



# Town of Callicoon

## Cash Receipts and Disbursements

### Report of Examination

Period Covered:

January 1, 2011 — October 19, 2012

2013M-16



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

June 2013

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 Callicoon, entitled Cash Receipts and Disbursements. 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 Callicoon (Town) is located in Sullivan County. As of the 2010 Federal Census, the Town's population was 3,057. The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four Board members. The Board is responsible for overseeing the Town's operations and finances. The Supervisor, as the chief fiscal officer, is responsible for performing basic accounting functions and processing vendor and payroll checks. The Town employs a bookkeeper to assist the Supervisor in his financial duties.

The Town provides various services for its residents including water service, road maintenance, a justice court, and general government support. The Town's 2012 adopted budget totaled approximately \$2.3 million, which was primarily funded by property taxes, State aid, and water user charges.

## Objective

The objective of our audit was to review selected financial activities. Our audit addressed the following related questions:

- Did the Supervisor ensure that receipts were properly accounted for and disbursements were for proper Town purposes?

## Scope and Methodology

We interviewed appropriate Town officials and examined financial records and reports of the Town<sup>1</sup> for the period January 1, 2011, through October 19, 2012.

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 initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and

<sup>1</sup> Our audit included all moneys received by the Supervisor other than water rent payments.

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 and Disbursements

The Supervisor, as chief financial officer of the Town, is responsible for collecting, receiving, and having custody of all moneys belonging or due to the Town. The Supervisor is also responsible for paying all claims listed on any warrant certified by the Town Clerk that the Board has audited and approved for payment, as well as paying payroll-related expenditures. These responsibilities include designing internal controls wherein duties are assigned so that no one individual performs all of certain key functions. In instances where it may not be practical to segregate these key duties, the Supervisor should implement compensating controls including appropriate oversight of the work performed by the individual who is performing incompatible duties. Finally, the Board should define the rate or percentage of health insurance premiums that retirees must pay for their continuing health insurance coverage.

The Board and Supervisor cannot be sure that all money collected was properly accounted for and that disbursements were only made for proper Town purposes. The Supervisor allows the bookkeeper to perform most aspects of the functions relating to the receipt and disbursement of moneys without providing sufficient oversight of her duties.

Receipts — Good management practices require that Town officials record cash receipts in a duplicate receipt book and/or cash receipts journal to provide a description of the amount and date received, who received it, and the payment source. Also, it is important that those who record receipts do not collect receipts or prepare deposits. Generally, moneys should be deposited in a Town bank account within 10 days; however, Town Law requires the Supervisor to ensure that moneys are deposited within three days after the balance reaches \$250. The Town Clerk (Clerk) receives most moneys paid to the Town. The Clerk turns over all the money she receives to the bookkeeper. However, the Clerk does not issue receipts or record the dates she receives payments. The bookkeeper then records and deposits the money, but she does not always record the dates of the payments. The Supervisor does not ensure that the Clerk or bookkeeper records payment dates and does not oversee these transactions to ensure that all moneys received are recorded accurately and deposited in a Town bank account.

We randomly selected 15 payments totaling \$328,779 of the 98 payments made to the Town during our audit period<sup>2</sup> and were able

<sup>2</sup> Refer to Appendix B for further information regarding our sample testing.

to verify that they were accurately recorded and had been deposited intact<sup>3</sup> and in a timely manner. We also reviewed eight months of health insurance bills paid by five of 12 retirees totaling approximately \$6,500, but were unable to determine whether the bookkeeper deposited these payments in a timely manner because she did not record the dates that these payments were received by the Town. In addition, because the Board had not defined the rate or percentage of health insurance premiums that retirees must pay for their continuing health insurance coverage, we were unable to determine whether the amounts paid by these five retirees were correct.

Disbursements — The concentration of key responsibilities (e.g., collecting receipts or preparing disbursements, 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. It is important that those who record disbursements do not prepare disbursements or reconcile bank accounts. When circumstances do not permit for an adequate segregation of duties, the Supervisor should provide mitigating controls, such as management oversight.

The bookkeeper prepares non-payroll-related checks for the Supervisor to sign and then mails those checks to the respective vendors. Therefore, the bookkeeper not only prepares vendor checks, but also has custody of the checks after they are signed, which causes a situation where the bookkeeper could misuse Town funds without detection. In this situation, the Supervisor has an opportunity to provide additional supervisory oversight for these disbursements by consistently verifying that the payee and amounts of canceled checks match the claims approved by the Board.

In addition, the bookkeeper prepares checks for payrolls and related payroll expenditures for the Supervisor to sign. The bookkeeper presents the related paychecks and pay stubs (in the case of direct deposits) to the Supervisor for his review. In this situation, the Supervisor has an opportunity to provide additional supervisory oversight by verifying that all disbursements that clear the bank were for authorized expenditures.

We reviewed payments totaling \$2,475,000, including six months of payroll registers, four months of bank transfers, abstracts for five months in 2011 and 2012, all checks from a different number sequence, and all signed checks<sup>4</sup> issued during our audit period to ensure they were for a valid Town purpose, and found only immaterial

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<sup>3</sup> Moneys collected must be deposited intact; that is, in the same order and form (cash or check) in which they were received.

<sup>4</sup> We examined these checks to determine whether they were signed with a signature stamp, which was a deviation from the approved signatory process.

discrepancies.<sup>5</sup> During our review of abstracts for five months in 2011 and 2012, we found that two checks totaling \$775 were not on warrants, and one other check totaling \$1,080 cleared the bank without the Supervisor's signature, which shows that payments can be made without proper approval. However, all three of these payments were for a valid Town purpose.

In addition to the bookkeeper's cash receipt and disbursement duties, the bookkeeper also compares the recorded cash balances to the adjusted bank balances to ensure that all disbursements are recorded in the accounting records. The Supervisor does not provide any supervisory oversight of these cash reconciliation duties, such as reviewing the bank reconciliations. The bookkeeper told us that she has performed these duties for decades and has requested independent review of her work. However, the Board has annually engaged an external auditor for an audit of the financial statements.

When one person performs all of the duties related to cash collections, recordkeeping, and cash disbursements with little oversight, it increases the risk that employee errors and irregularities may occur and not be detected and corrected and/or that Town moneys could be wasted.

## **Recommendations**

1. The Supervisor should segregate the incompatible financial duties performed by the bookkeeper, or provide additional oversight such as ensuring canceled checks are for authorized purposes.
2. The Board should define the rate or percentage of health insurance premiums that retirees must pay for their continuing health insurance coverage.

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<sup>5</sup> See supra, note 2

**APPENDIX A**  
**RESPONSE FROM LOCAL OFFICIALS**

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

**Town of Callicoon**  
**PO Box 687**  
**Jeffersonville, NY 12748**

Thomas R. Bose  
Supervisor  
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Kristofer Scullion  
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31 Wahl Road  
(845) 482-5505

May 20, 2013

Chief Examiner  
Office of the State Comptroller  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, NY 13901

Re: Town of Callicoon  
Cash Receipts and Disbursements  
2013 M-016

Dear Sir/Madam:

This letter is in response to the OSC's draft audit report of the Town of Callicoon's cash receipts and disbursements for the period of January 1, 2011 through October 19, 2012. Please be advised this correspondence will also serve as the Town of Callicoon's corrective action plan (CAP).

After thoroughly reviewing the report as well as discussing the findings with the Board members, the Bookkeeper and the Town Clerk, I have found the report to be mostly accurate and therefore agree with the audit's recommendations.

I do believe the officials of the Town of Callicoon have always been responsible and efficient in their duties especially in safeguarding the hard-earned monies collected from our taxpayers. I would like to thank the OSC for bringing to our attention a few areas that lacked proper oversight so we can strengthen these areas to do an even better job and improve our operation.

The recommendations of the OSC are listed below and are immediately followed by the corrective actions already put in place by the Town of Callicoon:

Audit Recommendation:

1.) The Supervisor should segregate the incompatible financial duties performed by the Bookkeeper, or provide additional oversight such as ensuring cancelled checks are for authorized purposes.

Corrective Action: Effective immediately

The Town Clerk now records all cash receipts in a log book which includes the amount and date received, and the payment source. A copy of which goes to the Supervisor monthly.

The Supervisor will review bank statements to verify all receipts were accurately recorded, and have been deposited intact and in a timely manner.

The Supervisor will review and verify all cancelled checks for proper signatures and ensure they were for authorized expenditures.

Audit Recommendation:

2.) The Board should define the rate or percentage of health insurance premiums that retirees must pay for their continuing health insurance coverage.

Corrective Action: Effective May 13, 2013

The Town Board has officially adopted (via Resolution #14-2013) an employee handbook. In this official handbook, along with policies and guidelines affecting all current employees, the percentage of health insurance premiums that retirees must pay for their continuing health insurance coverage is clearly explained.

It is the feeling of the Town Board of the Town of Callicoon that the implementation of the aforementioned corrective actions will enable the officials of the Town to better serve the residents that we represent.

Sincerely,

Thomas R. Bose  
Supervisor  
Town of Callicoon

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed appropriate Town officials, vendors, and employees, reviewed policies, records and reports of the Town, and examined pertinent documents for the period January 1, 2011, through October 19, 2012. Our examination included the following:

- We examined a list of 98 payments made to the Town obtained from OSC, Sullivan County, the Town Justice, and the Town Clerk for our audit period. We randomly selected 15 of the 98 payments totaling \$328,779 and traced these receipts to accounting records (general ledger), deposit slips, and bank statements to verify that the bookkeeper deposited the moneys intact and in a timely manner.
- We reviewed four months of health insurance bills and determined that 12 enrollees of the health insurance plan were retirees or the surviving spouse of a retired employee. We randomly selected five of these 12 individuals to verify whether the Town received a health insurance contribution from each individual, and whether the Town deposited these contributions into a Town bank account, from September to December 2011 and March to June 2012. We chose these consecutive months because not all the contributions come in monthly; some retirees pay a few months at a time. The actual months chosen comprise a judgmental sample.
- For the payroll paid during May, June, and September 2011 and 2012, we traced the direct deposit amounts per employee from the payroll registers to the bank record of the transfer and verified that the amounts were deposited into the accounts authorized by the employees.
- We scanned all of the Town's bank statements for withdrawals and transfers out for non-check disbursements during March and August 2011 and April and September 2012 and traced each of these disbursements to deposits or transfers to another Town bank account or to supporting documentation, such as payroll records, to verify that the withdrawals and transfers were appropriate Town disbursements. We randomly selected two months from each fiscal year during our audit period for testing.
- We scanned all of the Town bank statements for our audit period for checks that were cashed outside of the normal check sequence, and we scanned all cleared check images for signatures created from a signature stamp or from an authorized signer to verify that the payments were for an appropriate Town purpose.
- We reviewed the check numbers reported on the approved abstracts for January to March 2011 and May to June 2012 and identified any checks that were missing from the check sequence. For any checks that were missing from the sequence that were voided, we located the voided checks. For any of the checks that were for interfund transfers, we traced these deposits into the payee Town bank account. For any other missing checks, we confirmed the amount paid by reviewing invoices and other supporting documentation to verify whether they were appropriate Town disbursements.

- We tested the accuracy of bank reconciliations prepared by the bookkeeper for September 2012 and December 2011 to subsequent bank statements. We randomly selected one month from each fiscal year during our audit period for our testing.

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 objectives. 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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Andrew A. SanFilippo, Executive Deputy Comptroller  
Nathalie N. Carey, Assistant Comptroller

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