

# Village of Andover

## Water and Electric Cash Receipts

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OCTOBER 2019

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

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# Report Highlights

## Village of Andover

### Audit Objective

Determine whether water and electric cash receipts were recorded and deposited in a timely and accurate manner.

### Key Findings

- We reviewed 1,963 water and electric cash receipts totaling \$184,500 and found that they were properly recorded and deposited in a timely manner. However, the Board has not established adequate controls over these receipts.
- Village officials did not adequately segregate the Deputy Clerk-Treasurer's (Deputy) water and electric financial duties or provide oversight of her work. As a result, the Deputy had complete control over water and electric cash receipts and was able to make adjustments to customer accounts and delete transactions without proper oversight.

### Key Recommendations

- Segregate the Deputy's financial duties or establish compensating controls, such as providing additional oversight of the Deputy's work.

Village officials generally agreed with our recommendations and indicated that they have initiated or planned to initiate corrective action. Appendix B includes our comment on an issue raised in the Village's response.

### Background

The Village of Andover (Village) is located in Allegany County. The Village is governed by an elected Board of Trustees (Board) composed of four trustees and the Mayor. The Board is responsible for the general management and control of finances and safeguarding assets.

The Mayor is the chief executive officer and appoints all non-elected officers subject to the Board's approval. The Clerk-Treasurer (Treasurer) is the chief financial officer and is responsible for collecting and depositing all funds, maintaining accounting records and preparing financial reports. The Deputy assists the Treasurer with these duties and is primarily responsible for billing, collecting and depositing water rents and electric charges.

#### Quick Facts

Population	1,042
Water and Electric Customers	570
2018-19 Budgeted Water Rents	\$190,000
2018-19 Budgeted Electric Charges	\$498,000

### Audit Period

June 1, 2016 – June 13, 2019

# Water and Electric Cash Receipts

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## How Should Officials Safeguard Water and Electric Cash Receipts?

Adequate accounting records and effective procedures need to be in place to properly account for water and electric cash receipts. A village treasurer is responsible for ensuring all such receipts are properly recorded, deposited in a timely manner and accounting records are up-to-date, complete and accurate.

If the treasurer assigns financial duties to another employee, such as a deputy, the treasurer must provide sufficient oversight to ensure suitable records are maintained and water and electric cash receipts are accurately recorded and deposited in a timely manner. A board is responsible for establishing adequate controls over water and electric cash receipts, which should include adopting written policies, segregating key duties to ensure that one employee does not perform all phases of a transaction and using press-numbered duplicate receipts.

Properly segregating duties ensures that one employee is not responsible for all phases of a transaction (e.g., recordkeeping, billing, and collecting and depositing cash receipts). When staffing levels prevent this, the board should ensure that compensating controls, such as supervisory oversight and review, are in place to safeguard cash receipts. For example, customer account adjustments or corrections should be properly supported, reviewed by the treasurer and approved by the board.

## Officials Had Inadequate Water and Electric Cash Receipt Procedures and Records Were Incomplete

We reviewed 1,963 water and electric cash receipts totaling \$184,500 collected during four months of our audit period. We found that they were properly recorded and deposited timely and intact (in the same amount and form – cash or check – as received).<sup>1</sup> In addition, we reviewed water and electric billings for 33 customer accounts and found that water and electric use was properly billed.

The Deputy was responsible for recording water and electric use, printing and sending bills to customers, collecting payments, recording payments in the customers' accounts and making adjustments to customer account balances with no oversight. As a result, the Village had an increased risk that water and electric collections could be lost, stolen or misappropriated without detection because the Board did not adopt written cash receipt policies, Village officials did not properly segregate the Deputy's cash receipt duties and the Treasurer did not adequately oversee the Deputy's work.

We reviewed all the water and electric account adjustments totaling approximately \$3,000 made to 33 customer accounts during four months of our audit period. We

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<sup>1</sup> See Appendix C for information on our methodology.

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found that these adjustments were made for appropriate purposes. However, the Deputy made these adjustments without retaining supporting documentation and the review and approval of another official or Board authorization. Additionally, the Deputy did not issue press-numbered duplicate receipts for all water and electric collections or maintain a daily cash log or cash receipts journal.

Because the computerized water and electric billing and accounting software automatically generated a receipt number for all payments entered into the system, we reviewed the number sequence for the receipts automatically generated during four months of our audit period to determine whether there were any large gaps in sequence. We identified 320 gaps in the number sequence, which indicated that there were 320 missing payments.

With the assistance from the software vendor, we determined that these gaps were caused by payments being deleted. These payments were deleted without any notation made in the system or supporting documentation to show why they were deleted. While the Treasurer and Deputy provided us with reasonable explanations for 251 deleted payments,<sup>2</sup> they were unable to provide an explanation for the remaining 69 deletions.

A representative from the software vendor told us that it was not possible to recover the deleted information but thought the deletions could have been caused by automated system postings. For example, when a customer pays more than the amount due, the system will automatically post the overpayment as a credit to the following billing cycle and a receipt number is generated. However, when we attempted to reconcile the remaining gaps to the automatic entries, we found that the number of automatic entries and the dates they were posted did not correspond to the number of gaps or date ranges when the gaps occurred.

These payments could have been deleted to correct payments that were incorrectly recorded (e.g., applied to the wrong customer account or for the wrong amount) but because the Deputy did not retain documentation when she deleted payments and the vendor could not recover the deleted information, officials cannot be certain that all receipts were recorded and deposited. Ideally, transactions should never be deleted, instead corrections should be made by recording adjusting journal entries approved by the Treasurer or other official.

Because the Deputy had complete control over water and electric cash receipts, could make adjustments to customer accounts and delete transactions without any oversight, there was an increased risk of errors or irregularities occurring and not being detected and corrected.

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<sup>2</sup> The majority of deleted payments (214) were caused by processing errors in batch files during the posting of electronic bank to bank transfers (ACH transfers for online payments). The remaining 37 deleted payments were subsequently posted to customer accounts and deposited.

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## What Do We Recommend?

The Board should:

1. Adopt written policies and develop procedures for collecting and accounting for water and electric cash receipts to address segregation of duties or implement compensating controls if segregating duties is impractical.
2. Require the Treasurer (or other official not involved in the collection of water and electric receipts) to review and approve all adjustments and corrections before they are entered in the accounting system.

The Treasurer should:

3. Oversee the Deputy's work to ensure that all cash collections are properly receipted, recorded and deposited.
4. Ensure that press-numbered duplicate receipts are issued for all collections and a daily cash log or cash receipts journal is maintained.
5. Require the Deputy to retain sufficient supporting documentation for any adjustments or corrections to customer accounts.
6. Discontinue the practice of deleting transactions.

# Appendix A: Response From Village Officials

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## **Village of Andover**

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**OFFICE OF THE CLERK**

**Phone 607-478-8455**

**Fax 607-478-8928**

October 10, 2019

Unit Name: Village of Andover

Audit Report Title: Water and Electric Cash Receipts

Audit Report Number: 2019M-152

Please find below the Village of Andover corrective action plan for each of the recommendation that was included in the most recent audit report.

### **Audit Recommendation #1:**

Adopt written policies and develop procedures for collecting and accounting for water and electric cash to address segregation of duties or implement compensation controls if segregating duties is impractical.

### **Implementation plan of action:**

Based on the auditor's recommendation, the Andover Village board immediately adopted new policies and procedures for collecting and accounting for water and electric receipts and segregation of duties.

**Implementation date:** March 12, 2019

### **Audit Recommendation #2:**

Require the Treasurer (or other official not involved in the collection of water and electric receipts) to review and approve all adjustments and corrections before they are entered in the accounting system.

### **Implementation plan of action:**

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The Board of Trustees adopted a policy for adjustments; they will be approved by the Mayor before adjustment is made. The Deputy Clerk will no longer make adjustments; the Village Clerk will make all adjustments.

**Implementation date:** March 12, 2019

**Audit Recommendation #3:**

The Treasurer should oversee the Deputy's work to ensure that all cash collections are properly receipted, recorded and deposited.

**Implementation plan of action:**

The Village Clerk will look over Deputy's work on a daily basis to make sure all collections are recorded correctly.

**Implementation date:** November 5, 2018

**Audit Recommendation #4:**

The Treasurer should ensure that press-numbered duplicate receipts are issued for all collections and a daily cash log or cash receipts journal is maintained.

**Implementation plan of action:**

In October of 2018 the Auditor recommended that we keep a daily cash receipt journal. We took his recommendation and have been completing a cash receipt journal daily since that date. We were giving the press-numbered cash receipts to customers who came in without their bill, with the Auditor's recommendation we started writing press-numbered receipts for all customers.

**Implementation date:** November 5, 2018

**Audit Recommendation #5:**

The Treasurer should require the Deputy to retain sufficient supporting documentation for any adjustments or corrections to customer accounts.

**Implementation plan of action**

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The Deputy is no longer making any adjustments or corrections on any customer accounts. The Village Clerk is now making any adjustments or corrections on customer accounts with Mayor approval.

**Implementation date:** April 1, 2019

**Audit Recommendation #6:**

The Treasurer should discontinue the practice of deleting transactions.

**Implementation plan of action:**

The Deputy is no longer making any deleting of transactions; once the payments are posted to the billing system you can no longer delete any transaction. Neither the Clerk nor the Deputy Clerk has the ability to delete any transaction receipt from the accounting software. Deleting transactions will no longer be an option.

**Implementation date:** April 1, 2019

We do not feel that the 69 missing software generated receipt numbers are deleted payments. We cannot delete a software generated receipt number from the billing software. Once a transaction is posted/finalized in our billing software system, we cannot delete the transaction.

See Note 1 Page 8
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\_\_\_\_\_  
Melanie Thorp Deputy Mayor

10/10/2019  
\_\_\_\_\_  
Date

## Appendix B: OSC Comment on the Village's Response

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### Note 1

The software vendor told us that transactions can be deleted by customer service representatives when requested by Village officials. The vendor's representatives were unable to determine how these transactions were deleted, who deleted them or if the deleted cash receipts represented deleted payments.

## Appendix C: 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 the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials and employees to gain an understanding of the processes and procedures in place for collecting, recording and accounting for water and electric cash receipts.
- We used our professional judgment to select four months (June 2017, July 2017, June 2018 and July 2018) and reviewed all 1,963 water and electric cash receipts deposited during these months to determine whether they were properly recorded. We selected the first two months of the fiscal year because collections and deposits were typically higher during these months.
- We traced all receipts recorded in customer accounts for our four sample months to bank deposits and deposit compositions to determine whether they were deposited intact and in a timely manner. To provide assurance we had accounted for all cash receipts, we reviewed the receipt number sequence for cash receipts recorded to customer accounts during the four sample months and investigated all gaps identified in the receipt sequence.
- We identified 33 customers whose accounts were adjusted during our sample months and obtained the meter read cards/books and reviewed water and electric billings for all these accounts to determine whether water and electric use was correctly billed. We also reviewed the adjustments to assess whether the adjustments were made for valid and appropriate purposes.
- We reviewed overdue water and electric accounts to determine whether unpaid water balances were sent to the County for enforcement and unpaid electric balances were sent to the collection agency.

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 relevant population size and the sample selected for examination.

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 provided to our office within 90 days, pursuant to Section

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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 Clerk-Treasurer's office.

## Appendix D: Resources and Services

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### **Regional Office Directory**

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

### **Cost-Saving Ideas** – Resources, advice and assistance on cost-saving ideas

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

### **Fiscal Stress Monitoring** – Resources for local government officials experiencing fiscal problems

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

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

### **Planning and Budgeting Guides** – Resources for developing multiyear financial, capital, strategic and other plans

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

### **Protecting Sensitive Data and Other Local Government Assets** – A non-technical cybersecurity guide for local government leaders

[www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf](http://www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf)

### **Required Reporting** – Information and resources for reports and forms that are filed with the Office of the State Comptroller

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

### **Research Reports/Publications** – Reports on major policy issues facing local governments and State policy-makers

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

### **Training** – Resources for local government officials on in-person and online training opportunities on a wide range of topics

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

## Contact

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