



# Town of Waverly

## Internal Control Over Selected Cash Receipts

### Report of Examination

Period Covered:

January 1, 2010 — October 31, 2011

2012M-20



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **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 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 Waverly, entitled Internal Controls Over Selected 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 Waverly is located in Franklin County, New York, and has approximately 1,020 residents. The Town Board (Board), which is the legislative body of the Town, consists of the Town Supervisor (Supervisor) and four council members. The Board is responsible for overseeing the Town's operations and finances, including adopting the annual budget and developing policies and procedures. The Town Supervisor is both the chief executive and chief financial officer of the Town and is elected for a two-year term.

The Town provides various services to its residents including maintaining and improving Town roads, snow removal, public improvements, and general government support. Additionally, the Town provides water and sewer services which generated \$43,159 and \$95,142, respectively, during our audit period. The Town also owns property along the St. Regis River which is divided into lots that generated approximately \$100,000 in rental revenue during our audit period. Further, the Town owns and operates a campground which generated revenues totaling \$140,062 during our audit period. The Town's budgeted appropriations for the 2011 fiscal year were approximately \$1.3 million, funded primarily with real property taxes, user charges, campsite fees, real property rental and State aid.

## Objective

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

- Are internal controls over cash receipts from water and sewer user charges, concession, and campsite rentals appropriately designed and operating effectively to adequately safeguard Town assets?

## Scope and Methodology

We reviewed the Town's cash receipt procedures for the period January 1, 2010, to October 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.

## Cash Receipts

The Board is responsible for establishing written policies and procedures for cash receipts and rent collections that address the duties, records, procedures and oversight required to safeguard Town funds. It is important for the Board to ensure employees' duties are segregated so that no single individual controls most or all phases of a transaction. The concentration of key responsibilities (i.e., billing, collecting receipts, recording the related transactions, and having access to assets) with one individual significantly increases the risk that errors or irregularities could occur and remain undetected and uncorrected. Therefore, it is important that those who record receipts do not collect payment, prepare deposits, and maintain customer accounts. When circumstances do not permit for an adequate segregation of duties, the Board must ensure that Town officials provide mitigating controls, such as management oversight.

The Town lacked comprehensive written policies and procedures to provide adequate guidance and internal controls over cash receipts from water and sewer rents, property concessions, and campground collections. As a result, the Town had informal procedures that allowed for individual employees to collect, record, and deposit receipts, without any segregation of duties. Town officials did not provide additional oversight to mitigate this control weakness and did not ensure that all rent collections were being billed in accordance with established rates, that late payment penalties were properly applied, or that delinquent water and sewer accounts were properly re-levied.<sup>1</sup> Finally, Town officials could not ensure that all moneys collected from campsite operations were properly receipted and deposited.

Water and Sewer – The Town provides water and sewer services to the residents of the Town. The Town generated \$43,159 in water rent revenues and \$95,142 in sewer rent revenues during our audit period. The Tax Collector controlled the entire water and sewer billing, collecting, depositing and recording process. She billed and collected water and sewer rents, issued receipts, recorded all of the transactions into the user accounts, and prepared and made the bank deposits with little or no oversight. Furthermore, there was no oversight of the billing process. For example, the Board never reviewed and approved the semi-annual water and sewer billings or requested a list of the delinquent water and sewer accounts that were prepared by the Tax Collector for re-levy. As a result, the Board could not be assured that the water and sewer billing registers were accurate and complete.

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<sup>1</sup> Delinquent water and sewer rents can be collected by the Town through the property owner's tax bill, also known as a re-levy.

We also found that the Town did not maintain water or sewer rent receivable accounts (control accounts) for tracking rents in their accounting records. They only record rents receivable at year-end for the uncollected amounts added as a re-levy on the property taxes. The lack of a rents receivable account prevents Town officials from tracking the outstanding balance of rents that have been billed but not received throughout the year and the ability to reconcile to the individual user accounts (detail accounts) maintained by the Tax Collector. Any variances or discrepancies identified should be immediately investigated and resolved.

Due to the internal control weaknesses identified, we reviewed 20 water and sewer cash receipts, totaling \$2,144,<sup>2</sup> to verify that they were deposited timely and intact<sup>3</sup> and found no exceptions. We also examined all water and sewer cash receipts that were issued during our audit period including 461 sewer receipts and 524 water receipts and found that all receipts were issued sequentially and could be accounted for.

We also selected 30 water and sewer billings<sup>4</sup> to verify that the rates agreed with the Town's billing schedule, that payments equaled the amount billed, and late payments were correctly penalized.<sup>5</sup> We also examined 20 unpaid water and sewer accounts<sup>6</sup> for the 2010 fiscal year to ensure delinquent user accounts were included on the list of re-levied water and sewer accounts and the re-levy was accurate. No exceptions were noted.

Although our tests did not disclose any discrepancies, the Board's and Town officials' failure to establish adequate internal controls over the billing and collection of water and sewer rents provides little or no assurance that billings are accurate and at established rates. The lack of segregation of duties combined with no oversight by the Board makes the Town vulnerable to the possibility of loss, misuse, errors and/or irregularities. For example, the Tax Collector could receive rent moneys, not deposit it into the Town's bank account, and adjust

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<sup>2</sup> We used a computerized random number generator to select a sample of 10 water and 10 sewer receipts for a total of 20 from all receipts issued during the period of January 1, 2010 to October 31, 2011.

<sup>3</sup> In the same amount and form (cash or check) in which they were received

<sup>4</sup> We used a computerized random number generator to select a sample of 15 water and 15 sewer users for a total of 30. We selected our sample from the 190 sewer consumers and 223 water consumers during the period of January 1, 2010 to October 31, 2011.

<sup>5</sup> We based our review of water billings on prior billing rates as the Town could not provide us with documentation of the Board established rate.

<sup>6</sup> We used a computerized random number generator to select a sample of 10 water and 10 sewer unpaid accounts for a total of 20 from the 2010 water and sewer re-levy schedule.

the individual's account to prevent Town officials from detecting the unrecorded collection.

Concession Rent – The Town owns property along the St. Regis River, which it leases to individuals for year round use. The Town has 223 lots that it leases. The Town recorded \$100,000 of concession revenues during our audit period. The Supervisor has delegated responsibility of the concession rent to the Town's account clerk. The account clerk prepares concession billings, collects cash, issues receipts, records receipts and prepares and makes deposits<sup>7</sup> for concession rent and other monies received by the Supervisor's office. The Board did not review or approve the annual concession billings and, therefore, could not be assured that the concession lot billing registers contained the correct rent rate or that all renters were billed.

Due to the internal control weaknesses identified, we examined 25 concession lot cash receipts<sup>8</sup> totaling \$7,785 to verify that they were deposited timely and intact<sup>9</sup> and reviewed all 362 cash receipts that were issued during our audit period. We found that all of the concession receipts were deposited intact and in a timely manner, and all receipts were properly issued in sequential order and could be accounted for.

We also reviewed 50 concession billings<sup>10</sup> to verify that rates agreed with the Board established rates, payments equaled the amount billed, and late payments were correctly penalized. We found that the Board established the access lot rent at \$60 per lot, but the Town only charged \$40 during our audit period. Due to the variance, the Town did not bill and subsequently collect \$1,200<sup>11</sup> in access lot rent due during our audit period. The Supervisor stated that the Board changed the rate back to \$40 but Town officials were unable to provide us with the documentation establishing the amended rate. We also found that the Town did not correctly apply a late charge for six of the eight late payments in our sample. We reviewed 20 concession rents that were not paid on time, totaling \$6,250.<sup>12</sup> We found that nine of the

<sup>7</sup> The account clerk is responsible for preparing and making deposits in the Supervisor's absence.

<sup>8</sup> We used a computerized random number generator to select a sample of 25 receipts from all receipts issued during the period of January 1, 2010 to October 31, 2011.

<sup>9</sup> In the same amount and form (cash or check) in which they were received

<sup>10</sup> We used a computerized random number generator to select a sample of 50 concession lot billings from the 223 concession lessees during the period of January 1, 2010 to October 31, 2011.

<sup>11</sup> The Town has 30 access lots which multiplied by the variance of \$20 and for 2 billings totals \$1,200.

<sup>12</sup> We chose our sample by scanning through the manual concession logs and selecting a judgmental sample of 10 lessees from 2010 and 2011. We based our selection on the payment month and lot size to achieve a representative sample of applicable late fees.

late payments reviewed had the late payment incorrectly applied. Our sample only disclosed \$45 in late payments that were not charged; however, it represented 45 percent of the late payments tested.

The lack of oversight of the account clerk that handles all aspect of the concession rents increases the risk that inappropriate transactions could occur and be concealed.

Campground – The Town owns and operates the St. Regis Falls Scenic Campsite on the St. Regis Falls River. The Town offers 50 campsites and 13 cabins, which are available for rent on a daily, weekly, monthly, or seasonal basis. Town employees (gatekeepers) are responsible for managing and overseeing the daily operations of the campsite. The gatekeepers are responsible for collecting campsite fees including campsite rentals, pump-out fees, and wood and clothing sales. The gatekeepers maintain sales records, collect cash, issue receipts, and record receipts in individual accounts for long-term campers.

At the end of each day, the gatekeeper prepares a daily tally sheet,<sup>13</sup> which is provided to the account clerk (or in her absence, the Town Supervisor) along with the daily collections. The gatekeeper is issued a cash receipt upon the completion of the cash count. The account clerk is responsible for preparing the day's deposit which is provided to the Supervisor<sup>14</sup> to bring to the bank. We found that no one independent of the campsite cash collection process compared the supporting documentation of daily collections to the bank deposit to ensure the deposit was made in full. Although the cash count is compared to the daily tally sheet, it is not compared to the press-numbered receipts issued for that day at the campsite. Therefore, cash receipts could be issued but not included in the amount for deposit. Further, a review is not performed to ensure that cash receipts are issued in sequential order.

We reviewed 30 campsite receipts<sup>15</sup> totaling \$3,940 to verify that they were deposited timely and intact.<sup>16</sup> We were unable to determine if three deposits were made intact because the cash and check totals were not completed on the deposit slip, only the total amount of the

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<sup>13</sup> The daily tally sheet contains the date of collection, customer's name, site or resale item, amount paid, payment method (cash or check), receipt number and employee initial.

<sup>14</sup> In the absence of the Supervisor, the account clerk will bring the deposit to the bank.

<sup>15</sup> We used a computerized random number generator to select a sample of 30 receipts from all receipts issued during the period of January 1, 2010 to October 31, 2011.

<sup>16</sup> In the same amount and form (cash or check) in which they were received

deposit. We found that the remaining 27 cash receipts were deposited intact and all 30 cash receipts reviewed were deposited timely.

We also examined all cash receipts that were issued during our audit period. The gatekeepers issued 1,207 cash receipts during our audit period. We found that the Town did not maintain an inventory of cash receipts books or maintain a record of the cash receipt books issued to the campsite. As a result, the cash receipt books were not issued to the gatekeepers in sequential order and thus receipts were not issued in order. We found that nine receipts were missing and could not be accounted for. As a result, it is impossible to determine if all moneys collected were deposited in the Town's bank account.

Although no significant exceptions were identified, this does not diminish the need for Town officials to properly segregate duties and provide adequate oversight. The failure of the Board to implement necessary controls significantly increases the risk that moneys could be misappropriated and the loss or theft may not be detected and corrected.

## **Recommendations**

1. The Board should develop and establish a written policy and procedures for the water, sewer and concession billing and collection process that clearly assigns and properly segregates duties and provides for periodic reconciliations and oversight.
2. The Board should review and approve all the water, sewer and concession billing registers.
3. The Board should review and approve the annual re-levy for delinquent water and sewer rents.
4. The Supervisor should maintain a rents receivable account for water and sewer rents and periodically reconcile this account to the detailed customer accounts maintained by the Tax Collector.
5. The Board should ensure that Board-established concession lot rents and late penalties are correctly charged.
6. The Board and Town officials should establish a comprehensive campsite cash receipts policy that communicates the duties, records and procedures required for the collection of moneys, issuance of cash receipts, and bank deposits.
7. The Supervisor should maintain an accurate inventory of cash receipt books, maintain a record of the numbers issued to the camp site and compare the receipts issued to the daily tally sheet. Any discrepancies disclosed by these reviews should be promptly identified and resolved.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



*Town of Waverly*

P.O. Box 289 St. Regis Falls, New York 12980-0289  
Ph. (518) 856-9482 Fax (518) 856-0207

*Michael L. Bailey, Supervisor  
Harold J. Fraser, Highway Superintendent  
Deborah Fraser, Town Clerk  
Amy White, Tax Collector  
Pamela Sloate, Assessor  
Angela Lucey, Code Enforcement*

*Hal J. Fraser, Town Justice  
Adam Cox, Councilman  
Lynn Potter, Councilwoman  
Ernest Witkowski, Councilman  
Howard J. Goodrow, Councilman*

April 2, 2012

Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, New York 12801

Attention: [REDACTED]

Dear [REDACTED]

The Town Council of Waverly is in agreement with the New York State Comptroller's Office audit findings conducted in 2011.

The Board will be or has already established internal control policies which will provide the Town of Waverly with a more secure system overseeing cash receipts from water and sewer user charges, concessions and campsite rentals.

We very much appreciate the expert analysis of our operation by the Comptroller's Office. We are grateful for the honesty our employees possess, however, a system of checks and balances needed to be addressed. Hence, in the future, continual review for each monetary task will be the norm. Speaking for myself, I have learned a new attitude in dealing with the Town's finances. Three years ago, when I assumed the bookkeepers duties, I became involved in a considerable amount of the mechanical operations which tunneled my perspective towards the overall operation. Since the audit, we are more careful as we scrutinize each other..

We will be taking more corrective actions to insure the public that their taxpayer dollars are being managed by competent individuals who have recognized the deficiencies in this audit and will take the necessary actions to insure the security of these funds.

Sincerely,

Michael L. Bailey, Supervisor  
Town of Waverly

MLB/sc

## 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 condition and oversight, control environment, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

During the initial assessment, we interviewed Town officials, performed limited tests of transactions, and reviewed pertinent documents such as Town 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 for further review.

To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Town officials and employees, reviewed Town policies, Board minutes, and Town Law; and reviewed various financial records for water and sewer rents, concession lot rents, and campsite cash receipts to determine the effectiveness of internal controls over these cash receipts, and any associated effects of deficiencies in those controls.
- We examined all cash receipts that were issued for water rents, sewer rents, concession rents, and campsite operations during the period January 1, 2010 through October 31, 2011, to verify that the receipts were issued sequentially and accounted for.
- We reviewed a random sample of 15 water and 15 sewer billings for a total of 30 during our audit period to verify that rates agreed with the Town's established rates, payments equaled amounts billed, billings and payments were correctly recorded in the customers' accounts and, if applicable, late penalties were correctly applied.
- We reviewed a random sample of 50 concession lot billings during our audit period to verify that the rates agreed with the Board established rates, billings and payments were correctly recorded in the customers' accounts and, if applicable, late charges were correctly applied.
- We reviewed a judgmental sample of 20 unpaid water and sewer rents (10 each) and 20 unpaid concession lot rents to verify that late charges were correctly applied.
- We reviewed a random sample of 20 water and sewer (10 each) customers whose unpaid balances were re-levied to Franklin County in 2010 to verify that the unpaid user charges were re-levied, the Board approved the re-levy, and the re-levy was accurate.
- We examined a random sample of 20 water and sewer (10 each), 25 concession lot, and 30 campsite cash receipts during our audit period to verify that they were deposited timely and intact.

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.

## APPENDIX C

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

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