



Town of North Castle

Cash Disbursement

Report of Examination

Period Covered:

January 1, 2011 — July 31, 2012

2013M-32



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	3
Comments of Local Officials and Corrective Action	4
CASH DISBURSEMENT	5
Recommendation	6
APPENDIX A Response From Local Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	11
APPENDIX D Local Regional Office Listing	12

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 North Castle, entitled Cash Disbursement. 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 North Castle (Town) is located in Westchester County and includes the hamlets of North White Plains, Armonk and Banksville. The Town has a population of approximately 12,000 and covers 26 square miles. The Town provides various services to its residents including general governmental support, street maintenance and improvements, snow removal, and code enforcement. The Town has 170 employees and budgeted appropriations for the 2012 fiscal year were approximately \$31 million, funded primarily with real property taxes, sales tax and State aid.

The Town Board (Board) includes four Board members and the Town Supervisor (Supervisor), and is the legislative body responsible for managing Town operations. The Supervisor, as Chief Fiscal Officer, receives, has custody of, and disburses Town funds. Although the Board is primarily responsible for the effectiveness and proper functioning of internal controls, the Supervisor and departments share the responsibility. The Town Comptroller's functions are to audit claims, approve bank transfers and reconcile bank accounts.

The Town was without a Comptroller for approximately four months, June to September 2012. During that period, the Supervisor audited the claims, including payroll expenditures and bank transfers. Once claims have been audited to ensure they represent proper Town expenditures, the Board approves warrants for the checks to be released. The bookkeeper is responsible for entering accounts payable information into the computer system. The Comptroller and the bookkeeper share the function of reconciling bank accounts.

Objective

The objective of our audit was to evaluate the internal controls over cash disbursement. Our audit addressed the following related question:

- Are internal controls over cash disbursement appropriately designed and operating effectively to adequately safeguard Town assets?

Scope and Methodology

We examined the Town's cash disbursement records for the period January 1, 2011 to July 31, 2012. We extended our review of bank reconciliations to November 16, 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 recommendation 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 recommendation 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 Clerk's office.

Cash Disbursement

An internal control system, established by the Board and implemented by Town officials, is the integration of activities, plans, attitudes, policies and efforts of staff members to provide reasonable assurance that the Town will achieve its mandates and objectives. Town officials are responsible for establishing effective policies and procedures to ensure that disbursements are made by authorized individuals, and are properly documented, audited, and approved. Internal controls should ensure that cash is disbursed only upon proper authorization, and that disbursements are supported by appropriate documentation, for valid business purposes, and properly recorded.

Internal controls over cash disbursements are appropriately designed and operating effectively with the exception of bank reconciliations, which have not been prepared since May 2012. Because the Town's deposits total \$26 million, the lack of bank reconciliations creates a risk that errors or fraudulent transactions could occur without detection.

Our procedures included interviewing Town officials directly involved in the cash disbursement process and reviewing policies and procedures to determine if they were properly designed and operating effectively. We conducted tests of cash disbursement records, which included all of the approximately 6,200 checks cashed during our audit period, to determine if they were complete, accurate and up-to-date. We also reviewed supporting documents for all 43 voided and missing checks during our audit period, and conducted tests of 90 check transactions totaling \$516,409¹ and four wire transfers totaling \$14.5 million² to verify they were properly authorized, accurate and for legitimate purposes.

In addition, we reconciled both May 2012³ payrolls totaling approximately \$800,000 to wire transfers, payments to employees, payroll taxes and voluntary deductions for government agencies and employee affiliated organizations. We selected a random sample of 25 employees and verified salary rates, time worked and payments to the employees. We verified termination payments to four of 10 former employees to contracts and collective bargaining agreements. We also recomputed the most recent bank reconciliations that Town officials prepared and verified all reconciling items.

¹ One test of 60 transactions and one test of 30 transactions, all selected based on equal gaps between check numbers

² Four wire transfers from randomly selected months

³ The month was selected because it was the most recent month for which bank reconciliations were prepared and the tests included bank transactions.

The above tests did not disclose any deficiencies or irregularities. However, the most recent bank reconciliations were prepared in May 2012. Town officials informed us that the Town Comptroller and bookkeeper are responsible for completing bank reconciliations but reconciliations were not prepared when the Town was without a Comptroller. However, the Town hired a new Comptroller in September 2012, but as of November 16, 2012, no other reconciliations had been performed. As of October 31, 2012, the Town had approximately \$26 million on deposit.

Accurate and timely bank reconciliations can help ensure that cash account balances are accurate. They can also uncover differences that may require further investigation, errors, or fraud quickly, enabling the entity to take corrective action. A requirement that bank reconciliations be completed on a frequent cycle, such as monthly, could serve as a deterrent for fraud. Without the timely completion of bank reconciliations, Town officials cannot rely on bank balances, which could lead to significant bank charges if checking accounts become overdrawn. In addition, Town officials might not be aware of fraudulent transactions.

Recommendation

1. The Town Comptroller should ensure that bank reconciliations are prepared for June 2012 and months thereafter, with all reconciling items being resolved in a timely manner.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF NORTH CASTLE
Town Hall - 15 Bedford Road
Armonk, New York 10504

Established 1736

March 15, 2013

Office of the State Comptroller

[REDACTED]
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear [REDACTED]

We are writing in response to the Office of the State Comptroller's audit of the Town of North Castle's Cash Disbursements. All bank reconciliations have been prepared from June 2012. The Town Comptroller and bookkeeper are reconciling the bank accounts on a monthly basis and will continue to do so going forward.

In addition, the Town Comptroller has opened two new accounts; a warrant account and a payroll account both with [REDACTED] Bank. All cash disbursements will flow through these new accounts. Cash receipts will continue to be booked to the main [REDACTED] account and a transfer will be done to both the warrant and payroll accounts as needed for disbursements. These accounts have been set up with positive pay to mitigate any check fraud.

Thank you again for your assistance in reviewing our cash disbursement process and procedures. Enclosed please find the Town's corrective action plan.

Kind Regards,

Howard Arden
Supervisor

Faith S. Berland
Town Comptroller

Enc.



TOWN OF NORTH CASTLE
Town Hall - 15 Bedford Road
Armonk, New York 10504

Established 1736

Corrective Action Plan as result of the Cash Disbursement Audit

The Town Comptroller has implemented the following processes and procedures to ensure bank reconciliations are completed in a timely fashion and controls are in place to mitigate bank fraud.

- Cash receipts are booked weekly. Cash receipts are to be booked on a weekly basis to ensure the Town is recognizing revenue in a timely manner and to reduce the risk of misappropriated funds.
- All cash disbursements will flow through newly created warrant and payroll accounts. Cash receipts will continue to be booked to the main [REDACTED] account and a transfer will be done to both the warrant and payroll accounts as needed for disbursements. These accounts have been set up with positive pay to mitigate any check fraud.
- To ensure segregation of duties, bank reconciliations are to be performed by the Town Comptroller with the bookkeeper's assistance with the Receiver of Taxes account which is ultimately reviewed and approved by the Town Comptroller.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We conducted an on-site risk assessment and, based on the result, decided to audit cash disbursements. Our audit included the following steps:

- We interviewed Town officials such as the Supervisor, bookkeeper and payroll clerk, and conducted various test of general fund cash disbursements including voided checks and wire transfers.
- We recomputed two payrolls, traced time and leave accrual records to payroll registers, verified termination payments and payroll-related wire transfers, and reconciled payrolls.
- We verified reconciling items for the latest bank reconciliation that Town officials prepared.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Steven J. Hancox, Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Osego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313