



Village of Dannemora Internal Controls Over Cash Receipts

Report of Examination

Period Covered:

June 1, 2011 — August 31, 2012

2013M-7



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 2013

Dear Village 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 Village 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 Village of Dannemora, 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 Village of Dannemora (Village) is located within the Towns of Dannemora and Saranac in Clinton County, and has a population of approximately 3,940 residents. The Village is governed by a Board of Trustees (Board) which comprises a Mayor and four Trustees, all of whom are elected for four-year terms. The Board is responsible for the general oversight of the Village's operations. The Mayor is the Village's chief executive officer. The Clerk-Treasurer is the Village's chief fiscal officer and is responsible for the custody of Village moneys, maintaining appropriate accounting records, and preparing interim and annual financial reports.

The Village provides a variety of services to the community including water and sewer services and general government support. The Village's general, water, and sewer funds' total budgeted appropriations for the 2012-13 fiscal year were approximately \$1.74 million, funded primarily with real property taxes, sales tax, water and sewer charges, and State aid.

Objective

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

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

Scope and Methodology

We reviewed the Village's cash receipt procedures for the period June 1, 2011, to August 31, 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 Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village 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 Village Clerk's office.

Cash Receipts

Village officials are responsible for establishing adequate internal controls over cash receipts to safeguard Village 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 (e.g., billing, collecting, and depositing receipts; recording the related transactions; and having access to cash) 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 Village officials provide mitigating controls, such as management oversight.

The Village has informal procedures over the collection of cash receipts for water and sewer rents and property taxes. Village officials have attempted to mitigate the inherent internal control weaknesses of a small office by having a part-time Deputy Clerk-Treasurer (Deputy) collect receipts. However, weaknesses still exist because the Deputy prepares manual receipts and gives the Clerk-Treasurer all the receipts at the end of each day. The Clerk-Treasurer, who prepares the billings, also enters receipts into the accounting system, reconciles customer accounts, prepares bank deposits, and reconciles bank statements without any additional verification or assistance by her Deputy. With these incompatible duties, the Clerk-Treasurer has the ability to misappropriate cash receipts without detection. The Village has not utilized the Deputy in a manner that would create some segregation of duties over the cash receipts process and the Board does not provide additional oversight to mitigate this control weakness.

We reviewed 25 water and sewer cash collections totaling \$6,578,¹ and 25 property tax cash collections totaling \$13,509 to confirm that they were deposited timely, intact,² and were correctly recorded in the accounting records. We also examined all 426 water and sewer cash receipts and 1,001 property tax collections issued during our audit period and found that all receipts were issued sequentially and accounted for.

¹ Appendix B contains our sampling methodology.

² In the same amount and form (cash or check) in which they were received.

We also selected 25 water and sewer billings totaling \$7,581 to verify that the rates agreed with the Village's billing schedule and that the water and sewer billing was correctly recorded. We selected 25 additional water and sewer cash receipts totaling \$8,370 and 30 property tax cash receipts totaling \$14,969 to verify that payments equaled amounts billed, late payments were correctly calculated and payments were correctly recorded. We did not find any exceptions.

Although the audit tests we performed did not disclose any significant discrepancies, allowing one person to control the entire cash receipts process, combined with the lack of Board oversight, increases the likelihood that errors and omissions could occur and remain undetected.

Recommendation

1. The Board should establish procedures for the water, sewer, and property tax billing and collection processes that properly segregate duties between the Clerk-Treasurer and Deputy, and provide for periodic reconciliations and oversight.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

VILLAGE OF DANNEMORA

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March 18, 2013

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NYS Office of the State Comptroller
Division of Local Government & School Accountability
1 Broad Street Plaza
Glens Falls, New York 12801

Re: Report of Examination
Period Covered: 6/1/11-8/31/12
No. 2013M-007

Dear [REDACTED]

In response to the above named Audit Report, please be advised that we agree with the findings in the report. We plan to take corrective action by establishing procedures for the billings and collection processes that segregate the duties between the Clerk-Treasurer and Deputy Clerk-Treasurer that will provide for periodic reconciliations and oversight in the near future.

We'd like to thank you and your staff for your courteous input in guiding us through the audit and improving our daily operations.

^ Very Truly Yours,

Michael L. Bennett
Mayor

Cc: Trustees

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INCORPORATED 1901

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 Village 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 Village officials, performed limited tests of transactions, and reviewed pertinent documents such as Village 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 Village officials and employees, reviewed Village policies, Board minutes, various financial records for water and sewer rents, and property taxes to determine the effectiveness of internal controls over cash receipts, and any associated effects of deficiencies in those controls.
- We examined all cash receipts that were issued for water rents, sewer rents, and property taxes during the period June 1, 2012, through August 31, 2012, to verify that the receipts or tickets were issued sequentially and accounted for.
- We examined a judgmental sample of 25 water and sewer, and 25 property tax cash receipts during our audit period to verify that they were deposited timely and intact. We selected our sample of 25 water and sewer rent collections from the water/sewer receipts register by determining the number of deposits. We then selected the deposit to review by choosing every second deposit. From the selected deposit, we chose the first customer listed for that deposit. The Village batches cash receipts together. As a result, we selected the deposit first and then a cash receipt within the deposit in order to avoid reviewing the same deposit twice.
- We selected our judgmental sample of 25 property tax collections from the daily paid reports by determining the number of deposits. We then selected the deposit to review by choosing every third deposit. From the selected deposit, we then chose the first customer listed for that deposit to obtain our sample. The Village batches cash receipts together. As a result, we selected the deposit first and then a cash receipt within the deposit in order to avoid reviewing the same deposit twice.

- We examined a judgmental sample of 25 water and sewer billings during our audit period to verify that the rates agreed with the Board established rates, and that the billings and fines were correctly recorded in the customer's account. We selected our sample of 25 water and sewer billings by starting with the first user listed on the August 2011 billing register and then selecting every 33rd payment, which we continued with to the August 2012 billing register to obtain our sample.
- We examined a judgmental sample of 25 water and sewer, and 30 property tax collections during our audit period to verify that payments equaled amounts billed, late payments were correctly penalized, and payments were correctly recorded. We selected our sample of 25 water and sewer rent collections by starting with the first payment form for August 2011 and selecting every 17th payment form, which we continued with through the August 2012 payment forms to obtain our sample. We selected our sample of 30 property tax collections by starting with the first tax bill in 2011 and selecting every 33rd billing, which we continued with through the subsequent year's billings to obtain our sample.
- We compared the Village's water, sewer, and property tax control account balances with supporting detail records from the water and sewer billing and collection software and the property tax software for a random sample of three months during our audit period to determine if they reconciled. We selected our water and sewer sample by using a computerized random number generator to select a sample of three months out of a total of nine months of collections during our audit period. As a result, we selected November 2011, December 2011, and August 2012. We selected our property tax sample by using a computerized random number generator to select a sample of three months out of a total of eight months of collections during our audit period. As a result, we selected June 2011, June 2012, and August 2012.

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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