



Champlain Joint Youth Program

Oversight of Financial Activities

Report of Examination

Period Covered:

January 1, 2015 – October 31, 2016

2017M-21



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2017

Dear Program 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 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 Champlain Joint Youth Program, entitled Oversight of Financial Activities. 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 New York State 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 Program is a joint activity established among the Villages of Champlain and Rouses Point (Villages) and the Town of Champlain (Town) to operate youth development programs for children residing in these municipalities. The Program serves approximately 565 children and provides activities such as t-ball, baseball, softball, swimming, soccer, basketball, arts and crafts and theater. Program expenditures in 2015 were approximately \$29,500, funded primarily with contributions from these municipalities.

The governing boards of the three participating municipalities each appoint a recreation director. The three directors are collectively responsible for the Program's day-to-day program administration. The Town's bookkeeper is also the Program's bookkeeper, who maintains the accounting records, prepares and files the annual financial report with the Office of the State Comptroller, makes deposits and processes disbursements, including payroll. Program claims are audited and approved for payment using the same criteria as other Town claims and all check disbursements are signed by the Town Supervisor.

Objective

The objective of our audit was to examine oversight of the Program's financial activities. Our audit addressed the following related question:

- Did the Program's intermunicipal agreement include provisions establishing adequate oversight of the Program's financial activities?

Scope and Methodology

We examined the Program's financial records for the period January 1, 2015 through October 31, 2016.

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 Program Officials and Corrective Action

The results of our audit and recommendations have been discussed with Program officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Program officials agreed with our recommendations and indicated they planned to initiate corrective action.

The participating municipalities' governing boards have 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 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 participating municipalities' governing boards to make this plan available for public review in the Clerk's office of each municipality.

Program Oversight

Article 5-G of General Municipal Law authorizes municipalities to enter into intermunicipal agreements with other municipalities for the performance among themselves or "one for the other," of their respective functions, powers and duties on a cooperative or contract basis, or for the provision of a joint service. It is the responsibility of the governing board of each municipality participating in a joint activity to enter into such an agreement with the other municipalities and gain a full understanding of its authority and the applicable legal responsibilities and requirements.

As a best practice, the governing boards of the participating municipalities should include provisions in the agreement to assign oversight responsibilities for the joint activity's financial activities to ensure that financial activity is properly recorded and reported and that funds are safeguarded. In addition, the agreement should be reviewed periodically and updated as needed.

Current officials of the participating municipalities were unaware they had entered into an intermunicipal agreement (agreement) establishing the Program. Consequently, we found that several agreement provisions were not adhered to. In addition, the Program's agreement did not include provisions establishing adequate oversight of the Program's financial activities and we found that oversight of Program financial activities was inadequate. As a result, non-resident swim program fees in 2015 were not remitted to the bookkeeper for deposit and the swim program fees in 2016, which were remitted to the bookkeeper were not supported by adequate documentation, such as duplicate press-numbered receipts or daily collection reports.

In addition, the Town's governing board did not establish or approve the salaries of any Program employees paid by the Town, except for the Town's recreation director. Furthermore, we found that 13 claims totaling \$9,553 were not certified by a recreation director indicating their approval. We question the appropriateness of five claims totaling \$856 for services provided that should most likely have been payroll disbursements, which were not supported by adequate documentation, and two claims totaling \$1,894 for bus rentals that were not Program activities.

Intermunicipal Agreement

Local governments entering into intermunicipal agreements to provide a joint service may designate in the agreement an individual or group of individuals (such as a commission) to be responsible for the joint services day-to-day operations. These designated individuals

and any other individuals employed to provide the joint service are considered to be employees of one or more of the participating local governments. The agreement should also identify the local government these individuals are employed by and provide a mechanism for one or more of the municipalities' governing boards to approve employee salaries and wages. In addition, the agreement may provide for the fiscal officer of one participating municipality to maintain custody of funds associated with the joint service and pay related joint service claims upon audit by the municipality's auditing body.

In December 1984, the Villages and the Town entered into an agreement establishing the Program.¹ However, current officials of the participating municipalities were unaware that they had entered into an agreement.² Consequently, we found that several agreement provisions were not adhered to. For example, although the agreement required each Village to present its annual recreation budget to the Town for inclusion in the Town's tentative budget, the Villages did not prepare or submit budgets to the Town. Instead, Town officials prepared and the Town's governing board adopted the Program's budget.

In addition, the agreement required that all recreation funds budgeted for each municipality be forwarded to the Town "for deposit in the Town Youth Commission account." It appears the parties intended that a separate bank account be established. However, a separate Program bank account was not established. Instead, Town officials commingled Program cash and the Town's cash³ in the same checking account. The agreement did not include provisions establishing adequate oversight of the Program's financial activities. For example, the agreement did not designate the officials responsible for overseeing the Program's financial records and reporting activities. Further, the agreement did

¹ The agreement cites both Article 5-G of GML and Executive Law §422. Executive Law contains provisions for State aid for certain youth programs (§420). Executive Law §422 authorizes two or more municipalities to join together to operate and maintain a joint youth bureau and enter into agreements for that purpose. It further provides for each participating municipality to make a claim for State aid for its proportionate share of the total joint expenditures made. The agreement states that the municipalities wish to enter into the cooperative agreement for the purpose of benefiting the youth programs in the respective municipalities and for the purpose of qualifying for State aid.

² The Village of Rouses Point's Treasurer located the agreement in the Village's files when we asked the participating municipalities' officials whether an agreement existed. However, Town and Village of Champlain officials did not have the agreement on file.

³ Town cash included that of the town-wide general and part-town general funds, town-wide highway and part-town highway funds, the trust and agency fund, a water district, two lighting districts and three sewer districts.

not establish responsibility for paying Program personnel or detail the process for auditing and approving all claims before payment.⁴

Town officials told us that the Town has been solely responsible for processing Program financial transactions (including paying Program employees and making non-payroll disbursements) and preparing the related financial reports since it was established. However, we found that oversight of Program financial activities was inadequate. Although the bookkeeper prepared monthly bank reconciliations, no one reviewed the Town's bank reconciliations or monthly bank statements. This lack of oversight further increased the risk for errors and irregularities because the bookkeeper was also responsible for receipting and depositing collections and had access to blank check stock.

Without an agreement that includes provisions to clearly assign and detail oversight responsibilities for Program financial activities and because Program officials did not provide adequate oversight of Program financial activities, financial transactions were not properly accounted for. As a result, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Collections

The participating municipalities' governing boards are responsible for establishing and approving any Program fees that are charged. In addition, Program officials must establish a clear and consistent process that requires the issuance of duplicate press-numbered receipts or the use of some other method to accurately document the source, date, amount, form (i.e. cash or check) and purpose of amounts collected.⁵ Even when not required by statute, good business practices require that all money collected be deposited as soon as possible to prevent loss or misuse. It is also critical that collections be deposited intact (in the same amount and form as received) to reduce the risk of fraud and concealment.

Program collections during our audit period consisted of annual contributions from the participating municipalities, the Town of Mooers' annual contributions for swim program participation,⁶ non-resident swim program fees and State aid. The bookkeeper received all collections directly, except for non-resident swim program fees, which were collected by the current and former pool directors.

⁴ The agreement states (without reference to an audit of claim procedure) that vouchers for reimbursement may be submitted by each Village to the Town for payment, and must be certified by each Village Youth Commissioner and shall be paid by the Town as is reasonably practical.

⁵ See GML §99-b.

⁶ The legal propriety of the Town of Mooers' participation was not within the scope of our audit.

Children that attended the swim program and were not residents of the participating municipalities or the Town of Mooers were charged a non-resident swim program fee of \$2 per child per lesson. However, this fee was not approved by any of the participating municipalities' governing boards.

We reviewed all 11 receipts totaling \$36,747 issued by the bookkeeper for the collections deposited during our audit period to determine whether the collections were deposited timely and intact (in the same amount and form as received). We found that the collections were all deposited in the amount received, timely and intact. However, collections totaling \$556, which were remitted to the bookkeeper for the 2016 swim program, were not supported by adequate documentation such as duplicate press-numbered receipts or daily collection reports.

Instead, the current pool director provided the bookkeeper with a list of the names of the non-resident children, where they were from, the type of payment and the amount paid. This list was incomplete because it did not include the dates the payments were made or when these children attended the swim program. Consequently, Program officials could not be certain that all amounts collected by the current pool director for the 2016 swim program were accurately accounted for and remitted to the bookkeeper for deposit.

The former pool director collected non-resident swim program fees in 2015 but did not remit the collections to the bookkeeper to be recorded and deposited. Instead, the Town's recreation director told us that the former pool director used the amounts collected to directly pay swim aides who provided swim program services. The bookkeeper told us she was unaware that non-resident children were being charged for the swim program or that swim aides were providing services until the current pool director remitted swim program collections to her in 2016. Program officials were unable to provide us with any documentation supporting the amount that was collected in 2015 swim program fees or the amount the swim aides were paid.

The former pool director told us that five non-resident children attended the 2015 swim program and she paid three swim aides \$200 each. The former pool director also told us that because the collections in 2015 were insufficient to pay the swim aides (similar to the 2011 through 2014 years) she used her own personal funds to pay the swim aides.

The practice of not remitting collections to the bookkeeper and using them to pay swim aides resulted in unaccounted for Program revenues and expenditures. Further, when adequate documentation

is not maintained to support all collections, Program officials lack assurance that all collections are deposited and there is at an increased risk that collections could be lost, stolen or misappropriated.

Disbursements

The participating municipalities' governing boards are responsible for implementing adequate procedures to provide guidance with respect to disbursing Program funds. The disbursement process should be clearly defined with the roles and responsibilities for each person involved with the process. In addition, the participating municipalities' governing boards are responsible for establishing and approving all Program employee salaries and wages. All non-payroll disbursements should be supported by a corresponding claim signed by a recreation director in accordance with the agreement and adequate documentation (e.g., itemized receipts or invoices) so Program officials pay for goods or services only for appropriate Program purposes.

Program employees were considered to be Town employees, except for the recreation directors appointed by each Village.⁷ Other than the salary for the Town's recreation director, the Town's governing board did not establish or approve the salaries of any other Program employees, which included the positions of pool director, lifeguard, recreation assistant and bus driver. Instead, employees in these positions were paid the same salaries that Program officials historically used to pay employees in these positions.

We reviewed all gross pay calculations totaling \$44,635⁸ for all Program employees paid in 2015 and 2016 to determine whether employees' salaries were accurately paid.⁹ Except for minor discrepancies, which we discussed with Program officials, we found the employees' salaries were accurately paid based on the Board approved salaries for the Town's recreation director and historical salaries that were used as a basis to pay all other employees.

We also reviewed all 25 non-payroll Program check disbursements made during our audit period and the corresponding claims totaling \$11,729 to determine whether the claims were certified by a recreation

⁷ Each Villages' governing board established the salary for their respective recreation director and these employees were paid directly through each Villages' payroll system. These individuals were considered to be employees of their respective Villages and their salaries were not considered to be a Program expenditure.

⁸ There were 27 employees whose gross pay totaled \$21,952 during 2015 and 28 employees whose gross pay totaled \$22,683 during 2016.

⁹ Because the participating municipalities did not consider the salaries of the Villages' recreation directors to be a Program expenditures, we did not include them in our review.

director in accordance with the agreement, supported by adequate documentation and for appropriate Program purposes.

We found that 13 claims totaling \$9,553 were not certified by a recreation director, as required. In addition, five claims (for services provided for the 2016 swim program totaling \$856) were not supported by adequate documentation. We also question their appropriateness, because the Town's governing board did not approve a rate of pay for these services before the services were provided and these payments should most likely have been made as payroll disbursements.

For example, four of these claims totaling \$556 were for payments to two swim aides for services provided at each of the two 2016 swim program sessions, based on each swim aide receiving 50 percent of the non-resident swim program fees collected at each session. The remaining claim totaling \$300 was for a payment to the former pool director based on her request to be paid \$15 per hour for preparation work she performed before resigning from this position (before the start of the 2016 swim program).

We also question the appropriateness of two other claims totaling \$1,894, for bus rentals to transport children for skiing and snowboarding, because the participating municipalities' officials told us that these were not Program activities. Officials told us that they have historically funded the bus rental, although these activities are provided to children of the participating municipalities by a separate skiing and snowboarding club. Except for minor discrepancies, which we discussed with Program officials, the remaining claims were adequately supported and for appropriate Program purposes.

Recommendations

The participating municipalities' governing boards should:

1. Review and revise their agreement periodically and include provisions outlining each municipality's roles and responsibilities for Program operations and governance and ensure that the Program is operated in accordance with the agreement.
2. Clarify whether a separate bank account is to be established for the Program's financial transactions or otherwise ensure that Program funds are separately accounted for.
3. Receive and review the bookkeeper's monthly bank reconciliations and bank statements.
4. Ensure that blank checks are only accessible to individuals who are authorized to sign checks.

5. Establish and approve the fees that are charged to non-resident swim program participants.
6. Ensure that the Program's collections are properly supported and deposited.
7. Establish and approve the salaries of all Program employees.
8. Ensure that all non-payroll disbursements are supported by a claim signed by a recreation director, supported by adequate documentation and made for appropriate Program purposes.

APPENDIX A

RESPONSE FROM PROGRAM OFFICIALS

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

Town of Champlain

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Champlain, New York 12919

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October 16, 2017

Chief Examiner
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Division of Local Government & School Accountability
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, NY 12801-4396

Re: Champlain Joint Youth Program Oversight of Financial Activities (Audit 2017M-21)

Dear Mr. :

The Town of Champlain and the Villages of Champlain and Rouses Point are in receipt of the above draft audit report for the period January 1, 2015 – October 31, 2016. This letter is the Town's and Villages' response to the draft report and is submitted to you within the required thirty (30) days from the date of the report.

The respective municipalities have drafted a new inter-municipal agreement for the Champlain Joint Youth Program. This agreement is currently being revised and amended by the three municipal boards and will be reviewed annually by those representative Boards.

The draft audit report provided eight recommendations and we are in agreement with those recommendations. The new inter-municipal agreement will implement those recommendations and provide guidelines for the program. A copy of the new agreement will be sent to your office upon the adoption and signing of all parties.

We would like to thank you and your staff for their professionalism and help in improving and moving forward the Champlain Joint Youth Program's operations and internal controls in a positive manner.

Sincerely,

Larry Barcomb
Supervisor, Town of Champlain

Greg R. Martin
Mayor, Village of Champlain

Daniel H. Letourneau
Mayor, Village of Rouses Point

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We interviewed the participating municipalities' officials and reviewed the intermunicipal agreement and Program financial records and reports to assess the adherence to and adequacy of the intermunicipal agreement and to gain an understanding of the internal controls over Program financial activities.
- We reviewed all receipts issued by the bookkeeper for the collections deposited during our audit period to determine whether collections were deposited timely and intact.
- We reviewed all gross pay calculations for all Program employees paid in 2015 and 2016 to determine whether employees' salaries were accurately paid.
- We reviewed all 25 non-payroll check disbursements made during our audit period and the corresponding claims to determine whether the claims were certified by a recreation director in accordance with the agreement, supported by adequate documentation and for appropriate Program purposes.

We conducted this performance audit in accordance with 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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