



# Village of Hillburn

## Internal Controls Over Cash Receipts and Disbursements

### Report of Examination

Period Covered:

June 1, 2012 — October 24, 2013

2013M-392



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**

April 2014

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 Hillburn, 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 Village of Hillburn (Village) is located in Rockland County, in the Town of Ramapo. The Village comprises 2.2 square miles with a population of approximately 950 people, according to the 2010 census. The Village provides various services to its residents, including water, garbage collection, snow removal, street maintenance and general government support.

The Board of Trustees (Board) includes three members and is responsible for managing Village operations. The Mayor, who is a member of the Board, serves as the Village's chief executive officer. The Clerk-Treasurer is responsible for the receipt, disbursement and custody of Village moneys in addition to maintaining accounting records.

The Village's general fund appropriations for fiscal years 2011-12 and 2012-13 were approximately \$1.4 million and \$1.5 million, respectively.

## Objective

The objective of our audit was to review the Village's cash receipt and disbursement practices. Our audit addressed the following related question:

- Did the Board ensure that all moneys collected were recorded and deposited in an accurate manner and disbursed appropriately?

## Scope and Methodology

We examined the Village's cash receipt and disbursement practices for the period of June 1, 2012 through October 24, 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 is 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 that 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 Receipts and Disbursements

The Mayor and Board are primarily responsible for oversight of all of the Village's financial operations. Oversight becomes particularly important in operations where adequate segregation of duties is not possible. When circumstances do not permit an adequate segregation of duties, the Board must ensure that Village officials provide compensating controls, such as management oversight, to safeguard Village assets. In addition, duplicate pre-numbered receipts should be issued whenever cash is received, and cash held should be kept in a secure location until it is deposited. All claims for disbursement must be audited by the entire Board and include department head approval.

The Board needs to improve its oversight of the Village's financial operations. The Board has not developed policies and procedures for cash receipt and disbursement duties. As a result, the Clerk-Treasurer's duties are not segregated and Village officials do not provide adequate compensating controls, such as ensuring that bank reconciliations are properly performed and reviewed. The Village's most recent bank reconciliation, for example, showed an unreconciled difference of \$11,451. In addition, the recreation department does not issue pre-numbered duplicate receipts for all transactions, and an aide for the youth department is allowed to take cash receipts home before bringing them to the Clerk-Treasurer for deposit. Also, more than half of the claims we reviewed were either not audited by the entire Board or lacked the required department head approval, and Village personnel do not review canceled check images to reduce the risk of inappropriate disbursements. As a result, there is an increased risk of errors and irregularities occurring without detection.

### Segregation of Duties

Segregation of duties is the division of key tasks and responsibilities among various employees. No one individual should control all the key aspects of a transaction. By separating tasks and responsibilities, such as receiving, recording, depositing, disbursing and reconciling assets, management can reduce the risk of error, waste or wrongful acts occurring or going undetected. However, in cases where tasks cannot be effectively separated, management can substitute increased supervision as an alternative control activity that can help prevent or reduce these risks. Monthly bank reconciliations of all accounts should be prepared by an employee who does not have check-writing or deposit responsibilities.

The Clerk-Treasurer performs most of the Village's financial duties, including receiving cash, preparing and making deposits, entering cash receipts and other information in the accounting records, preparing

claims and entering them into the accounting software, presenting claims packages to the Board, cosigning checks and mailing them, preparing monthly bank account reconciliations and maintaining the cash disbursement journal. Given these responsibilities, the Clerk-Treasurer could initiate improper payments and conceal them.

Neither the Mayor nor the Board established adequate procedures for monitoring the Clerk-Treasurer's duties, reviewed her completed activities or provided any other significant oversight of her duties. For example, bank reconciliations are performed by the Clerk-Treasurer without any independent review. Given the Clerk-Treasurer's incompatible duties, the usefulness of any reconciliation is diminished. As of November 2013, the latest bank reconciliation prepared was for August 2013. This reconciliation shows an unreconciled difference of \$11,451 and five outstanding checks totaling \$6,500 of which two have been outstanding since 2007, one since 2010, one since 2011 and another since March 2012. Village officials have not determined the reason for the differences and have not made the necessary adjustments.

Because the Board did not establish comprehensive policies and procedures to provide guidance and accountability for these functions, the Clerk-Treasurer performed many incompatible functions without any compensating controls. Without adequate supervision, the Village has an increased risk that inappropriate transactions could be initiated and concealed.

## Cash Receipts

A good system of internal controls over cash receipts consists of policies and written procedures that provide a local government with reasonable assurance that its resources are being safeguarded. Village employees should be required to issue duplicate pre-numbered receipts for all cash collections and maintain a daily record of all cash receipts that includes the receipt numbers, dates and amounts collected. Furthermore, cash collections should be maintained in a secure location until deposited in the bank.

The Board did not adopt policies and establish written procedures for the collection, verification and deposit of cash receipts. As a result, Village employees did not have adequate guidelines for handling cash receipts. During our audit period there were two different Clerk-Treasurers, neither of which consistently enforced cash handling procedures, increasing the risk of money being misplaced or lost.

Receipts — Duplicate pre-numbered receipts were not issued for all transactions. Village employees do not issue duplicate receipts for payments received in the mail or by check. In addition, recreation department staff members do not issue receipts that are pre-numbered.

We selected two months (September 2012 and September 2013) and reviewed all departmental cash receipts<sup>1</sup> with the exception of real property taxes and water payments. This included after-school program fees, Village programs and safety permits. Out of \$11,945 in transactions reviewed, \$9,130 did not have pre-numbered duplicate receipts issued for collections and no receipts were issued for transactions totaling \$4,830. This occurred because the recreation department did not issue pre-numbered receipts and receipts were not issued for payments made by checks.

Without controls in place to ensure that pre-numbered receipts are issued and properly accounted for, the Board has no assurance that all of the money collected has been properly accounted for and deposited into Village bank accounts.

Unsecured Cash — The Village youth center does not have a cash drawer, safe or lockbox. An aide collects money for all recreation programs, including the after school program. The aide places collected money in an envelope and takes the envelope home until the next day because there is no secure location at the recreation department. The aide delivers the money to the Clerk-Treasurer the following day for deposit.<sup>2</sup> Permitting the aide to take cash home and having the cash unsecured increases the risk that it will be lost or stolen.

## Cash Disbursements

A good system of internal controls over cash disbursements should include processes and procedures. The audit and approval of claims is one of the most critical elements of the Village's internal control system. The entire Board is required to audit and approve all claims before payment is made.<sup>3</sup> As an alternative, the Board may appoint a claims auditor or a committee of the Board to review claims.

It is essential for each Board member to conduct a thorough review of each claim to determine whether it is a proper and valid charge, to verify that the purchase was incurred by an authorized official and to ensure that each claim is itemized, includes a receipt for the goods or services purchased and includes confirmation of delivery of goods. Approval should be documented by the signatures or initials of all Board members with dates reviewed on each claim and by entries in the minutes of the Board proceedings. Furthermore, for purposes of audit, General Municipal Law (GML) requires municipalities to

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<sup>1</sup> Transactions reviewed consisted of recreation and youth program receipts, fire safety permits, planning Board applications and death certificates.

<sup>2</sup> The former Clerk-Treasurer did not issue receipts to the aide for the totals collected.

<sup>3</sup> Certain claims may be paid prior to Board audit (e.g., fixed salaries, debt service, public utility services, postage, freight and express charges). All other claims require Board approval before payment.

keep canceled check or images of the canceled check for all cash disbursements.

Controls over cash disbursements were not adequate. The Village does not have written procedures covering disbursements. Not all claims are audited by the entire Board prior to payment as required. In addition, there is no review of canceled checks or canceled check images by a Village official who is independent of the cash disbursement process.

Claims Auditing — The Board must establish a claims audit process to effectively audit claims prior to payment to ensure that only valid Village expenditures are approved for payment. Village Law requires that the claims be audited by the entire Board, a Board-appointed claims auditor or a formally appointed committee of the Board. Claims against the Village must contain sufficient documentation and be approved by department heads before being approved for payment.

The Board has not established an effective claims auditing process. Village officials told us that all claims should be audited by the Mayor and the other two members of the Board, and that they should signify their audit by signing each individual claim. However, not all claims were audited by the entire Board prior to payment, as required. We tested 50 randomly selected claims totaling \$27,268 and found that 12 claims were signed by either the Mayor or by two Board Members. In addition, 24 claims lacked required department head approval. We found deficiencies in 27 of the 50 claims and 10 of the claims tested (20 percent) were missing both the required number of approvals and department head approval.

Check Images — GML requires local governments to maintain either canceled checks or check images showing both the front and back of the checks for all disbursements. Good internal controls over cash disbursements include processes and procedures requiring the review of canceled checks or canceled check images by a Village official who is independent of the cash disbursement process. The review of canceled checks or check images helps reduce the risk that inappropriate disbursements will occur and go undetected.

Village officials have not established procedures requiring the review of canceled checks or canceled check images by a Village official who is independent of the cash disbursement process. The Village does not receive canceled checks or canceled check images for the general fund, trust and agency fund or the payroll account along with their bank statements. However, Village personnel do have access to view canceled check images through online banking for up to six months from when checks have cleared the bank for all of their accounts.

Although they have this capability, canceled check images are not reviewed or compared to the cash disbursements journal. In addition, Village personnel do not print check images to maintain a record of canceled checks along with the bank records or bank reconciliations.

Because of these weaknesses, we examined 60 randomly selected disbursements to determine whether they were supported and were for legitimate Village expenditures. We obtained images for 10 checks totaling \$8,216 that we examined for propriety and found no exceptions. For the remaining 50 checks totaling \$27,268, no images were available for review. However, we traced these disbursements to the claims packages and the payments appeared to be legitimate Village expenditures.

Although we did not find any material errors or discrepancies, the lack of a proper claims audit process and the lack of any comparison of disbursements to canceled checks or check images results in an increased risk that inappropriate transactions could be initiated and remain undetected.

## **Recommendations**

1. The Board should adopt written policies and procedures to provide guidance on cash receipt and disbursement functions, including segregating incompatible duties where possible.
2. The Board should routinely monitor the Clerk-Treasurer's work by reviewing bank reconciliations in conjunction with check images and accounting records/reports to ensure that all cash disbursements are supported by appropriate documentation.
3. Village officials should investigate and determine the reasons for the bank reconciliation differences identified in this report and make necessary adjustments to Village records.
4. The Board should review all bank reconciliations to ensure that they are performed properly and that discrepancies are investigated and corrected immediately.
5. The Board should adopt policies and establish written procedures to ensure that pre-numbered receipts are issued for all collections. The receipt numbers should be issued sequentially and accounted for.
6. Village officials should ensure that all cash assets are kept on Village premises in a secure location, such as a cash drawer, safe or lockbox, until they are deposited.

7. The entire Board, a Board-appointed claims auditor or a formally appointed committee of the Board should audit and sign all claims presented for payment. The claims audit should include a verification that each claim includes the required department head approval.
8. The Board should establish a procedure requiring the review and retention of all canceled checks or canceled check images by a Village official who is independent of the cash disbursement process.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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

Eleanor J. DeGraw, Trustee  
Bonnie O'Brien, Trustee  
Mary M. Boone } Clerk-Treasurer

## Village of Hillburn

31 Mountain Avenue  
Hillburn, New York 10931  
INCORPORATED JULY 24, 1893

CRAIG M. FLANAGAN JR, Mayor  
PHONE (845) 357-2036  
FAX (845) 357-4933

Elizabeth K. Cassidy, Attorney  
Brian D. Nugent, Village Justice

April 15, 2014

[REDACTED]  
Division of Local Government and School Accountability  
Office of the State Comptroller  
33 Airport Center Drive (Suite 103)  
New Windsor, New York 12553

✓ FAX: 845-567-0080

RE: Village of Hillburn Draft Report  
Internal Controls Over Cash Receipts and Disbursements  
Report of Examination  
Period Covered: June 1, 2012 – October 24, 2013

Dear [REDACTED]

Thank you for the referenced Examination/Audit that was done and the Exit Conference that was held to go over the findings and recommendations.

The listed recommendations are being duly addressed by the Village Board and measures are being taken to comply with same to safeguard the Village of Hillburn.

Respectfully,

Craig M. Flanagan, Jr., Mayor  
Village of Hillburn

CMF/mb  
Cc: Village Board

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

We interviewed Village officials and gained an understanding of the Village's cash receipt and disbursement procedures.

We obtained and verified the most recent bank reconciliation to supporting records. We also determined if bank reconciliations were reviewed by anyone other than the Clerk-Treasurer, who performed the reconciliations.

We reviewed departmental fees received and traced receipts to deposit slips and bank statements.

We traced 50 randomly selected non-payroll checks to the claim packages to verify the existence of the claims and to ensure that the disbursements were properly audited and approved by the Board.

We examined 10 canceled check images for payees, dates, amounts and endorsements, and traced to vouchers to determine if they were for proper Village expenditures

We verified the general fund check sequence integrity from June 2012 through October 2013, for a total of 1152 checks totaling approximately \$1.8 million, and verified the status of any missing check numbers.

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.

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