



# Town of Bovina

## Internal Controls Over Cash Receipts and Disbursements

### Report of Examination

Period Covered:

January 1, 2011 — October 15, 2012

2012M-237



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

February 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 Bovina, 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 Town of Bovina (Town) is located in Delaware County and has a population of 630 residents. The Town is governed by an elected five-member Town Board (Board) comprising the Town Supervisor (Supervisor) and four council members. The Board is the legislative body responsible for overseeing the operations, finances, and overall management of the Town. The Supervisor is the chief fiscal officer and is responsible for the receipt, disbursement, and custody of all money belonging to or due the Town, maintaining accounting records, and providing financial reports to the Board.

The Town provides services to its residents including street and road maintenance, street lighting, water distribution, sewage treatment, and general government support. The Town's 2012 budget appropriations were \$936,700 funded primarily with real property taxes, water and sewer charges, and State aid.

## Objective

The objective of our audit was to examine the Town's internal controls over cash receipts and disbursements. Our audit addressed the following related question:

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

## Scope and Methodology

We examined selected cash receipts and disbursements for the period January 1, 2011 through October 15, 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 C 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. Except as specified in Appendix A, Town officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the Town's response letter.

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 Town Clerk's office.

## Cash Receipts and Disbursements

The Board is responsible for the financial well-being of the Town by ensuring that all money due the Town is collected, recorded, and deposited and that all money disbursed is for proper Town purposes. It is important for the Board to establish policies and procedures that segregate the duties of processing cash receipts and disbursements. The Supervisor is responsible for making payment on all items on the warrants (lists of claims to be paid) after the Board approves and audits them. Further, the Supervisor should properly authorize Town disbursements by affixing her signature to all checks. The Supervisor may allow another Town official to sign checks with a facsimile of her signature, affixed by a check signer or other machine, but only under her supervision. A rubber stamp of a signature may not be used, as it can be easily replicated and, therefore, is not secure.<sup>1</sup> Town Law requires the Board to annually audit, or provide for the audit of, the records and reports of any Town officer or employee who received or disbursed moneys on behalf of the Town in the preceding fiscal year. An annual audit is particularly important when there is an inadequate segregation of duties.

The Board and Supervisor did not adequately segregate duties related to the collection, recording, and depositing of receipts, the preparation and recording of disbursements, and bank reconciliations. In addition, the Supervisor allowed the bookkeeper to affix the Supervisor's signature on disbursement checks using a rubber stamp. We also found that no one compares the approved claim warrants to the checks that cleared the bank, and there was no documentation of an annual Board audit of the Supervisor's records. As a result, there is an increased risk that errors and irregularities may occur and remain undetected and uncorrected.

Segregation of Duties – The Board and Supervisor are responsible for ensuring that duties are segregated so that no one individual controls most or all phases of a transaction. Individuals who record receipts should not collect receipts or prepare deposits, and those who record disbursements should not prepare disbursements or reconcile bank accounts. Where it may not be practical to segregate these key duties, mitigating controls should be established to prevent or detect errors and irregularities.

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<sup>1</sup> The Town Law does not provide for the use of a rubber signature stamp.

The Board and Supervisor have not adequately segregated duties related to the collection, recording, and depositing of receipts and the preparation and recording of disbursements and bank reconciliations. The Supervisor's bookkeeper collects cash, prepares and makes deposits, and records receipts for money received by the Supervisor. The bookkeeper also prepares checks, records disbursements, and completes the monthly bank reconciliations. The bookkeeper performed all these duties with little oversight by the Supervisor. For example, the Supervisor does not review the bank reconciliations.

While we were able to verify that the real property tax levy and all payments from the State<sup>2</sup> were collected, recorded, and deposited, the Supervisor cannot be sure that all money received was deposited into a Town bank account because there was minimal oversight of the bookkeeper's duties. Without adequate segregation or oversight of the bookkeeper's duties, there is an increased risk that errors and irregularities may occur and remain undetected and uncorrected.

Signature Stamp – Generally, Town Law requires the Supervisor to sign all checks. When authorized by resolution of the Board, a designated Town employee may sign checks with the Supervisor's facsimile signature as reproduced by a machine or device commonly known as a check signer. The Supervisor must control custody of the check signer and must supervise the designated Town employee when he or she is using it to sign checks. The Board may not delegate the Supervisor's check signing authority to anyone other than a Town officer.

The Supervisor allowed the bookkeeper to use her signature stamp to endorse disbursement checks on her behalf. While the Board may hire a bookkeeper to assist in performing her duties, the bookkeeper's use of a hand stamp bearing the Supervisor's signature to prepare checks is not permissible. Because a check signer provides controls such as password requirements for use, it is more secure to use than a signature stamp. The use of a signature stamp weakens the internal controls over the authorization of cash disbursements.

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<sup>2</sup> For the 2012 fiscal year, the real property tax levy was \$746,461 and payments from the State totaled \$147,902, comprising approximately 55 percent of total revenues during our audit period.

During our audit period, 1,630 checks totaling approximately \$2.3 million were written. The bookkeeper told us he applied the Supervisor's signature with a rubber stamp<sup>3</sup> to sign checks throughout our audit period and also signed checks with his own signature. The Supervisor re-assumed the duty of signing checks on October 4, 2012, after the bookkeeper attended training.<sup>4</sup> The Supervisor told us she did not realize that the bookkeeper did not have the authority to sign Town checks. Two Board members told us the Board performed an annual audit of the Supervisor's records; however, no one compares the approved warrants to the checks that cleared the bank, and the audit process was not documented reflecting the procedures performed.

We examined all 170 canceled check images totaling more than \$188,000 for five months during our audit period<sup>5</sup> to verify that checks were endorsed by the signature stamp. We also reviewed 16 inter-fund transfers (totaling nearly \$179,000). The signature stamp was used in all instances, except for two checks totaling \$21,175 that the bookkeeper signed with his own signature. These transfer checks were all deposited into appropriate Town bank accounts.

We also reviewed 209 check numbers not listed on the Board-approved warrants to verify that the disbursements were properly approved by the Board. For 13 of the 209 disbursements totaling more than \$8,400 that cleared the bank, there was no Board approval. These 13 checks were for justice court fees paid to the Office of the State Comptroller (OSC). The remaining 196 checks did not require Board authorization as they were related to payroll.

Although we did not find any inappropriate transactions, the risk is increased that moneys could be misappropriated without detection when duties are not properly segregated and the use of the Supervisor's signature to endorse checks is not adequately secured from improper use.

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<sup>3</sup> In practice, the bookkeeper maintained custody over the signature stamp and secured it in the Town Hall safe. After using it, he would call the Supervisor to inform her of the checks he prepared (payroll or vendor payments) and she then authorized him to use the stamp.

<sup>4</sup> The bookkeeper received guidance on the use of signature stamps at training offered by the Office of the State Comptroller for local government fiscal management and administration in September 2012.

<sup>5</sup> October and November 2011 and January, July, and September 2012

## Recommendations

1. The Board should adopt written policies and procedures that include segregating incompatible functions over the cash receipts and disbursements where possible or implement compensating controls where segregating incompatible functions is not possible.
2. The Board should discontinue delegating the Supervisor's check signing authority to the bookkeeper.
3. The Supervisor should continue manually signing all Town checks.
4. The Board should periodically compare the approved warrants with the checks cleared, as shown on the bank statements, and review the bank reconciliations.
5. The Board should thoroughly document its annual audit process in the Board minutes.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

**TOWN OF BOVINA**  
PO Box 6  
Bovina Center, New York 13740  
(607)832-4302 \* Fax (607) 832-4666

**Supervisor**

Tina B. Molé

**Members of Council**

Charles McIntosh

Gerald Wright

Mark Rossley

Evelyn Stewart

**Highway Superintendent**

Edward Weber

**Town Clerk**

Catherine Hewitt

**Town Justice**

John H. Way, Jr.

**Tax Collector**

Catherine Hewitt

February 6, 2013

NYS Office of the State Comptroller  
44 Hawley Street, Room 1702  
Binghamton, NY 13901-4417  
Tel: (607) 721-8306 Fax: (607) 721-8313

RE: Response to Draft Examination

Dear Sir or Madam:

Thank you for your report making five recommendations. In response:

1. With respect to the Board's adopting written policies segregating duties, I feel that the level of control that we currently have in place is more than enough. Segregating duties would require hiring an additional staff person, which could not be undertaken without breaching the State mandated tax cap. By admittance of the audit staff there is literally nothing of substance (in terms of problems) that has been found in the operation of the town government.

See  
Note 1  
Page 12

2. The bookkeeper cannot be removed as an authorized signatory on the Town's bank accounts because the same would prohibit him from making the required banking transfers, thus negating a substantive portion of the job of bookkeeper - he could not keep the books. No monies are transferred without the prior knowledge of the Supervisor, or in my absence, the Deputy Supervisor. Since the notification from the OSC that we were told incorrectly that the bookkeeper could sign checks, we have discontinued that practice. (Since January 2008, the bookkeeper has only signed 2 checks in the absence of the signature stamp.)

See  
Note 2  
Page 12

3. The Supervisor will continue signing all Town checks when possible, in my absence the Deputy Supervisor will be contacted by the bookkeeper to sign. I will speak to the Board about the use of the signature stamp at the next board meeting. Having used that stamp for 12 years and never having any issues arise, I am not completely satisfied with the OSC stating that because there is no law allowing that we cannot use that stamp. I may ask the board to consider the use of the stamp in cases where the payments must be made and no signatory is available.

See  
Note 2  
Page 12

4. The Board committee will review the approved warrants with checks cleared as shown on the bank statements and reviewed bank reconciliations on a regular basis.

5. The Board has an audit process which was apparently not objectionable to the Comptroller. The Board reviews the books. The Board has in fact documented this in the minutes. It appears the Comptroller is now suggesting minutes of Town actions be more detailed with respect to that process. While the Town Board believes the Town Board minutes are adequate, if you would provide us with suggested model minutes we would be happy to consider changing.

See  
Note 3  
Page 12

We are pleased that the Comptroller recognizes that the Town is financially balanced and that we are not off one penny in our books. Good accounting of taxpayer money is something taxpayers are certainly entitled to, and this Town Board has provided.

I am also pleased that working together as a Board, we have held the line on taxes while maintaining a less than ½ of 1% property tax increase for the 2013 budget, at a time when many other localities are considerably higher.

I understand the Comptroller's audits The Town Board are meant to show the worst and be critical. The fundamental fact is that every penny in our Town budget is accounted for and we have held the line on spending, taxes, and regulation. Our budgets are not laden with deficits leaving us to play catch up at the end of the year. If New York State government and our Federal government could do the same, we all would be better off.

Thank you for sharing your concerns and we look forward to continuing to operate an efficient and effective government in the Town of Bovina which proudly pinches pennies and holds the line on spending.

Sincerely,

Fina B. Molè

PC: Members of Council

## **APPENDIX B**

### **OSC COMMENTS ON THE TOWN'S RESPONSE**

#### Note 1

Our report identified several internal control weaknesses. As explained to Town officials, when segregation of duties is not practical, mitigating controls should be established.

#### Note 2

There is no authority in the law for the bookkeeper to be a signatory on Town checks.

#### Note 3

Our report identified deficiencies in the Town's annual audit process, including the lack of documentation of the audit. We provided Town officials with an OSC publication on suggested procedures for conducting an annual audit.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

We assessed internal controls over the Town of Bovina's cash receipts and disbursements for the period January 1, 2011 through October 15, 2012. To accomplish our audit objective and obtain valid and relevant audit evidence, we performed the following procedures:

- We interviewed Town officials and reviewed Board minutes and relevant financial records, such as the real property tax roll, checkbook registers, and Board-approved abstracts (warrants).
- We reviewed all the checking account bank statements for the audit period to determine the total number and dollar amount of checks that cleared the bank during this period.
- We compared the 2012 fiscal year tax levy with amounts collected and recorded on bank statements to determine if there were any misappropriated receipts.
- We reviewed the New York State payments made to the Town for the audit period to verify that all payments received were accurately recorded, properly accounted for, and deposited into Town accounts.
- We made inquiries of the Supervisor and bookkeeper to determine what access controls were in place over the signature stamp, who used it, and when the stamp was disposed of (incinerated).
- We reviewed nine canceled check images that cleared the bank on November 1, 2012 to observe and verify whether it appeared that the Supervisor's signature stamp use was discontinued after October 4, 2012.
- We reviewed all bank statements for our audit period to identify all the check sequence numbers used. We then compared those check sequences with the warrants and identified 221 check numbers not listed. We determined if any of the unlisted check numbers cleared the bank and identified 209 such checks. We then confirmed whether any of these checks were Board-approved or if they were properly voided and defaced.
- We identified 49 higher-risk disbursements<sup>6</sup> from the accounting software disbursements detail totaling \$14,009 for the audit period (27 from fiscal year 2011 and 22 from fiscal year 2012). We reviewed backup documentation on claims for these to ensure that no improper payments were made.
- We reviewed canceled check images for all inter-fund transfers contained on the bank statements during our audit period to identify all checks written and manually signed by the bookkeeper and observe whether the Supervisor's signature stamp was used. We identified two checks

<sup>6</sup> Higher risk disbursements included non-payroll payments to the Supervisor, bookkeeper, Highway Superintendent, Justice, Town Clerk/Tax Collector, Water Superintendent, Board members, and personal type expenditures such as utilities (e.g., phone, electric, heating oil).

signed by the bookkeeper and verified that these were Board-approved transfers (noted in the Board minutes) from checking to savings accounts (within the same fund) and that they were deposited into proper Town accounts.

- We made inquiries of two Board members to document their annual audit process and determine what records they looked at, how they use the records, and how long the process takes.
- We reviewed all canceled check images (both sides) from 10 bank accounts for five months<sup>7</sup> during our audit period to verify that check endorsements agreed with the payee.

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 objectives.

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<sup>7</sup> Our sample included the following five months and 10 bank accounts: October 2011 – trust and agency and general checking accounts, November 2011 – highway and water checking accounts, January 2012 – trust and agency and sewer checking accounts, July 2012 – general and highway checking accounts, September 2012 – water and general checking accounts.

## APPENDIX D

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