

# Village of Sandy Creek

## Cash Receipts and Disbursements

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OFFICE OF THE NEW YORK STATE COMPTROLLER  
Thomas P. DiNapoli, State Comptroller

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# Report Highlights

## Village of Sandy Creek

### Audit Objective

Determine whether the Board ensured that receipts were properly billed, collected and accounted for, and disbursements were supported and for proper Village purposes.

### Key Findings

- The Clerk-Treasurer performed all the financial duties with limited Board oversight.
- The Board did not require an annual audit of the Clerk-Treasurer's records and reports.
- The Village paid claims totaling \$91,247 that did not have proper detail and support.

### Key Recommendations

1. Segregate the Clerk-Treasurer's duties or establish sufficient compensating controls to provide additional oversight of her work.
2. Ensure that the Clerk-Treasurer's records and reports are audited annually.
3. Ensure all claims have proper detail and support before authorizing them for payment.

Village officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

### Background

The Village of Sandy Creek (Village) is located in Oswego County.

The Village is governed by an elected Board of Trustees (Board) and a Mayor. The Board is the legislative body responsible for oversight and general management of Village financial operations. The Mayor is the Village's chief executive officer responsible for day-to-day Village management. The Clerk-Treasurer, who is appointed by the Mayor, is responsible for maintaining custody of all Village money, maintaining the accounting records, preparing financial reports, billing and receiving water rent revenues and preparing and signing checks.

#### Quick Facts

\$561,329	<b>2017 budget</b>
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770	<b>Residents</b>
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5	<b># of employees</b>
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1.4 Square Miles	<b>Area</b>
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### Audit Period

June 1, 2015 – August 31, 2016

# Cash Receipts and Disbursements

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## What is Adequate Oversight Over Cash Receipts and Disbursements?

To maintain an effective system of internal controls over cash receipts and disbursements, the Board should segregate financial duties so that no one individual controls all phases of a transaction. One individual should not have the ability to authorize, execute and record a transaction or control the entire cash receipts and disbursements process. When it is neither practical nor cost-effective to segregate duties, the Board must ensure compensating controls are in place. Compensating controls include oversight procedures designed to reduce the risk of errors or irregularities not being detected. These controls provide for a routine review of work performed by individuals who have custody of assets and approve or record transactions affecting those assets. In addition, policies and procedures over cash receipts and disbursements should be established to ensure that all amounts due are properly billed, collected, deposited and accounted for, and disbursements are for proper Village purposes.

Furthermore, Village law requires the Board to audit, or cause to be audited, the Clerk-Treasurer's records and reports on an annual basis.<sup>1</sup> The audit serves as an important internal control over cash receipts and disbursements by providing independent verification that transactions have been properly recorded and that cash has been properly accounted for. It also provides Board members with an added measure of assurance that the financial records and reports contain reliable information on which to base financial decisions.

## The Board Has Not Segregated Financial Duties or Established Compensating Controls

The Board has not adopted any policies and procedures related to the receipt and disbursement of cash, and it has not sufficiently segregated financial duties. The Clerk-Treasurer performed all aspects of the Village's financial and recordkeeping duties, including:

- Receiving and disbursing money;
- Processing and distributing payrolls;
- Billing and recording water rents and property taxes;
- Maintaining the Village's accounting records and preparing financial reports; and
- Preparing and certifying claims abstracts.

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<sup>1</sup> See the Local Government Management Guide, entitled *Fiscal Oversight Responsibilities of the Governing Board*, for more information on the Board's annual audit responsibilities: [http://www.osc.state.ny.us/localgov/pubs/lmgmg/fiscal\\_oversight.pdf](http://www.osc.state.ny.us/localgov/pubs/lmgmg/fiscal_oversight.pdf)

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The Village also employs a part-time Deputy who works one day each week to assist the Clerk-Treasurer with some of her duties. The Village shares a municipal building with the Village of Lacona. The Village of Lacona's Deputy Clerk-Treasurer also collects, records and deposits receipts on behalf of the Village of Sandy Creek in the absence of its Clerk-Treasurer and Deputy. However, the Village of Lacona's Deputy Clerk-Treasurer performs these functions without any vesting of authority by the Village of Sandy Creek, such as an intermunicipal agreement, or by the appointment of Lacona's Deputy Clerk-Treasurer as a Deputy Clerk-Treasurer for Sandy Creek. Moreover, the Village of Lacona's Deputy Clerk-Treasurer performs these functions without coverage under a bond or undertaking, which could expose the Village of Sandy Creek to an uninsured risk of loss from dishonest or fraudulent acts.

In addition, the Board has not implemented adequate compensating controls to mitigate risks associated with the lack of segregation of duties, such as designating the Mayor or a Board member to regularly review journal entries, bank reconciliations, bank statements, electronic transfers and canceled checks, and to review and certify the payrolls. Also, the Board does not perform or contract for an annual audit of the Clerk-Treasurer's records. Without proper Board oversight or compensating controls, there is an increased risk of errors or irregularities occurring and not being detected and corrected.

### **Cash Receipts Lacked Supporting Documentation**

We reviewed 743 cash receipts totaling \$469,851<sup>2</sup> and found all receipts were properly recorded and deposited intact. However, for 490 receipts totaling \$149,133 (66 percent of those tested), we were unable to determine whether they were deposited timely because the Clerk-Treasurer did not always issue duplicate receipts or maintain supporting documentation when collecting moneys.

In addition, we reviewed 102 water billings totaling \$19,068 to determine whether billings were properly calculated according to Board-approved rates and collected. We also reviewed 27 water payments collected after the billing cycle due date to determine whether penalties were properly assessed. With minor exceptions, we found water billings were properly calculated, recorded and deposited, and penalties were properly assessed and calculated.

The Village has an increased risk that cash receipts could be lost, stolen or misappropriated without detection because press-numbered duplicate receipts are not issued for all collections and supporting documentation is not maintained. In addition, there is no routine review of cash receipts activity by an individual who is independent of the collections process.

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<sup>2</sup> Water rents – 445 receipts totaling \$97,432; Property Tax – 252 receipts totaling \$93,319; Other (i.e., Sales tax, fire protection contract, permits) – 46 receipts totaling \$279,100

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## The Village Lacks Assurance That All Disbursements Are For Legitimate Village Purposes

We reviewed and compared 127 canceled check images totaling \$197,462 that cleared the bank during our audit period to Board-approved invoices or Board-approved pay rates for payroll-related disbursements to determine whether disbursements were proper and for appropriate Village purposes. In addition, we reviewed 42 transfers totaling \$561,327 and 61 electronic payments totaling \$19,868 to determine whether these payments were properly supported, authorized and for legitimate purposes. We found exceptions totaling \$91,247:

- Eighteen claims totaling \$57,736 were Board-approved and paid to the Sandy Creek Lacona Joint Waterworks.<sup>3</sup> However, the claims lacked supporting documentation to show that these payments were for legitimate Village purposes. We followed up on these payments and determined that they were for legitimate Village purposes. In addition, two of the payments totaling \$6,776 were transfers to the bank account of the Sandy Creek Lacona Joint Waterworks, which were not approved by the Board. Although the Village may make bank transfers between its own bank accounts, it should not make transfers to the accounts of other entities without Board knowledge and approval.
- Five claims totaling \$33,511 were paid to an individual on a contractual basis for various services performed for the Village based on vouchers submitted. However, Village officials did not maintain appropriate documentation to show that \$29,511 of these claims was supported and paid at the Board-approved rate. These claims consisted of the following:
  - The Village paid \$17,200 (688 hours at \$25.00 per hour) for services that did not have Board approval or a contractually agreed upon rate to be paid. These services included street and storm drain cleaning, maintenance of the Village water system including meter reading and repair, leak repair and water shutoffs; and other miscellaneous services such as installing decorations and flags.
  - The Village paid \$11,041 for 112 hours of machinery rental. However, the claims did not specify the type of equipment rented to show that the rate billed was in agreement with the Board-approved rates, which ranged from \$55 to \$75 per hour for three pieces of equipment.
  - The Village paid \$4,800 for 24 occasions of snowplowing at a Board-approved rate of \$200 per occasion. However, vouchers submitted only

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<sup>3</sup> The Sandy Creek Lacona Joint Waterworks is a joint activity between the Villages of Sandy Creek and Lacona in which the two municipalities have joint ownership of the water source and supply. The Clerk-Treasurer also serves as the fiscal officer for the joint activity.

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supported 20 occasions, resulting in an overpayment of \$800. After we brought the overpayment to the Board's attention, it took the necessary action in February 2017 to recover the funds by reducing the contractor's payment for services rendered in January 2017.

- The Village paid \$470 for "water leaks" on a specific day with no breakdown provided to show the hours billed at a labor rate versus equipment rental rate.

When the Board approves claims that lack adequate detail or supporting documentation, there is an increased risk that payments may not be for legitimate Village purposes, the goods or services may not have been received or the Village will pay more than necessary.

### **What Do We Recommend?**

The Board should:

1. Segregate the Clerk-Treasurer's financial duties or establish sufficient compensating controls to provide additional oversight of the Clerk-Treasurer's work.
2. Conduct an audit, or arrange for an audit, of the Clerk-Treasurer's records and reports on an annual basis.
3. Consult with the Village attorney and take the necessary actions to ensure the Village is properly vesting authority to, and adequately protected when utilizing the services of, the Deputy Clerk from the neighboring municipality to assist with handling and recording Village receipts.
4. Formally authorize the hourly rate the Village will pay to the independent contractor for services rendered.
5. Ensure all claims have proper detail and support before authorizing them for payment.

# Appendix A: Response from Village Officials

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*Village of Sandy Creek*  
P.O. Box 240  
Sandy Creek, New York 13145-0240  
Telephone (315) 387-5781  
Fax (315) 387-5782  
Email: [villagesc@frontier.com](mailto:villagesc@frontier.com)

April 3, 2017

Rebecca Wilcox, Chief Examiner  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, NY 13202-1428

Dear Ms. Wilcox:

The Board of Trustees of the Village of Sandy Creek has received the draft audit report of Examination 2017M-036. We have met to review the findings and are in agreement with the audit recommendations.

The Board will segregate financial duties of the Clerk-Treasurer and ensure compensating controls. The Deputy Clerk, Mayor, or Board member will regularly review financial duties of the Clerk-Treasurer to provide additional oversight.

An audit of the records of the Clerk-Treasurer will be conducted annually.

The village attorney will be consulted to arrange an agreement which will vest authority to the Deputy Clerk of the Village of Lacona, who assists in handling and recording receipts of the Village of Sandy Creek due to the sharing of the office.

The Board will authorize the hourly rate paid to independent contractors for services rendered.

Claims will be have proper detail and support to exhibit legitimate purpose before Board authorization. It will be determined if goods and services have been received and paid at the proper rate.

The Board appreciates the efforts of the Office of the State Comptroller and plans to develop procedures to implement the recommendations.

Sincerely,

Grant J. Rohmoser  
Mayor

## Appendix B: Audit Methodology and Standards

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We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of New York State General Municipal Law. Our overall goal was to determine whether the Board ensured that receipts were properly billed, collected and accounted for, and disbursements were supported and for proper Village purposes. To achieve this goal and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Village officials and reviewed Board minutes and Village policies and procedures to obtain an understanding of the internal controls over cash receipts and disbursements.
- We judgmentally selected four months of bank statements (June 2015, July 2015, November 2015, May 2016) and identified and traced all receipts to the accounting records, to determine whether they were recorded properly, and to deposit compositions, to determine whether the payments were deposited intact and in a timely manner. We reviewed all property tax receipts, water collections, and other Village Clerk fees received and deposited on these statements. We specifically chose these four months because water collections are twice a year (November and May) and June and July had a large amount of tax receipts. In addition, we traced all payments received from New York State and Oswego County during our audit period to the related deposits.
- We reviewed 102 water bills to determine whether the correct rates were being charged and recalculated the bills for accuracy. To select our sample, we chose all customers who paid in cash and the first 30 customers who paid by check. We also included the following higher risk accounts in our sample: the Clerk-Treasurer, the Deputy Clerk, two trustees, the Mayor and the outside contractor who reads the water meters.
- We reviewed a sample of 27 water payments received after the billing due dates to determine the accuracy of penalties on late payments.
- We reviewed all bank statements received during our audit period. We traced all bank transfers from these statements to deposits in other accounts and determined whether the transfers were properly recorded and appropriate.
- We compared a listing of water customers to Village property tax rolls to determine whether all customers receiving water services were being billed.
- We compared 89 canceled checks images with the Board-approved invoices to determine whether these disbursements were properly supported and authorized. To select our sample, we used a random sample generator to select three months during our audit period, and we reviewed all checks

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disbursed during those months. In addition, we selected all checks paid from the capital project account.

- We reviewed 38 canceled check images to determine whether these disbursements were adequately supported, Board-approved and legitimate Village purchases. We selected our sample by choosing higher-risk vendors based on vendor type, payments made to an outside contractor, and payments made to the Sandy Creek Lacona Joint Waterworks because the Clerk-Treasurer is also the Waterworks' bookkeeper. In addition, we reviewed all payroll payments to the Clerk-Treasurer to determine whether they were paid according to Board-approved pay rates.

We conducted this performance audit in accordance with GAGAS, generally accepted government auditing standards. 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided 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 Board to make the CAP available for public review in the Town Clerk's office.

## Appendix C: Resources and Services

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[www.osc.state.ny.us/localgov/regional\\_directory.pdf](http://www.osc.state.ny.us/localgov/regional_directory.pdf)

**Local Government Management Guides** – Series of publications that include technical information and suggested practices for local government management

[www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm](http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm)

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## Contact

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Division of Local Government and School Accountability  
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: [localgov@osc.state.ny.us](mailto:localgov@osc.state.ny.us)

[www.osc.state.ny.us/localgov](http://www.osc.state.ny.us/localgov)

Local Government and School Accountability Help Line: (866) 321-8503

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**SYRACUSE REGIONAL OFFICE** – Rebecca Wilcox, Chief Examiner

State Office Building, Room 409, 333 E. Washington Street, Syracuse, NY 13202-1428

Tel: (315) 428-4192 • Fax: (315) 426-2119 • Email: [Muni-Syracuse@osc.state.ny.us](mailto:Muni-Syracuse@osc.state.ny.us)

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