



City of Hudson

Internal Controls Over Cash Receipts

Report of Examination

Period Covered:

January 1, 2011 — November 13, 2012

2013M-102



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2013

Dear City 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 City Council 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 City of Hudson, entitled Internal Controls Over Cash Receipts. 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 City of Hudson (City) is located in Columbia County and has a population of approximately 6,700 residents. The City is governed by the Common Council, the legislative body which comprises the President and 10 Alderpersons. The Mayor is the chief executive officer responsible for the City's daily operations. The City Charter provides the legal framework of policies within which City officers are to exercise their designated powers and duties. The City Charter establishes the City Treasurer as the custodian of all the property and moneys which the City takes in. The Treasurer is required to deposit moneys in bank accounts established by resolution of the Common Council. The City budget for the 2013 fiscal year totaled approximately \$11.95 million in appropriations.

Objective

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

- Are internal controls over cash receipts appropriately designed and operating effectively to adequately safeguard City assets?

Scope and Methodology

We examined the City's cash receipts for the period January 1, 2011, to November 13, 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 B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with City officials and their comments, which appear in Appendix A, have been considered in preparing this report. City officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Common Council 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 Common Council to make this plan available for public review in the City Clerk's office.

Internal Controls Over Cash Receipts

An effective system of internal controls consists of policies and procedures that allow the Common Council, Mayor, Treasurer, and other City officials to have reasonable assurance that City resources are safeguarded and properly accounted for. It also ensures that cash receipts are recorded, supported, and properly deposited in accordance with the City Charter. The City Charter requires that the City Treasurer collect and be the custodian of all the property and moneys, and deposit all moneys held in the bank or trust company that the Common Council designates as the City depository. However, it might not be practical for the Treasurer to physically collect all cash that all departments generate. If departments collect receipts, appropriate accounting records must be maintained and related bank reconciliations must be performed. The use of centrally distributed duplicate receipts and press-numbered permits, with logs maintained for each, and daily or agreed remittance cycles submitted to the Treasurer would provide City officials with assurance that they are securing City resources.

During the period January 1, 2011, to October 31, 2012, City Departments other than the Treasurer's office collected and reported cash amounting to approximately \$3.6 million as shown in Table 1.

Table 1: Departmental Cash Receipts			
Department	January 1, 2011 – December 31, 2011	January 1, 2012 - October 31, 2012	Total
Clerk	\$60,176	\$42,640	\$102,816
Public Works	\$1,401,984	\$1,308,577	\$2,710,561
Cemetery	\$161,057	\$103,688	\$264,745
Code Enforcement	\$42,630	\$81,985	\$124,615
Police	\$279,793	\$183,445	\$463,238
Youth	\$6,731	\$7,347	\$14,078
Total	\$1,952,371	\$1,727,682	\$3,680,053

Each Department used a different process to collect, report and remit cash to the Treasurer.¹ No one maintained general ledger accounting records or performed formal bank reconciliations for the Clerk's bank account. Each of the other Departments we reviewed procured and issued its own duplicate or triplicate receipts for cash transactions

¹ The Clerk collected cash and deposited it into a separate bank account and periodically issued a check to the Treasurer. The Department of Public Works (DPW), Cemetery, and Code Enforcement Departments collected cash, issued their own duplicate receipts, and entered revenues in the financial computer system that the Treasurer monitored.

without maintaining a log of these receipts. Certain Departments issued permits, which were the supporting documentation for several of these cash transactions, that were generated from standard computer forms and printed on multi-use paper with numbers that were handwritten. Furthermore, one of the Departments did not maintain logs of the permit numbers issued. As a result, City officials could not be certain if they accounted for all cash transactions or permits issued.

City Clerk's Office – The Clerk uses financial software to record cash received in the Clerk's office that is not integrated with the system that the Treasurer uses to maintain the City's financial records. The Clerk deposits cash that is collected in her office into a separate bank account over which the Treasurer has no control. As of October 31, 2012, the bank statement for this account showed a balance of \$3,196.

During the period January 1, 2011, to October 31, 2012, the Clerk collected \$102,816 for various licenses, permits, and fees, such as registrar fees, marriage and dog licenses, and parking permits. The Clerk entered the cash received into the financial software and made deposits into a bank account for which she was the sole signatory. Periodically, she remitted funds to State agencies and on a monthly basis issued a check, which represented the City's portion of the receipts, to the Treasurer. We examined 20² individual cash transactions totaling \$2,194 and three monthly remittances to the Treasurer totaling \$18,852 and traced them to the Treasurer's records. All individual transactions were deposited to the Clerk's bank account and all remittances were recorded in the Treasurer's records. However, neither the Clerk nor the Treasurer maintained general ledger accounting records and no one performed formal bank reconciliations for the Clerk's bank account. Without proper accounting records and periodic bank reconciliations, City officials cannot be certain of the true balance of this account.

Department of Public Works – DPW employees issued duplicate cash receipts for permits and revenue items other than water and sewer charges that they collected. The employees remitted each day's collections directly to the Treasurer for deposit and recording in the financial accounting system. Employees in the DPW entered receipts from water and sewer charges directly into the financial accounting system and remitted the cash collected to the Treasurer. For the period January 1, 2011, to October 31, 2012, the DPW collected cash receipts totaling \$2,710,561. We examined 84 DPW cash transactions that totaled \$83,212, all of which were remitted to the Treasurer intact and properly recorded in the City's financial records. Of this total, 77 were water and sewer transactions for which employees did not issue

² See Appendix B for sample selection

duplicate receipts. DPW procured and issued its own press-numbered, duplicate receipts without maintaining a log of the duplicate receipts purchased and issued. Therefore, City officials could not be certain that they accounted for all cash transactions. In addition, the DPW issued permits that were not press-numbered and were generated from standard computer forms printed on multi-use paper with numbers that were handwritten, and no log was maintained for the numbers issued. As a result, the permits could easily be duplicated, possibly resulting in unauthorized permits.

Cemetery Department – DPW employees are also responsible for the daily operations of the cemetery, which generates revenue from grave diggings and the sale of grave plots. During the period January 1, 2011, to October 31, 2012, the cemetery recorded cash receipt transactions totaling \$264,745. We examined six transactions totaling \$3,788 for which Cemetery Department employees obtained a receipt from the Treasurer indicating that cash for those transactions was remitted intact. Employees collected cash, issued the Cemetery Department’s own duplicate cash receipts, and remitted the cash weekly to the Treasurer. However, they did not maintain a log of the receipts procured and issued. Therefore, City officials cannot be certain that they accounted for all cash transactions.

Code Enforcement Department – The Code Enforcement Department collected \$124,615 during the period January 1, 2011, to October 31, 2012, for revenue that included building, plumbing, and demolition permits, and administrative fees. Code Enforcement Department employees issued triplicate press-numbered receipts which they procured. A copy of each receipt along with the cash collected was remitted to the Treasurer at least once each week. Letters³ or permits were issued on Code Enforcement Department letterhead and stamped indicating certification by the code enforcement officer. A manual record was maintained of all permits issued with numbers assigned to each permit starting with one and using the last two digits of the calendar year. We examined 20 individual transactions totaling \$1,965 that originated in the Code Enforcement Department and found that employees issued triplicate receipts for all 20 transactions. In addition, all deposits were intact and receipts were entered in the Treasurer’s records without any discrepancies or irregularities. However, the Code Enforcement Department also issued permits that were generated from standard computer forms and printed on multi-use paper with numbers that were handwritten. As a result, City officials cannot be certain of the total revenue received from permits and other cash sources because unauthorized permits could be issued and the associated cash not recorded in the City’s accounting records.

³ Letters are issued as statements for code conditions by the Code Enforcement Department for a fee of \$25.

Each department procured and issued its own duplicate receipts and officials and employees in all three departments did not maintain a log of duplicate cash receipts that they procured and distributed. Therefore, the design of internal controls over the City's cash receipts system is inadequate. Without a uniform set of duplicate receipts that are centrally controlled and press-numbered permits, City officials cannot be certain that all receipts and permits issued in the City's name are authorized and included in the overall City revenue. City officials therefore cannot be certain that they are safeguarding all of the City's resources.

Recommendations

1. City officials should develop centralized formal cash collection procedures for all departments.
2. The Treasurer should maintain general ledger accounting records for the Clerk's bank account. A formal reconciliation of the Clerk's bank account balance to the general ledger cash account should be performed monthly.
3. The Treasurer should centrally control and monitor the procurement of duplicate cash receipts used by all Departments, which should include maintaining a log of the duplicate receipts procured and issued.
4. The Common Council should ensure that each department issues press-numbered permits only and maintains a log of the permits procured and issued.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

WILLIAM H. HALLENBECK, JR.
MAYOR



MAYOR'S OFFICE
520 WARREN STREET
HUDSON, N.Y. 12534

PHONE (518) 828-7217

June 19, 2013

Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

To Whom It May Concern;

On May 22, 2013, the City of Hudson received the draft report from the Office of the State Comptroller for the audit of internal controls over cash receipts covering the period from January 1, 2011 – November 13, 2012.

The draft report was reviewed by the Mayor, Common Council President, Treasurer and City Clerk, all of whom attended the exit conference with O.S.C. auditors on May 29, 2013.

The City appreciates the balance in the report which acknowledges over 100 cash transactions were examined and all were found to be remitted to the Treasurer's office intact and properly recorded by the Treasurer's office in the City's financial records.

The City understands and agrees with the recommendations in the draft report and believes that implementation will result in even tighter controls so that the City is assured that all cash transactions are accounted for. The City has already begun the work to develop and implement process control changes, a full description of which will be in the action plan that will be provided after the final report is issued.

Sincerely,

William H. Hallenbeck, Jr.
Mayor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We conducted a risk assessment, and, based on the result, selected cash receipts for audit. To accomplish the objective of our audit, we performed the following steps:

- We interviewed City officials, including the Treasurer, Clerk, and Department heads from the DPW, Code Enforcement, Police, and Youth Departments, to obtain an understanding of the cash receipts procedures that were in place in each Department.
- Based on our interviews and information obtained about these Departments, we selected the City Clerk's office, DPW, Cemetery, and Code Enforcement Departments for audit testing. Our examination included tracing transactions of each Department from source receipt records to duplicate cash receipts, cash receipt reports, deposit slips, and the cash receipt ledger accounts that were maintained by the City Treasurer.
- For the Clerk's office, we traced 20 transactions (11 from 2011 and nine from 2012) to deposit slips, cash reports, and remittance checks paid to the Treasurer and traced these transactions to the City's general ledger accounts.
- For the DPW, we reviewed seven days' of transactions from water and sewer receipts in addition to 13 randomly selected receipts from the receipt books.
- For the Cemetery Department, we reviewed six transactions that were part of the 13 randomly selected receipts included for the DPW testing.
- For the Code Enforcement Department, we reviewed 20 randomly selected transactions from cash receipt books issued during the audit period.
- We reviewed bank statements for the Clerk's bank account to gain an understanding of the type of disbursements made by the City Clerk's office.
- We traced items recorded in the City's general ledger accounts, maintained by the Treasurer, to departmental source documents.

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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Andrew A. SanFilippo, Executive Deputy Comptroller
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