



# Steuben County Soil and Water Conservation District Internal Controls Over Cash Receipts and Disbursements

Report of Examination

Period Covered:

January 1, 2012 — February 26, 2013

2013M-97



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**

August 2013

Dear District 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 District 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 Steuben County Soil and Water Conservation District, entitled *Internal Controls Over 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 Steuben County Soil and Water Conservation District (District) is one of 58 such districts in New York State. These districts provide services and fund projects to improve and maintain wildlife habitat, help control and prevent water pollution from non-point sources,<sup>1</sup> and manage erosion control and other related land-use issues. The District is governed by a five-member Board of Directors (Board) appointed by the Steuben County Legislature. The District administers its functions with a District Manager, Secretary, and nine other employees.<sup>2</sup> The District contracts with an independent bookkeeper to maintain the Treasurer's accounting records, prepare and process payroll, prepare bank reconciliations, and prepare the Treasurer's monthly and annual financial reports. The District's revenues include State and Federal aid and grants, a County appropriation, and sales and services to customers. District expenditures totaled \$1,339,215 for the 2012 fiscal year, which included both District operations and grant program expenditures.

## Objective

The objective of our audit was to review the accounting records and internal controls of the District. Our audit addressed the following related question:

- Were the District's internal controls over cash receipts and disbursements designed and operating effectively to allow for the proper accounting for and safeguarding of District assets?

## Scope and Methodology

We examined the cash receipts and disbursements of the District for the period January 1, 2012, to February 26, 2013.

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 D of this report.

## Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix B, have been considered in preparing this report. Except as indicated in Appendix B, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix C includes our comments on the issues raised in the District's response letter.

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<sup>1</sup> Non-point source water pollution is the result of runoff from agricultural areas draining into a water source, generally caused by rainfall or snowmelt.

<sup>2</sup> One employee severed employment in April 2012.

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 District Secretary's office.

## Cash Receipts and Disbursements

The Board is responsible for designing adequate internal controls to safeguard the District's cash resources. An effective system of internal controls over cash receipts ensures that all moneys received are properly recorded, deposited, and accounted for. The use of press-numbered duplicate receipts, which document individual cash collection activities, helps to ensure that all transactions are properly recorded in the accounting records. The Board must also ensure that cash disbursements are made upon proper authorization by the Board. Furthermore, the Board should ensure that duties are segregated so that no one person controls all phases of a transaction. In an entity of this size, it may not be practicable to adequately segregate financial duties. Therefore, it is important for the Board to provide sufficient oversight of the District's operations.

The Board has not adopted policies and procedures for cash receipts and disbursements to ensure that cash is properly safeguarded. As a result, although press-numbered receipts are issued, the bookkeeper does not sufficiently detail deposit slips to identify each deposit's composition or record cash receipt numbers in the accounting records. In addition, 116 receipts totaling \$47,443 were not deposited on a timely basis, 14 disbursements totaling \$23,943 never appeared on a warrant for Board approval, and 151 disbursements totaling \$532,322 cleared the bank prior to the Board's audit and approval for payment. Also, there was a lack of segregation between those who use credit cards and those who oversee compliance with the District's credit card policy, and we identified questionable credit card purchases totaling \$5,446, including gift cards totaling \$150. As a result, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

### Cash Receipts

The Board is responsible for establishing internal controls to properly safeguard cash receipts from the threat of loss or theft. Duplicate press-numbered receipts must be issued to all customers that indicate when payment was received, from whom and by whom payments were received, and the form of payment received (i.e., cash, check or money order) when no other form of receipt is used.<sup>3</sup> In addition, all deposits must be made on a timely basis, and all deposit slips must be detailed enough to identify the composition of the deposit between cash collected and individual checks or money orders deposited (i.e., cash receipt numbers and amounts, and/or check or money order

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<sup>3</sup> General Municipal Law requires that duplicate receipts be issued where no other form of documentation is available to evidence a receipt.

numbers and amounts that correspond to accounting entries). Finally, every receipt number should be properly recorded in the accounting system so that accounting records can be reconciled to the press-numbered receipts and to their respective deposits.

The Board has not established policies and procedures related to cash receipts. District revenues are generally collected by the Secretary and pre-numbered cash receipts are issued, but any available employee may also collect them. Once per week, the bookkeeper prepares a bank deposit for the Secretary or District Manager to deposit and records the revenues in the District's computerized accounting records. However, the bookkeeper does not sufficiently detail the deposit slips to identify the deposit's composition or record the individual cash receipt number in the accounting records. In addition, she does not record the individual tree and fish sales, but records lump sum amounts. As a result, it is very difficult to reconcile cash receipts to bank deposits and the accounting records.

We reviewed all 477 cash receipts for 2012 totaling \$752,334 and identified minor discrepancies between the moneys collected, recorded, and deposited that were discussed with District officials. However, we identified 116 receipts (24 percent) totaling \$47,443 that were not deposited within a week of receipt. In fact, one deposit composed of four receipts totaling \$5,744 was misplaced in one of the District's vehicles for more than 75 days before it was located. Failure to properly record and deposit all cash receipts intact and in a timely manner allows errors and irregularities to occur and not be detected and corrected.

## **Cash Disbursements**

The Board is responsible for establishing effective cash disbursement policies and procedures to ensure that disbursements are made by authorized individuals and are properly documented. Further, part of the Board's oversight responsibilities include the auditing and approving of claims for payment. Claims should include sufficient supporting documentation such as the original invoices submitted by vendors for goods and/or services furnished to the District. Generally, no claim should be paid unless it has been thoroughly and deliberately audited and approved for payment by the Board. In addition, adequate controls over the use of the District's credit cards are required to prevent unnecessary and improper payments, such as the use of credit cards for non-governmental purposes or personal purchases.

The Board has not adopted cash disbursement policies and procedures or developed adequate credit card guidelines. In addition, the Board failed to properly audit and approve claims prior to disbursement. As a result, we reviewed 425 cash disbursements totaling \$952,780 for the 2012 fiscal year.



Claims Audit – The Board is responsible for auditing and approving all claims against the District and for establishing appropriate internal controls. Such controls should ensure that each claim contains sufficient supporting documentation to determine compliance with policies and statutory requirements and whether the amount claimed represents an actual and necessary District expense. With few exceptions, all claims must be audited before payment and by the Board as a whole. Such approval should be documented by the signatures or initials of the individual Board members on the claims and by entries in the Board minutes indicating the Board has determined that requested payments for goods and/or services are proper District charges and that it has authorized payment. After claims have been audited, the Board must sign a warrant of audited claims directing the Treasurer or his designee to pay the claimants the allowed amounts.

We found that the Board failed to properly audit and approve claims prior to disbursement. We reviewed all 425 disbursements for 2012 totaling \$952,780 and found 14 disbursements totaling \$23,943 that never appeared on a warrant for Board approval. These 14 disbursements primarily consisted of an insurance payment for \$10,945, two payments for grant expenditures totaling \$10,455, and one credit card payment for \$1,527.<sup>4</sup> We also found that 151 of the remaining 411 disbursements totaling \$532,322 cleared the bank prior to Board audit and approval for payment. Finally, we identified seven claims totaling \$957 that did not have adequately completed travel reimbursement forms as required by District guidelines.

The Board's failure to audit claims prior to payment could result in payments for unauthorized, unnecessary, or inappropriate purchases.

Credit Card Purchases – An adequate and up-to-date policy addressing the use of District credit cards is an essential element of internal control. At a minimum, a sufficient credit card policy establishes guidelines for card use and procedures for monitoring usage. To retain a reasonable level of control over credit card purchases, sound policies specify authorized users and procedures to be followed for required approvals, supporting documentation, and security of the credit cards when not in use.

The District used credit cards for some travel expenses (i.e., hotel and gas), meals, supplies, training, electronics, gifts, and repairs for a total cost of \$9,197 during 2012. The District's employee handbook provides a policy and procedures for credit card usage. However, they were not reviewed and updated annually, or adequate. Specifically, the

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<sup>4</sup> Payments for credit card purchases were made from the monthly credit card statements.



policy states that the District Manager and Secretary, who currently are husband and wife, would be the custodians and sole users of the District's two credit cards (each in their own names). The policy does not set the limits for each card, but the current limits are \$25,000 for the District Manager and \$2,000 for the Secretary. The procedures do not provide for a segregation of duties, because they state that the Secretary is responsible for issuing, accounting for, monitoring, retrieving, and generally overseeing compliance with the District's credit card policy. Having the Secretary oversee credit card purchases made by herself and her husband is not an effective control. Board members confirmed that they do not reconcile credit card purchases to statements, or pre-approve any purchases made on District credit cards. Because the policy and procedures do not provide for adequate segregation of duties or oversight, we reviewed all 153 credit card purchases made during 2012 totaling \$9,197.<sup>5</sup> Our review identified the following questionable purchases:<sup>6</sup>

- Electronics and accessories totaling \$1,711. These purchases include a tablet used by the District Manager and a Smart Phone used by the Secretary with related accessories. According to the District Manager, the tablet is kept at home and used for reading email.
- Gas purchases totaling \$2,236. These purchases are questionable because the District has access to the County's fuel pumps and is billed on a monthly basis at rates significantly lower than retail. For example, in May 2012 the County billed the District \$3.3997 per gallon<sup>7</sup> for unleaded gasoline. However, the unleaded gasoline purchases made using the District's credit card in May 2012 were at a rate of \$3.929 per gallon. Furthermore, we identified gas purchases totaling \$249 for use in personal vehicles of the District Manager and Secretary, which were not in compliance with the District's mileage reimbursement policy.
- Food purchases totaling \$1,349. Although the expense reimbursement policy allows for meals, it does not specifically stipulate which meals can be reimbursed, the amounts allowed, or the approvals necessary. The policy states only that they will be reimbursed in full for receipts provided.

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<sup>5</sup> The District Manager made 69 credit card purchases totaling \$3,928 and the Secretary made 84 credit card purchases totaling \$5,269.

<sup>6</sup> Purchases were made using the Secretary's card and the District Manager's card. See Appendix A.

<sup>7</sup> The rate includes an administration fee of \$0.12 per gallon.

- Three gift cards for online purchases totaling \$150. The Secretary told us they were applied to her personal online shopping account for the purpose of purchasing applications for the District Manager’s newly purchased tablet computer. However, the cost of the applications did not total the amount of the gift cards, so the balance was left on her personal account. We were able to identify \$28 worth of applications that could be used for business purposes based on supporting documentation.

The Board’s failure to adopt adequate credit card policies and procedures and provide oversight of credit card purchases has resulted in payments totaling \$5,446 for unauthorized, unnecessary, or inappropriate purchases by the District Manager and Secretary.

## **Recommendations**

1. The Board should adopt a comprehensive cash receipts and disbursements policy and procedures.
2. The Bookkeeper should prepare detailed deposit slips and record all receipt information in the accounting records, so that a proper reconciliation of cash collected, recorded, and deposited can be performed.
3. The Board should conduct a thorough and deliberate audit of claims before they are paid, ensuring that each claim has sufficient supporting documentation and represents a valid District expenditure, especially credit card purchases.
4. The Board should assess the need for credit cards. If they continue their use, the Board should adopt a comprehensive credit card policy and review and update the policy annually. The credit card policy should include the following:
  - Identify all authorized users and set appropriate limits
  - Establish custody of the cards when not in use
  - Require the reconciliation of credit card purchase documentation to statements and the pre-approval of any purchases
  - Establish a means to recoup any unauthorized expenditures
  - Ensure the proper segregation of duties.
5. The Board should require District employees to obtain unleaded gasoline from the County’s pumps, when possible.

## APPENDIX A

### QUESTIONABLE CREDIT CARD PURCHASES

<b>Table 1: Secretary and District Manager Card Activity</b>			
<b>Category</b>	<b>Secretary Card</b>	<b>District Manager Card</b>	<b>Totals</b>
Electronics	\$1,711	\$0	\$1,711
Gas	\$686	\$1,550	\$2,236
Food	\$1,150	\$199	\$1,349
Gift Cards	\$150	\$0	\$150
<b>Totals</b>	<b>\$3,697</b>	<b>\$1,749</b>	<b>\$5, 446</b>

## **APPENDIX B**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



Mr. Edward Grant, Jr  
 Chief Examiner  
 Office of the State Comptroller  
 The Powers Building  
 16 West Main Street – Suite 522  
 Rochester, NY 14614

Dear Mr. Grant:

Thank you for this opportunity to respond to the draft report of the audit examination.

We are in receipt of your letter dated June 10 2013 on the audit report; however, we believe this date is incorrect because we received the audit information on July 10, 2013. We are currently responding to our draft audit report which was incorrectly dated with a response by August 9, 2013. We are responding within the 30 days which is stipulated in the draft report.

The Board of Directors feels there are some misrepresentations in the draft report. The following items are misrepresented:

1. The Board of Directors is appointed by the Steuben County Legislature not the Board of Supervisor.
2. District has a staff of nine employees which include a District Manager and District Secretary; however, since the time of this draft report there are currently a total of eight employees.
3. The independent bookkeeper doesn't disburse checks – the District Secretary does this in order to keep segregation of duties.

See  
 Note 1  
 Page 14

See  
 Note 2  
 Page 14

See  
 Note 1  
 Page 14

As for the recommendations, here are our comments:

4. Cash Receipts and Disbursement – A formal policy is pending in our CAP to the draft report.
5. Detailed Deposit Slips – the bookkeeper has implemented a step of recording the press number receipt to all related correspondence in the Districts accounting system.
6. In past years, the Board approved a list of expenditure to be paid prior to monthly Board meetings. Since the audit process, all expenditures are listed on an abstract for the Board to review and sign off prior to processing by the District Secretary and signed by the District Manager.
7. Credit Card Purchases –while we understand your opinion regarding updating our current Credit Card Policy because the District Manager and District Secretary are husband & wife. The District Manager credit card limit has been reduced to \$5,000 which the Board is in agreement with. The Board is in the process of updating the credit card policy which will also be addressed in our CAP.

*Providing Today, Protecting Tomorrow*

8. Gas – the District does utilize the County pumps when possible. A policy will be developed addressing the gas purchase outside the county will be addressed in our vehicle use policy and credit card policies.

If you have any questions, please contact the District Manager at the above telephone number.

Sincerely,

David Stull  
Chair

## APPENDIX C

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

This was brought to our attention during the exit conference and the report has been amended.

#### Note 2

The staff numbers in our report are correct as written because we included the temporary employees employed and reviewed during our audit.



## APPENDIX D

### AUDIT METHODOLOGY AND STANDARDS

During our initial assessment, we interviewed appropriate District staff members, evaluated internal controls, performed limited tests of transactions, and reviewed pertinent documents, such as District 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 on the reported objective and scope by selecting for audit those areas most at risk. We selected internal controls over cash receipts and disbursements for audit.

To accomplish the objective of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed District staff to determine what policies and procedures were in place for the cash receipt and disbursement functions.
- We examined the District's accounting records, bank statements, canceled checks, paid claims, payroll records, and duplicate receipts.
- We compared fiscal year 2012 cash receipt records with entries in the accounting records and bank deposits.
- We verified transfers of funds between bank accounts.
- We compared time sheets to payroll records and verified approved salaries and pay rates.
- We traced canceled checks to the accounting records and vouchers.
- We reviewed claims paid in 2012 to determine if they were for appropriate District purposes and were adequately itemized and supported with appropriate documentation.
- We reviewed 2012 credit card transactions.

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.

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