely. However, our review disclosed a number of related errors and discrepancies. For example, on seven occasions, permits shown as issued per the permit form had no documentation identifying the issuance of a receipt; receipts were not issued for fees

⁵ Besides cash collections, assets may also include permits, receipts (blank and issued), and scrap being held for resale.

⁶ Our non-biased judgmental sample of eight months of activity included 57 transactions totaling \$14,280.

in two instances; and two permits were each documented as having been issued twice. These issues were discussed with Town officials. Due to the weaknesses identified throughout this report, there is an increased risk that Town moneys could be misused without detection or correction.

Recommendations

1. The Board should establish a comprehensive transfer station cash receipts policy that communicates the duties, records, and procedures required for ensuring that cash transactions are properly recorded, processed, and accounted for.
2. The Board should provide oversight for the collection of transfer station fees or implement compensating controls to ensure collections agree with deposits and receipts are issued sequentially.
3. Town officials should maintain an accurate inventory of all receipt forms on hand and issued. Someone independent of the transfer station cash receipts process should periodically review the cash receipts inventory records and inventory of cash receipts on hand. Any discrepancies should be promptly identified and resolved.
4. Town officials should maintain an accurate inventory of all permits on hand, issued, and sold. Someone independent of the transfer station cash receipts process should periodically review the permit inventory records and inventory of permits on hand. Any discrepancies should be promptly identified and resolved.
5. Town officials should ensure that undeposited cash is secured until deposited, and that unused permits and blank receipts are stored in a secured, locked environment.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

TOWN OF NEW SCOTLAND

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VIA FIRST-CLASS MAIL & ELECTRONIC MAIL

July 13, 2012

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
Glens Falls Regional Office
1 Broad Street Plaza
Glens Falls, New York 12801- 4396

RE: Internal Controls over Transfer Station Collections,
Report of Examination 2012M-45

Dear Mr. Leonard,

We are in receipt of your Audit Report of the Town of New Scotland for the period from January 1, 2010 to October 31, 2011. We are pleased to be notified that except for the Transfer Station operation, you determined that our internal controls are adequate and that the risk that exists in most of the financial areas you reviewed is limited. You advised that you evaluated the following areas: financial condition, governing board, chief financial officer, payroll, information technology, real property taxes, Town Clerk, Justice Court, Highway Department, and water and sewer charges.

The Town Board accepts your findings with respect to the weakness of the controls previously in place at the Transfer Station. The Board will continue to develop controls and will submit a written corrective action plan outlining changes in procedure the Board intends to make to remedy the weaknesses that have not already been corrected.

Very truly yours,

Thomas E. Dolin
Town Supervisor

Phone: (518) 439-4889 ♦ Fax: (518) 439-8554 ♦ TDD: (800) 662-1220

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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. In order to accomplish this, we performed an initial assessment of Town operations 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 condition, governing board, chief financial officer,⁷ payroll, information technology, real property taxes, Town Clerk, justice court, Highway Department, and water and sewer charges.

During the initial assessment, we interviewed Town officials and employees, performed limited tests of transactions, and reviewed pertinent documents such as adopted policies and procedures, 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 inherent control risks. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit the area most at risk. We selected transfer station collections for further audit testing.

To accomplish our audit objective:

- We interviewed Town officials and employees to obtain an understanding of internal controls.
- We reviewed annual and monthly revenues to document trends.
- We reviewed transfer station disposal records for the period January 1, 2008, to December 31, 2011.
- We reviewed permit forms, receipts, accounting records, deposit slips, and bank statements to ensure receipts were recorded completely in a timely manner and deposits were intact and timely.
- We also visited the transfer station to assess the physical controls in place.

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.

⁷ The review in this area included evaluations of cash receipts and disbursements, accounting records, banking, and claims processing.

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