



Putnam County Department of Consumer Affairs Misappropriation of Cash Receipts

Report of Examination

Period Covered:

January 1, 2012 – February 27, 2014

2014M-310



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2016

Dear County 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 County Legislature 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 Putnam County Department of Consumer Affairs, entitled Misappropriation of 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 New York State 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

Putnam County (County) comprises six towns and three villages and has a population of approximately 99,600. The County Legislature serves as the County's policy-making body and comprises nine Legislators elected to four-year terms. The County Executive is elected to a four-year term and serves as the County's chief executive officer.

The County Department of Consumer Affairs (Department) contains four divisions: home improvement, plumbing, electrical, and weights and measures. It is responsible for the registration and licensing of plumbing, electrical and home improvement contractors in the County, and for inspections for weights and measures devices.

The Department's Director (Director) is appointed by the County Executive and manages day-to-day operations. The Department's seven employees collect fees for contractor licensing and registration applications, contractor vehicle decals and related fines (violations), and for weights and measures inspections. Contractors who wish to be licensed or registered with the County must complete an application and pay a fee ranging from \$20 to \$500, depending on the application. The County's code enforcement officer is responsible for ensuring that all contractors are licensed or registered to work in the County and assesses violations for those who do not have the required licenses or registrations. Additionally, the Department records each registered/licensed contractor's name and address in a database that tracks payments received, purpose of payment, date of payment, payment receipt number and license or registration renewal date.

Objective

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

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

Scope and Methodology

We examined the Department's cash receipts for the period January 1, 2012 through February 27, 2014.

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
County Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with County officials, and their comments, which appear in Appendix A, have been considered in preparing this report. County officials generally agreed with our recommendations and indicated that they have taken, or plan to take, corrective action.

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

Cash Receipts

County and Department officials are responsible for establishing effective internal controls over the Department's cash receipts. These include policies and procedures that provide for segregation of the incompatible duties to ensure that the same individual does not collect cash, record cash receipts, maintain custody of funds and remit funds collected. Effective controls also include the reconciliation of cash collected with amounts deposited to help ensure that funds are not lost or misappropriated.

Internal controls over the Department's cash receipts were not appropriately designed or operating effectively. The Director was involved in all phases of the cash receipt process – collecting cash, recording cash collections and remitting collections to the Finance Department (Finance) – with no oversight. County officials did not ensure that cash collected was reconciled with collections remitted for deposit. As a result of this weak control environment, \$4,811 collected by the Department could not be accounted for. In addition, funds for two cash transactions totaling \$1,000 were not deposited in a timely manner.

Following referral of our findings to the Office of the New York State Attorney General and a subsequent investigation, on February 23, 2016 the former Director entered a guilty plea in Carmel Town Court to a class "A" misdemeanor charge of Petit Larceny. As part of the plea agreement, the former Director agreed to terminate her employment with the County and pay restitution, and was sentenced to a one-year conditional discharge.

Missing Funds

The Department had no written policies and procedures over the collection, custody and deposit of cash collections, and key controls were absent. While Department personnel maintained a log of cash receipts, many collections were never logged. Further, although multiple employees were involved in counting cash and witnessing the transmittal of funds for deposit, there was no mechanism in place to verify that all cash taken out of the Department safe was actually remitted to Finance. As a result, a significant amount of money was missing without the knowledge of County officials, and there can be no assurance that all moneys collected were deposited.

Our observations of the Department's informal process for handling cash receipts showed that a manual cash log is used to record the date of a payment, the amount received, who the cash was received from and the purpose of the payment. A receipt is issued to the payer with a copy retained for Department records. Two employees count the cash and initial the cash log indicating they have verified the amount. An envelope with the cash and copy of the receipt issued is placed in the

Department's safe. For deposit, the Director removes the envelopes from the safe, initials the cash log and takes the envelopes to Finance, where the Director and a Finance employee count the cash. Both individuals sign the receipt indicating that the cash has been turned over to Finance, and a copy of the receipt is maintained on file at both departments.

Receipts are also required to be issued for all cash received. For the electrical and plumbing divisions, receipts are generally issued through the computer. For the home improvement division, employees use a press-numbered duplicate receipt book to fill out and issue receipts to the payer. Receipts for weights and measures inspections are issued on-site.

These controls have not effectively safeguarded cash because there is no independent check or audit of the Department's records to reconcile the amounts collected with the amounts submitted to Finance. Because of these control weaknesses, we reviewed the cash log from January 3, 2012 through February 20, 2014 and tested cash receipts, database entries, violations assessed and applications for licenses or registrations on file at the Department.

We found that \$2,175 was removed from the safe and never brought to Finance. Seven cash log entries totaling \$2,070 had the Director's initials indicating she took the cash; the remaining two entries totaling \$105 did not have her initials. The Director's policy was that she was the only person allowed to bring cash to Finance. The Director had no explanation for why these funds were never brought to Finance. Subsequent to our discussion with the Director regarding the missing cash receipts, a temporary employee found an envelope, placed between files that she was organizing, with \$1,800 in cash.

In addition, we found evidence that \$1,500 was received by the Department but was not recorded or deposited. The Director issued receipts¹ totaling \$1,000 to two contractors who paid her \$500 each for violations and registrations. A third contractor also paid \$500 but was provided a receipt for only \$250. When the contractor inquired as to why the receipt was for \$250, the Director explained it was because she had dismissed a related violation. We followed up on these transactions and found that additional receipts were subsequently generated for all three transactions and presented to Finance for deposit. The dates on these later receipts ranged from 89 days to 398 days after the initial receipts were issued. Each of these three new receipts was for \$500. In addition, one receipt indicated that the contractor paid with a money order, not cash as identified on the original receipt.

¹ The receipts issued for two of the transactions consisted of a photocopy of the cash paid with the Director's signature and a handwritten comment indicating that the cash was received. The third receipt was from a duplicate receipt book, with the Director's signature.

Another \$1,136 was unaccounted for as of the end of our fieldwork. This amount was indicated by copies of receipts totaling \$616 and \$520 recorded in a database as received, but lacking receipts. These missing moneys could not be specifically traced to any one employee. The lack of adequate policies and procedures for the collection, maintenance and deposit of funds – along with no oversight of the Director, no reconciliation of amounts collected with amounts submitted to Finance and no audit of the Department’s books – created a weak control environment that allowed public funds to be missing without detection. As a result, collections may have been misappropriated and are not available for the County’s operations.

Delayed Deposits

It is important that cash collected is deposited intact and in a timely manner, preferably as soon as possible. The longer funds remain on-site, the greater the risk that loss or theft can occur.

We identified \$1,000 recorded in the cash log that was not deposited in a timely manner by the Director. The Director took receipts totaling \$780 from the safe on October 16, 2012 and remitted \$280 to Finance on that date. The remaining \$500 was not turned over to Finance until October 22, 2012, six days later. In addition, the Director took \$891 from the safe on September 19, 2013 but remitted only \$391 to Finance on that date. The remaining \$500 was not turned over to Finance until January 14, 2014, almost four months later.

The Director told us that the October receipt was delayed because the Finance personnel were busy and she was not comfortable leaving the full amount with them. Therefore, she gave them only the \$280 and retained \$500. For the September deposit, she stated that she had a question about the fine amount and wanted to bring it to the Home Improvement Board’s attention. According to the Director, the Home Improvement clerk was not in when the Director returned to the Consumer Affairs office, so she put the \$500 in the safe and forgot about it.

Recommendations

When cash is not deposited in a timely manner, there is an increased risk that County funds could be lost or misappropriated.

Department officials should:

1. Develop policies and procedures for the collection, recording, maintenance and deposit of cash receipts in the Department. Such procedures should require documented accountability for removing funds from the Department’s safe, verification of such removal and verification of the transmittal of those amounts to Finance for deposit.

2. Periodically reconcile fees collected with amounts deposited. Such reconciliation should include a comparison of copies of the receipts issued to payers, as well as logged cash receipts, to transmittal receipts confirming that funds have been remitted for deposit.
3. Ensure that the Director remits all funds collected by the Department to Finance in a timely manner.

APPENDIX A

RESPONSE FROM COUNTY OFFICIALS

The County Officials' response to this audit can be found on the following pages.

PUTNAM COUNTY EXECUTIVE

40 Gleneida Avenue
Carmel, New York 10512
(845) 808-1001 Fax (845) 808-1901
www.putnamcountyny.gov

MaryEllen Odell
County Executive

Bruce J. Walker
Deputy County Executive

Patricia Simone
Chief of Staff

Nicholas DePerno Jr.
Director of Constituent Services



April 15, 2016

NYS Office of the State Comptroller
Division of Local Government and School Accountability
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

RE: Audit Response – Putnam County Department of Consumer Affairs

Dear Sirs,

Please accept this response to the Audit that your office performed regarding the Putnam County Department of Consumer Affairs. We have itemized our response to address each of your recommendations, and they are set forth below.

Recommendation #1 – Develop policies and procedures for the collection, recording, and deposit of cash receipts in the Department.

The Department effectively rendered this recommendation moot on November 1, 2014, when the policy was implemented that cash would no longer be accepted as a form of payment for the office, after the Department received an opinion furnished by the County Attorney on October 7, 2014 that payments could be restricted to non-cash methods. Simply put, and in light of what transpired, we believe that the most effective way to avoid the loss or misappropriation of cash in this Department is to not accept cash payments at all. In speaking with Department personnel over the past 17 months since the implementation of this policy, we have determined that this policy has been effective and we intend to recommend to the Legislature that it remain a part of the corrective action plan.

Recommendation #2 – Periodically reconcile collected fees with amounts deposited.

The Finance Department will compare batches of collected fees generated by the Department to the amounts actually deposited with the Finance department monthly.

Recommendation #3 – Ensure that the Director remits all Funds collected by the Department to Finance in a timely manner.

The Department now submits funds collected to the Finance Department (checks and money orders made payable to the Commissioner of Finance) on a weekly basis.

Recommendation #4 – Investigate the missing funds and recover them if possible.

In reviewing this recommendation with OSC personnel at the exit conference, we provided a copy of the Plea Agreement and Allocution that we obtained from the internet. In reviewing this with OSC personnel, it is our understanding that all known missing funds have been recovered. Therefore, we believe that this recommendation should be removed.

If I can be of further assistance in this matter, please do not hesitate to contact me.

Sincerely,

MaryEllen Odell
County Executive

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if internal controls in the Department were appropriately designed and operating effectively for the period January 1, 2012 through February 27, 2014. To achieve our objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed Department personnel to gain an understanding of their operation and to obtain an understanding of the collection processes and procedures.
- We reviewed all 546 cash log transactions during our audit period totaling \$46,309 to determine if amounts recorded as collected were presented to Finance for deposit.
- We reviewed all 531 cash receipts issued during the audit period that were on file in the Department totaling \$44,010 to determine if all cash was recorded on the cash log and presented to Finance for deposit.
- We reviewed 3,069 transactions recorded in the database during our audit period totaling \$1,012,550 to determine if cash payments recorded in the database were recorded in the cash log and presented to Finance, to identify entries where the payment amount was left blank and to identify data that was deleted from the database.
- We reviewed 74 of the 163 cash payments recorded in the Department's databases and compared to cash logs and Finance deposit slips to determine if payments were deposited with Finance. The payments reviewed were selected using a computerized random number generator.
- We selected 90 of the 987 contractors identified where the payment amount was left blank. We reviewed the individual applications for the contractors selected to determine if payments were made, then traced to deposit slips to determine if payments were deposited to Finance. The payments reviewed were selected using a computerized random number generator.
- We reviewed contractor files for all 24 deleted entries identified and traced deleted information to applications and to deposit slips to determine if payments were made for the database data that was deleted.
- We reviewed all 219 home improvement division violations listed on the Department's Schedule of Fines totaling \$101,250 and 11 additional violations that were not listed on the Schedule of Fines totaling \$1,000² to identify paid violations. We traced the payments to the deposit slips maintained in Finance.
- We reviewed 40 plumbing and electrical violations totaling \$46,917 to identify paid violations and traced the payments to the deposit slips maintained in Finance.

² The 11 violations not listed in the Schedule of Fines related to five dismissed cases, one case that was withdrawn and three cases that had not yet been brought to the Board during our audit period. Therefore, there was no fine amount for these nine cases.

- We reviewed 40 contractor applications to determine if payments were received for registrations and licenses.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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