



City of Corning

Misappropriation of Finance Department Cash Receipts

Report of Examination

Period Covered:

July 1, 2012 — March 27, 2014

2014M-140



Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of Local Officials and Corrective Action	6
MISAPPROPRIATION OF FINANCE DEPARTMENT CASH RECEIPTS	7
Recommendations	13
APPENDIX A Response From Local Officials	15
APPENDIX B Audit Methodology and Standards	23
APPENDIX C How to Obtain Additional Copies of the Report	24
APPENDIX D Local Regional Office Listing	25

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2014

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 Corning, entitled Misappropriation of Finance Department 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The City of Corning (City) is located in Steuben County and has a population of approximately 11,000. The City provides services to its residents including fire and police protection, street maintenance, water and sewer utilities, senior programs and parks and recreation programs. The City is governed by the City Charter (Charter), the General Laws of the State of New York and local laws and ordinances. The City is governed by a Mayor and an eight-member City Council (Council). The Council appoints the City Manager (Manager) who serves as chief executive officer.

The Finance Department (Department) manages and accounts for the City's financial resources. The Department is managed by the Director of Finance (Director) who reports to the City Manager. The Department has three employees who process various transactions. Department staff collects and processes various cash receipts¹ directly at a collection window in City Hall and through the mail. The Department also receives and accounts for money collected by other City departments.² The Department reported cash receipt collections of approximately \$4.6 million for the 2012-13 fiscal year and approximately \$2.5 million for the first half of the 2013-14 fiscal year.

Prior to commencing our audit, we were contacted by the City Police Department after City officials had identified irregularities with the Department's daily reconciliations. As a result of the irregularities identified, the former senior account clerk retained legal counsel and subsequently resigned. The Steuben County District Attorney's office was contacted during our audit. On July 2, 2014, the former senior account clerk was charged with one count of grand larceny in the third degree, which is a class D felony.

Scope and Objective

The objective of our audit was to evaluate the Department's cash receipt collection process for the period July 1, 2012 through March 27, 2014. Our audit addressed the following related question:

- Were cash receipts properly accounted for in the Department?

Audit Results

Cash receipts were not properly accounted for in the Department because City officials did not establish adequate internal controls that properly segregated the former senior account clerk's duties,

¹ These receipts include parking tickets, parking permits, garbage bags, water and sewer payments, real property taxes, tax searches, retiree insurance, code enforcement receivables, rental payments, payments in lieu of taxes, sales and mortgage taxes and gross utility receipts.

² City Clerk's office, Police Department, Recreation Department and City Court

and they did not provide adequate oversight of her duties. As a result of the Department's weak control environment, more than \$5,000 in cash receipts was misappropriated over a three-month period. Specifically, we identified weaknesses in collecting, recording and depositing gross utility receipts and the fees for code enforcement, parking permits, water and sewer services, parking ticket fines, tax searches and garbage bags.

City officials did not implement adequate policies and procedures over the collection of all cash receipts, provide adequate reconciliations of receivables to collections, implement adequate inventory controls and adequately segregate the functions of collecting,³ recording and depositing cash receipts. In addition, there were significant information technology weaknesses due to the use of shared usernames and passwords at the window terminals as well as the ability to overwrite transactions within the financial accounting program.

Comments of Local Officials

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.

³ This includes the responsibility of opening mail.

Introduction

Background

The City of Corning (City) is located in Steuben County and has a population of approximately 11,000. The City provides services to its residents including fire and police protection, street maintenance, water and sewer utilities, senior programs and parks and recreation programs. The City is governed by the City Charter (Charter), the General Laws of the State of New York and local laws and ordinances. The City has a Mayor and an eight-member City Council (Council). The Council appoints the City Manager (Manager) who serves as chief executive officer.

The Finance Department (Department) manages and accounts for the City's financial resources. The Department is managed by the Director of Finance (Director) who reports to the City Manager. The Department has three employees who process various transactions. Department staff collects and processes various cash receipts⁴ directly at a collection window in City Hall and through mail. The Department also receives and accounts for money collected by other City departments.⁵ The Department reported cash receipt collections of approximately \$4.6 million for the 2012-13 fiscal year and approximately \$2.5 million for the first half of the 2013-14 fiscal year.

Prior to commencing our audit, we were contacted by the City Police Department after City officials had identified irregularities with the Department's daily reconciliations. As a result of the irregularities identified, the former senior account clerk retained legal counsel and subsequently resigned. The Steuben County District Attorney's office was contacted during our audit. On July 2, 2014, the former senior account clerk was charged with one count of grand larceny in the third degree, which is a class D felony.

Objective

The objective of our audit was to evaluate the Department's cash receipt collection process. Our audit addressed the following related question:

- Were cash receipts properly accounted for in the Department?

Scope and Methodology

We examined the Department's cash receipt activities for the period July 1, 2012 through March 27, 2014.

⁴ These receipts include parking tickets, parking permits, garbage bags, water and sewer payments, real property taxes, tax searches, retiree insurance, code enforcement receivables, rental payments, payments in lieu of taxes, sales and mortgage taxes and gross utility receipts.

⁵ City Clerk's office, Police Department, Recreation Department and City Court

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.

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

Misappropriation of Finance Department Cash Receipts

It is essential that City officials establish adequate internal controls over cash receipt activities to provide reasonable assurance that cash and other resources are properly safeguarded. Key accounting functions must be adequately segregated to the extent possible given the size and complexity of the Department's operations. When it is not feasible to adequately segregate accounting functions, City officials must implement compensating controls, such as increased oversight.

Cash receipts were not properly accounted for in the Department. Because City officials did not establish adequate internal controls that properly segregated the former senior account clerk's duties, and they did not provide adequate oversight of her duties, the Department's weak control environment was manipulated and misappropriations of more than \$5,000 in cash receipts occurred over a three-month period. City officials did not implement adequate policies and procedures over the collection of all cash receipts, provide adequate reconciliations of receivables to collections, implement adequate inventory controls and adequately segregate the functions of collecting,⁶ recording and depositing cash receipts. In addition, there were significant information technology (IT) weaknesses due to the use of shared usernames and passwords at the window terminals as well as the ability to overwrite transactions within the financial accounting program.

The misappropriation escalated soon after August 19, 2013 when the former senior account clerk substituted a check made payable to herself totaling \$65 for cash from the Department's cash drawer that went unnoticed. To ensure that this was the first instance, we reviewed cash receipt collections in December 2012 and May and June 2013 for those receipts where thefts were identified. We found no questionable transactions prior to August 2013. The total amount of actual and potentially misappropriated receipts is detailed in Table 1.

⁶ This includes the responsibility of opening mail.

Table 1: Summary of Actual and Potentially Misappropriated Receipts

Actual Misappropriated Receipts	Instances	Amount
Code – Building Permits	11	\$1,203
Code – Fire Inspections	2	\$300
Code – Planning and Zoning Application	1	\$200
Code – Zoning Board of Appeals Application	1	\$110
Parking Permits	19	\$1,850
Gross Utility Receipts	3	\$882
Water and Sewer	2	\$404
Voided Parking Ticket	1	\$75
Tax Search	2	\$40
Subtotals	42	\$5,064
Potentially Misappropriated Receipts		
Parking Permits – Missing Permit Numbers	3	\$270
Parking Permits – Prorated Without Support	20	\$963
Parking Tickets – Voided Without Support	213	\$5,085
Subtotals	236	\$6,318
Totals of Actual and Potentially Misappropriated Receipts	278	\$11,382

Typically, the senior account clerk receives payments directly from individuals who pay at the Department’s collection window. However, any available employee can perform this activity. When an individual comes to the Department to make a payment, the employee handling the transaction collects the money and records the transaction in the applicable accounting program using a generic, shared username and password which makes it difficult to determine individual accountability. The financial accounting program sequentially assigns cash receipt numbers to each transaction. If an entry is deleted, that deleted cash receipt number is then reused next in the sequence resulting in an application weakness that could be used to conceal improprieties. The City’s cash receipt policy states that a receipt should be issued for transactions at the customer’s request. The senior account clerk is also generally responsible for processing payments received in the mail.

At the end of the day, the senior account clerk reconciles and prepares the bank deposit. The senior account clerk counts the cash drawer and retains the starting cash balance. The senior account clerk then prepares the journal entries for the daily parking ticket and water and sewer receipts using the third-party vendor and water/sewer program reports. The senior account clerk prints the daily cash receipt report from the Department’s financial accounting program to compare

against her cash count. If the amounts agree, then the senior account clerk will post the journal entries, prepare a bank deposit slip and make the bank deposit. The senior account clerk performed all of these duties with little to no oversight⁷ from City officials.

Specifically, we identified weaknesses in collecting, recording and depositing the fees for code enforcement, parking permits, water and sewer services, parking ticket fines, tax searches and garbage bags as well as gross utility receipts, which allowed for the misappropriation of City funds without detection. In addition, we found that weaknesses in the financial accounting program's application were used to help conceal some of the thefts.

Code Enforcement (Code) Permits, Inspections and Application Fees – The Code Enforcement Department is responsible for issuing building permits, performing fire inspections and processing multiple dwelling registrations, planning and zoning (PZ) applications and zoning board of appeals (ZBA) applications. According to the Director, when fees are to be collected, there is an unwritten procedure that a Code Enforcement employee will escort the customer down to the Department window to pay for permits and applications prior to issuance. However, this payment generally occurs after permit issuance instead of before and there is no assurance a Code Enforcement employee always escorts the customer to the Department's window.

The cash receipt policy states that the Department will make a copy of the permit or application when paid as a receipt to the customer. For fire inspections and multiple dwelling registrations, Code Enforcement will mail an invoice to the customer and provide the Department a hard copy of the invoice. The Department maintains the hard copies of the unpaid invoices in an unsecured file folder, which are removed when the bill is paid. The Director uses the unpaid invoices in the file to determine any amounts subject to tax relevy at the end of the fiscal year. Although Code Enforcement maintains a list of all issued permits, applications and invoices, the Department does not ensure all cash receipts are collected by obtaining, reviewing or reconciling the Department's cash receipt transactions with the Code Enforcement listing.

We compared the listings maintained by Code Enforcement with Department collection records and deposits to determine if all Code Enforcement fees were paid, recorded and deposited. We determined that the fees for 11 building permits totaling \$1,203, one ZBA application totaling \$110, one PZ application totaling \$200 and two fire inspections totaling \$300 were misappropriated. These

⁷ The Director reviewed the journal entry posting report.

misappropriations resulted from either taking cash or substituting checks with cash from the cash drawer.

Parking Permits – The Department issues quarterly and annual parking permits⁸ to individuals and businesses for various City parking lots.⁹ The quarterly parking permits are pre-numbered and color coded by quarter using five colors.¹⁰ The Department’s cash receipt policy states that permits are to be consecutively numbered and issued in number order by color corresponding to the quarter issued. All Department staff have access to parking permit card stock and the spreadsheet used to maintain a record of issued parking permits. Although the spreadsheet records the individual’s name, permit number, amount and date, Department staff do not always record the quarter or color of the permit. As a result, the Department’s spreadsheet is not conducive to performing any type of reconciliation or inventory of the parking permits issued or on hand. Furthermore, the Director does not oversee the issuance of parking permits.

We reviewed the Department’s parking permit spreadsheet and tested the numerical sequence of permits for the third and fourth quarters to identify any missing permits. We identified 18 parking permits totaling \$1,835 that were issued but the fees were not recorded in the financial accounting program or deposited. We also found a misappropriation of \$15 that occurred when a parking permit payment was recorded in the financial accounting program for \$150 instead of the \$165 payment by check, for a total of \$1,850.

We also identified other issues with parking permits where money could have potentially been taken.

- Three parking permits with a value of \$270 were not recorded on the spreadsheet. However, the parking permits with numbers before and after the three missing permit numbers were listed. There was no explanation for these skipped numbers. The permits could have been issued and the money taken without recording the transaction on the spreadsheet.
- The Director told us that it is an unwritten policy that parking permits can be prorated for a permit holder’s first purchase if the parking permit is purchased after the beginning of the

⁸ We did not identify any problems with the annual parking permits.

⁹ Each of the City’s parking lots has a certain number of parking permits available for issuance at various rates.

¹⁰ The Department orders permits with the same numbering sequence in five different colors. The number sequence stays the same, but the colors change each quarter. Five colors are used so that the same quarter in the following year has a different color.

quarter, instead of at the beginning of the quarter. Because of the lack of oversight of permit issuance, there is an increased risk of skimming cash from customers by charging the full rate and recording the parking permit as prorated. We reviewed prorated parking permits recorded on the spreadsheet for the third and fourth quarters of 2013 and found that the undocumented prorated permits resulted in a loss of revenues totaling \$963 from 20 permits. The prorated amounts could have been used to account for cash that was taken.

Gross Utility Receipts – General City Law authorizes cities to impose a gross receipts tax on the sale of utility services. The tax can be equal to 1 percent of the gross operating income of utilities operating within City boundaries with gross operating income in excess of \$500 for 12 months ending June 30. The City’s cash receipt policy states that payments are received by mail and documentation received is to be stamped with the daily cash receipt stamp.

We reviewed the Department’s processes and procedures for monitoring, collecting and analyzing gross utility receipts. City officials have not established written policies or procedures which outline the responsibilities and actions to be taken to analyze, monitor and enforce the collection of this revenue. Further, the cash receipt policy does not adequately segregate duties from the opening of mail to the recording and depositing of gross utility receipts. As a result, we found three gross utility receipt checks totaling \$882 were received in the mail and substituted for cash from the drawer.

Water and Sewer Billings – The Water and Sewer Department uses a computerized billing program to prepare monthly and quarterly customer invoices for water and sewer charges. The Department collects customer water and sewer payments at the window or by mail. The payments are recorded within the computerized billing program as well as the Department’s financial accounting program. No reconciliation is prepared to ensure that all payments that are recorded in both systems are accurate and complete.

We compared all water and sewer collections, as recorded in the computerized billing program, to cash receipts recorded in the financial accounting program and identified one cash payment of \$140 that was not recorded in the financial accounting program or deposited. In addition, we found \$264 in cash missing from a deposit because a water and sewer check payment was recorded twice on a bank deposit. This shortage was identified by the bank and an adjustment was made to reduce the balance in the City’s account.

Parking Tickets – City officials are responsible for adopting policies and procedures regarding the control, collection, reconciliation and enforcement of parking tickets. The policies should include adequate controls over the process for collecting, recording and depositing fines. In addition, there should be adequate controls over the authorizing, preparing and documenting adjustments and voids. The City’s parking ticket policy¹¹ provides for a Department employee (typically the senior account clerk) to go to the Police Department and download parking ticket information from the parking meter readers used by the police into the third-party vendor’s (TPV) parking ticket program. The TPV program allows violators to pay their fines online. Once a week, the TPV provides the Department with a report of online payments and a check for the amount. Payments received at the Department’s window are to be entered into the TPV program and a receipt is to be provided to the customer. Payments received by mail are also entered into the TPV program, but the receipt is stapled to the ticket. At the end of the day, a payment report is generated from the TPV program so that the senior account clerk can prepare the cash receipts journal entry for the Department’s financial accounting program.

The City’s policies over parking tickets are inadequate. The policies do not clearly assign the authority to void parking tickets, identify the instances in which they may be voided or what documentation must be maintained to support the void. Further, Department employees who collect fines for parking tickets can make voids without any review of the propriety of these adjustments. As a result, we reviewed 285 tickets voided by the Department from July 1, 2013 through December 31, 2013 totaling \$5,740 and found that 213 tickets totaling \$5,085 lacked adequate support. In addition, we identified one ticket where money was collected, but the ticket was voided. The \$75 check payment for this voided ticket was substituted for cash in a later deposit. Due to a lack of controls, this misappropriation went unnoticed by City officials.

Tax Searches – Tax searches must be requested in writing and are generated within the Department. The Department maintains a log of all requests. We found that the Director does not provide adequate oversight of the issuance or receipt of tax searches prior to being released to customers. In addition, there is no reconciliation of the log of payments received and recorded. We reviewed tax searches for the audit period and identified two instances where the \$20 checks received for tax searches were used to substitute cash from the drawer.

Garbage Bags – The City’s Public Works Department provides the Department with a limited supply of garbage bags for sale in the office.

¹¹ The policy is governed by the Corning City Code, Vehicle and Traffic section.

Although the City's cash receipt policy addresses collecting money for garbage bag sales and the entering of the information into the computer system, it does not address the reconciliation of inventory, provide for a cash receipt to be issued for all transactions or provide adequate oversight of the activity. As a result, there is no way to be sure that all cash receipts for sold garbage bags are accounted for, and there is a high risk for fraud and misappropriation. For example, when garbage bags are sold, Department employees sometimes write the cash receipt number from the accounting program entry, along with the quantity and dollar value of the garbage bags sold, on a piece of scrap paper that is then included in the daily sales envelope. However, the sales are not always documented. Therefore, it is not possible to reconcile the number of bags sold with the amount collected.

This fraudulent activity occurred because City officials did not provide sufficient oversight of the Department's financial activities. Instead, officials relied to a great extent on the former senior account clerk for the accounting of the Department's receipts.

Recommendations

City officials should:

1. Ensure employees access systems and applications using individually assigned usernames and passwords;
2. Review the financial accounting program and implement mitigating controls for the weakness identified;
3. Review cash receipt policies and procedures to ensure they are up-to-date and include provisions for adequate segregation of collecting, recording and depositing cash receipts while providing sufficient supervision;
4. Implement policies and procedures for various City departments, including the Code Enforcement and the Water and Sewer Departments, to reconcile receivables to Department collections;
5. Establish policies and procedures for analyzing, monitoring and enforcing the collection of the gross utilities receipts;
6. Review parking ticket policies and procedures related to processing and voiding tickets to ensure sufficient documentation is obtained and authorization responsibilities are appropriately assigned;

7. Implement inventory controls over parking permits and garbage bags. Provide for periodic reconciliations; and
8. Seek restitution for amounts identified as misappropriated.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



CITY OF CORNING

1 NASSER CIVIC CENTER PLAZA
CORNING, New York 14830-2874
Phone: (607) 962-0340

City Manager
Fax 962-0578

Assessor
Fax 937-3358

City Clerk / Registrar
Fax 937-3358

Finance
Fax 937-3358

Fire
Fax 962-4528

Parks & Recreation
Fax 962-0578

Planning & Econ. Dev.
Fax 962-0578

Police
Fax 936-1657

Public Works
Fax 962-0578

Senior Citizen Center
962-8000
Fax 962-8901

July 8, 2014

Office of the State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, New York 12236

RE: Audit Report Number 2014M-14

Please find enclosed a copy of the City's Response and Corrective Action Plan for the Comptroller's audit report entitled, "Misappropriation of Finance Department Cash Receipts". The City of Corning agrees with the findings and recommendations.

We appreciate the Comptroller's assistance in these matters. If you need any additional information, please don't hesitate to contact me.

Sincerely,

Mark L. Ryckman
City Manager/Chief Executive Officer

cc: Linn Smith, Finance Director

Date: July 7, 2014

By Councilman Muccini

**Resolution
Approving Corrective Action Plan for
New York State Comptroller's Office
Audit Report Number 2014M-14**

WHEREAS, the New York State Comptroller's Office issued a draft audit report; and

WHEREAS, it is required for the City of Corning to Submit a Response and Corrective Action Plan;

NOW THEREFORE, BE IT RESOLVED that the Corning City Council hereby approves the Response and Corrective Action (CAP) for Audit Report Number 2014M-14.

Seconded by Councilman Boland

CERTIFICATE OF CITY CLERK

STATE OF NEW YORK,)
COUNTY OF STEUBEN,)
CITY OF CORNING.)

I, ROSE M. BLACKWELL, CITY CLERK OF THE CITY OF CORNING, NEW YORK, HEREBY CERTIFY THAT I HAVE COMPARED THE FOREGOING COPY OF RESOLUTION ADOPTED BY THE CITY COUNCIL ON JULY 7, 2014, WITH THE ORIGINAL ON FILE OF THE SAME NOW REMAINING IN MY OFFICE AND THAT IT IS A CORRECT TRANSCRIPT THERE FROM, AND OF THE WHOLE OF SAID ORIGINAL.

IN TESTIMONY WHEREOF, I HAVE HEREUNTO SET MY HAND AND THE SEAL OF THE CITY OF CORNING, NEW YORK, THIS 8TH DAY OF JULY, 2014.

seal

ROSE M. BLACKWELL, CITY CLERK

	AYE	NAY
Coccho	X	
Karam	X	
Nelson	X	
Maio	X	
Welles	X	
Cavallaro	X	
Boland	X	
Muccini	X	
Negri	X	
Totals	9	



CITY OF CORNING

1 NASSER CIVIC CENTER PLAZA
CORNING, NEW YORK 14830-2874
Phone: (607) 962-0340

City Manager
Fax 962-0578

Assessor
Fax 937-3358

City Clerk / Registrar
Fax 937-3358

Finance
Fax 937-3358

Fire
Fax 962-4528

Parks & Recreation
Fax 962-0578

Planning & Econ. Dev.
Fax 962-0578

Police
Fax 936-1657

Public Works
Fax 962-0578

Senior Citizen Center
962-8000
Fax 962-8901

RESPONSE AND CORRECTIVE ACTION PLAN

Unit Name: City of Corning
Audit Report Title: Misappropriation of Finance Department Cash Receipts
Audit Report Number: 2014M-14

The City of Corning agrees with each recommendation included in the audit report. The City's corrective action(s) taken or proposed are as follows:

Audit Recommendation:

1. Ensure employees access systems and applications using individually assigned usernames and passwords.

Implementation Plan of Action:

Each person in the Finance Office has been assigned their own username and password to access each of the three computerized systems to ensure individual accountability: General Ledger, Parking Tickets, and Water/Sewer Billing.

Implementation Date:

Use of new usernames and passwords for the parking ticket system was implemented on June 5, 2014. The requirement to use individual usernames and passwords for all other systems was implemented July 1, 2014.

Person Responsible for Implementation:

Mark L. Ryckman, City Manager

Audit Recommendation:

2. Review the financial accounting program and implement mitigating controls for weakness identified.

Implementation Plan of Action:

The City is in the process of procuring a new cash receipts module which will not allow the re-use of the transaction numbers assigned automatically by the system and will issue a receipt for each transaction processed.

Implementation Date:

Purchase and installation of the new cash receipts module is estimated to be completed within 60 days.

Person Responsible for Implementation:

Mark L. Ryckman, City Manager

Audit Recommendation:

3. Review cash receipt policies and procedures to ensure they are up-to-date and include provisions for adequate segregation of collecting, recording and depositing cash receipts while providing sufficient supervision.

Implementation Plan of Action:

The City has separated the duties of collections and recording transactions at the window from the bank deposit preparation. The employee assigned to perform cash receipt transactions daily is no longer preparing journal entries, printing daily cash receipt reports, preparing bank deposit slips or making bank deposits. The Finance Director will review the cash receipt journal entries weekly, and the bank reconciliations monthly. The City will establish a lockbox for payments by mail.

Implementation Date:

Separation of duties was implemented on April 7, 2014. The implementation of a lockbox system for payments by mail is estimated to be completed in 90 days.

Person Responsible for Implementation:

Mark L. Ryckman, City Manager

Audit Recommendation:

4. Implement policies and procedures for various City Departments, including the Code Enforcement and the Water and Sewer Departments, to reconcile receivables to department collections.

Implementation Plan of Action:

The City has updated its policies and procedures to reconcile receivables to department collections for various City Departments, including Code Enforcement and Water and Sewer Collections.

Water & Sewer:

The City has separated the duties of collections and recording transactions at the window from the bank deposit preparation. The Finance Director will reconcile the payments received at the window with the individual accounts recorded in the CNI billing program at least quarterly.

Code Enforcement:

The City has updated the procedures for payments of fire inspections, multi-dwelling registrations, Planning & Zoning applications, and Zoning Board of Appeals applications. The new procedures require the Planning & Economic Development Department to submit both a copy of the invoice for permits and applications, and a summary list of these invoices, to the Accountant. The Accountant shall secure the summary list in her possession, and shall forward the individual invoices to the Senior Account Clerk/Typist. Daily, the Accountant will record invoices paid on the summary list, and will reconcile the secured list with the open invoices on file with the Senior Account Clerk/Typist at least quarterly.

In addition, the City has updated its procedures for collections and reconciliation of building permit payments. The City now has a written procedure which requires a Code Enforcement Officer to walk the applicant to the Finance Department for payment. Daily, the Accountant will verify all receipts in the Finance Department are filed in the numeric sequence issued by the Code Enforcement Office. The Accountant will reconcile the permits on file with the records residing in the Code Enforcement Office at least quarterly.

Tax Searches:

The City will continue to maintain a log of tax search requests. The department procedures have been updated to require separation of the responsibility for processing the tax search from recording the cash receipt. The Finance Director or Accountant will reconcile the cash receipts with the log of tax search requests at least quarterly.

Implementation Date:

Separation of the duties for collections and recording transactions at the window from the bank deposit preparation were implemented April 7, 2014. Remainder of actions to be implemented by July 3, 2014.

Person Responsible for Implementation:

Mark L. Ryckman, City Manager

Audit Recommendation:

5. Establish policies and procedures for analyzing, monitoring and enforcing the collection of the gross utilities receipts.

Implementation Plan of Action:

The City is in the process of establishing a lockbox system for the payment of gross utilities receipts. Utilities will be notified of the new payment address, and receipts will be tracked by spreadsheet which will be periodically analyzed.

Implementation Date:

It is estimated implementation will be completed within 60 days.

Person Responsible for Implementation:

Mark L. Ryckman, City Manager

Audit Recommendation:

6. Review parking ticket policies and procedures related to processing and voiding tickets to ensure sufficient documentation is obtained and authorization responsibilities are appropriately assigned.

Implementation Plan of Action:

The City has updated its procedures related to the processing and voiding of tickets. The Chief of Police now reviews all requests to void or dismiss parking tickets. The specific reason for the void or dismissal is now written on the face of the ticket or on the protest form.

Implementation Date:

June 4, 2014

Person Responsible for Implementation:

Mark L. Ryckman, City Manager

Audit Recommendation:

7. Implement inventory controls over parking permits and garbage bags. Provide for periodic reconciliations.

Implementation Plan of Action:

The City has or is in process of implementing inventory controls over parking permits and garbage bags, as well as providing periodic reconciliations.

Garbage Bags:

The City is in the process of procuring a new cash receipts module for its computerized accounting system. The module will print a receipt for each garbage bag sold. At the time of placing an order, the Accountant will reconcile the receipts with the inventory of bags received from the Public Works Department.

Parking Permits:

The City has updated its procedures to provide adequate inventory control over parking permits. Parking permit stocks are now in a secure location in the Finance Department. The Department has developed a spreadsheet to include color code tabs for each quarter. Each tab lists the sequential permit number, the name of the permit holder, the amount paid and the date of payment. Proration of permit fees now must be recorded in the payment field of the new spreadsheet. The Finance Director will monitor the spreadsheet to ensure the data for each field is appropriately entered and recorded in the accounting system, and reconcile the physical permit inventories with the spreadsheet at least on a quarterly basis.

Implementation Date:

Purchase and installation of the new cash receipts module is estimated to be complete within 60 days. Modifications to the parking permit spreadsheets were implemented July 1, 2014.

Person Responsible for Implementation:

Mark L. Ryckman, City Manager

Audit Recommendation:

8. Seek restitution for amounts identified as misappropriated.

Implementation Plan of Action:

The District Attorney's Office has indicated any disposition of this case will be conditioned up complete restitution to the City.

Implementation Date:

July 1, 2014

Person Responsible for Implementation:

Mark L. Ryckman, City Manager

SUBMITTED:

_____ 7/8/2014

Mark L. Ryckman, City Manager

Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we interviewed City officials and employees, tested selected records and transactions, and examined pertinent documents for the period July 1, 2012 through March 27, 2014. Our examination included the following:

- We reviewed cash receipt policies and procedures.
- We compared cash receipts recorded in the accounting records to cash deposits for the period July 1, 2012 through December 17, 2013.
- We performed a cash count at the Department on December 17, 2013 and reconciled activity to this date. An additional cash count was performed for the Department's petty cash on January 23, 2014.
- We traced cash receipts to source documents for the period July 1, 2013 through December 17, 2013. We extended this testing and traced cash receipts to source documents for cash receipt areas identified with misappropriations for the months of December 2012, May 2013 and June 2013.
- We reviewed voided parking tickets and supporting documentation for the period July 1, 2013 through December 31, 2013.
- We compared bank deposit compositions to the Department's financial accounting program's records for the period July 1, 2013 through December 17, 2013.
- We reviewed the Department's parking permit spreadsheet and performed an integrity check on the issuance sequence for the third and fourth quarters 2013.
- We performed an analysis of total parking tickets issued to total voided parking tickets for the months of July 2013 through December 2013.
- We recalculated and compared tax penalties and collections for the period July 1, 2013 through December 17, 2013.
- We reviewed receivable control account adjustments for the period January 1, 2013 through December 31, 2013.

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.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller
Nathalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AUDITS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313