



Village of Cohocton Cash Receipts

Report of Examination

Period Covered:

June 1, 2013 — March 12, 2015

2015M-63



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2015

Dear Village 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 Village Board 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 Village of Cohocton, entitled 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

The Village of Cohocton (Village) is located in the Town of Cohocton, Steuben County (County). The Village covers roughly one and a half square miles and has a population of 838.¹ The Village is governed by an elected Board of Trustees (Board), which comprises a Mayor and four Trustees. The Board is responsible for the Village's overall financial management including establishing appropriate controls over financial operations. The Mayor is the Board's presiding officer and the Village's chief executive officer. The Board appoints the Clerk-Treasurer (Treasurer), who is the chief fiscal officer (CFO) and Clerk of the Board. As the CFO, the Treasurer is responsible for the custody of all Village money, maintaining appropriate accounting records and preparing monthly and annual financial reports. Additionally, the duties of the Treasurer include tax collection, processing payroll, billing and receiving water rents and preparing checks. The Deputy Clerk-Treasurer (Deputy) assists the Treasurer in these responsibilities.

The Village provides residents with various services, including general administration, water, building code enforcement, snow removal, fire protection, street maintenance, and a justice court. These services are funded primarily through real property taxes and departmental income. The Village's 2013-14 expenditures for all funds totaled \$607,889 and its budgeted appropriations for 2014-15 were \$594,527.

Prior to the commencement of our audit of the Village, our audit of the Town of Cohocton identified fraud linked to the former Town Clerk. During the audit of the Town, Village money was found deposited in a Town account. The Town Clerk shared Village office space three days a week and had direct access to cash collections of the Village. The New York State police requested the Village audit as a result of the Town audit findings.

Objective

The objective of our audit was to evaluate the Village's internal controls over cash receipts. Our audit addressed the following related questions:

- Were cash receipts received by the Treasurer's office properly accounted for?

¹ 2010 US Census Bureau

**Scope and
Methodology**

We examined cash receipt activities of the Village of Cohocton for the period June 1, 2013 through March 12, 2015. We extended our review of water account adjustments back to January 1, 2013 and tax collections back to June 1, 2009.

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 Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials agreed with our recommendations and indicated that they are implementing corrective action.

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 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 Board to make this plan available for public review in the Village Clerk's office.

Cash Receipts

The Mayor and Board are primarily responsible for oversight of Village financial operations. Oversight becomes particularly important as a compensating control² in operations where segregating incompatible duties is not practical. To adequately safeguard Village money, the Board, in conjunction with the Treasurer, must establish and implement policies and procedures to help ensure that receipts are properly accounted for. The Treasurer is responsible for receiving, recording, depositing and remitting money collected for various fees.³ Effective internal controls over these functions include the Treasurer issuing duplicate receipts, depositing receipts timely and intact, preparing monthly accountabilities and adequately securing cash receipts until deposit. Board oversight includes annually auditing the Treasurer's records. These audits should include documenting the records reviewed and the results in the Board minutes.

Cash receipts were not properly safeguarded and accounted for in the Treasurer's office. We identified weaknesses over the collection, recording and deposit of cash receipts. The Treasurer and her Deputy did not issue duplicate receipts for all transactions where no other evidence of receipt was available, no one completed a proper reconciliation of receipts to deposits and the Board did not provide the Treasurer with a secure location to keep receipts until deposit. As a result, there was a cash shortage of \$2,167 in real property taxes over a two-year period. The missing tax receipts went undetected because the Treasurer did not properly reconcile real property taxes and the Board did not audit the Treasurer's records.⁴

The Treasurer is required to issue duplicate receipts to payees, including recording the form of payment (i.e., cash or check), for every transaction where no other evidence of receipt is available, and deposit all money collected intact so that specific cash receipts can be identified through the accounting records to the bank statements. The Treasurer and her Deputy collected receipts on behalf of the Village

² Compensating controls are supervisory or other oversight procedures designed to reduce the risk of errors or fraud not being detected. Compensating controls frequently provide for regular review of work performed by individuals who have custody of assets and who also approve or record transactions affecting those assets.

³ Includes taxes and penalties, water rents and penalties, building permits, fire inspections, State and County revenues, copies and faxes, tax searches and other miscellaneous revenues.

⁴ Village Law requires that the Board annually audit the Treasurer's reports and supporting records, or cause them to be audited by a Village officer or employee or a certified public accountant.

and rarely issued a duplicate receipt for payment. However, because the Village shared office space with the Town Clerk up until August 2014, the Town Clerk occasionally collected Village fees in their absence. Cash receipts were not properly secured until October 2014, when a gate was installed at the window counter and the Treasurer's office was locked daily. Until then, the Treasurer and her Deputy placed cash receipts in the Treasurer's unlocked desk drawer until deposit.

Real Property Taxes – The Treasurer and her Deputy collect tax payments from June through October of each year, after which, the County collects any overdue taxes. The Treasurer is responsible for maintaining accurate and complete records of every tax payment received, including interest and penalties. Therefore, the Treasurer should document all payments received, maintain a detailed record of each transaction by recording tax payments separate from interest and penalties on a daily basis and summarize all tax payments received on a daily basis. Upon deposit, the Treasurer should ensure that daily cash receipts correspond to the total amount deposited. At the end of the Village collection period, the Treasurer prepares a list of unpaid taxes for relevy by the County.

During the audit period, when a taxpayer paid their tax bill, the Treasurer or Deputy would take the three-part tax bill from their binder, using only two of the parts. The two parts were stamped with the date paid and one portion was retained by the Village, one was given to the taxpayer as receipt and the third was discarded. The Treasurer or Deputy would then handwrite on the tax roll the date paid, payer name and the form of payment.

The Treasurer made deposits at least once per week during the beginning of the collection period and then less frequently towards the end of the collection period. Once a month, the Treasurer made a journal entry in the computerized accounting program that recorded all deposits made for the month. The Treasurer prepared an itemized relevy list at the end of the collection period of any unpaid bills per the tax roll and compared the list to the remaining unpaid tax bills in the binder prior to sending the list to the County for relevy. No reconciliation between the accounting records and the relevy list was completed at that time and the Board did not review or certify the relevy list. Upon receipt of the relevied taxes from the County, the Treasurer prepared an accounting entry to remove the receivable balance and recorded the remaining amount as interest and penalties. Because a reconciliation was not prepared between the relevy and the receivable, the misappropriated funds were not detected.⁵

⁵ The receivable should equal the missing tax payment amount(s).

Starting in the 2014-15 fiscal year, the Treasurer began using the tax module of the computerized accounting program, which required her to record each individual payment, instead of making a lump sum entry at the end of the month. By using the tax module, interest was automatically calculated and recorded for late payments. As a result, the Treasurer was able to easily verify the receivable amount at the end of the collection period to the relevy amount for 2014-15.

We compared tax collections against the tax roll, warrant, various bank⁶ and accounting records for the 2009-10 through 2014-15 fiscal years. We identified two tax payments made during the 2012-13 fiscal year and one tax payment made during the 2013-14 fiscal year, totaling \$2,167, which were collected but not deposited. The first occurrence happened when the Town Clerk deposited a check in the amount of \$804 into her Town bank account on June 13, 2012. The payment was recorded on the tax roll as collected on June 19, 2012 in a handwriting that did not appear to match that of the Treasurer or Deputy and the Village's portion of the duplicate tax bill was missing. The second missing payment of \$476 in cash was recorded on the tax roll as paid on June 29, 2012 and appeared to be recorded using this same handwriting and the Village's portion of the duplicate tax bill was again missing.

The third misappropriated payment was collected by the Deputy and recorded on the tax roll as paid on June 14, 2013. According to the Deputy, she collected nine \$100 bills from an individual, recorded the collection on the tax roll and placed the money in the Treasurer's unlocked desk drawer for deposit by the Treasurer at a later date. Although the Village's portion of the duplicate tax bill was missing, the taxpayer's bill was stamped with the date of receipt for the transaction and initialed by the Deputy. Sometime over the next six days,⁷ the cash collected by the Deputy disappeared, but not the cash that the Treasurer collected earlier in the week, which was in the desk drawer.

Code Enforcement Fees – The Code Enforcement Officer (CEO) is responsible for issuing building permits and completing fire inspections. Pre-numbered building permits and fire inspections should be issued for all CEO activities and reported to the Board on a monthly basis. To ensure that cash is properly accounted for, all money received by the Treasurer should be documented by the issuance of a duplicate pre-numbered cash receipt. In addition, the Treasurer should record individual cash receipt transactions in the computerized accounting software on a daily basis. Periodically, a reconciliation

⁶ Bank records included bank statements, deposit compositions and deposit slips.

⁷ The next deposit was made on June 20, 2013.

should be completed between the CEO's and Treasurer's records and reports. This reconciliation is a useful tool to identify discrepancies during the required annual audit.

An individual completes and submits an application for a building permit to the Treasurer, who then collects the associated fee per the application fee schedule and deposits these fees with other cash receipts collected. The Treasurer does not issue a duplicate cash receipt for all code enforcement transactions where no other form of receipt is available or maintains a copy of the building permit application to support the amounts deposited. The Treasurer then puts the application in the CEO's mailbox. The CEO manually numbers⁸ building permits upon issuance and records them in a computerized software program. Fire inspections are not numbered and are not recorded in the program by the CEO. The Treasurer's and CEO's records are not periodically reconciled.

We prepared a reconciliation between the CEO's building permit list and the Treasurer's accounting records to determine if all permit fees were properly recorded and deposited. We found that the Treasurer recorded and deposited 11 more building permits totaling \$390 than the CEO had recorded. We were unable to determine if fees for all completed fire inspections were collected and deposited during the audit period because there is no sequential list of fire inspections maintained. We reviewed 18 fire inspections collected, recorded and deposited by the Treasurer totaling \$1,025 and found six inspections were not issued a duplicate cash receipt totaling \$705.

Clerk Fees – The Treasurer also collects, records and deposits fees for tax searches, copies, faxes, FOIL⁹ requests, peddler's permits and licenses for games of chance. The Treasurer is provided duplicate receipt books to use for these transactions when no other form of receipt is available, i.e., the customer pays by check.

We found that the Treasurer does not issue a duplicate receipt for all transactions when no other form of receipt is available. Specifically, we found the Treasurer recorded and deposited 31 cash receipts totaling \$498 from June 1, 2013 through December 31, 2014, but only issued one duplicate receipt for \$75. Even though most of these transactions were for immaterial amounts, this control weakness increases the risk of misappropriated funds without detection.

Water Rents – The Board is responsible for reviewing the Treasurer's activities to ensure that customers are billed appropriately and at authorized rates, account adjustments are authorized and justified,

⁸ The numbering sequence begins and ends per calendar year.

⁹ New York State Freedom of Information Law

receipts are collected and deposited timely and any customer accounts unpaid at the end of the fiscal year are properly relieved on the County tax bills. The Treasurer is responsible for ensuring penalties and payments are appropriately applied to customer accounts and that all customer accounts are kept up-to-date in the computerized accounting program. The Treasurer also makes adjustments to customer accounts for billing or water meter reading errors.

Biannually in March and September, Department of Public Works read water meters so that the Treasurer could download the information into the computerized accounting software and print and send water bills to 336 Village residents and three customers in the Town.¹⁰ If payment is not received within 30 days, penalties are applied.

We reviewed the 10 water adjustments made for the period January 1, 2013 through December 31, 2014, with a net adjustment of (\$108), and found that only one adjustment totaling (\$250) was Board approved. We did not identify discrepancies with water collections for the audit period totaling \$152,569.

We also reviewed cash receipts collected, recorded and deposited for State and County revenues, justice court revenues and insurance proceeds which were paid by check or bank transfer. We did not identify discrepancies with these transactions.

Because the Board did not establish policies and procedures over cash receipts, segregate duties in the Treasurer's office or provide compensating controls, provide security for cash receipt collections, or audit the Treasurer's records, shortages of real property tax revenues occurred and were not identified and corrected in a timely manner.

Our Office has referred this matter to law enforcement officials for criminal investigation.

Recommendations

The Board should:

1. Develop policies and procedures to safeguard cash receipts. These policies and procedures, among other things, should address the segregation of duties in the Treasurer's office, issuance of duplicate receipts and performance of periodic reconciliations, and detail the reports that must be printed and maintained to verify amounts collected.
2. Certify the list of unpaid taxes to be relieved.

¹⁰ As of the October 2014 billing cycle

3. Perform the required annual audit of the Treasurer's financial records, or engage the services of a certified public accountant or public accountant to conduct the audit.

The Treasurer should:

4. Issue duplicate receipts where no other evidence of receipts are available.
5. Periodically reconcile the general ledger control accounts to the individual tax payer/customer accounts.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

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Cohocton, NY 14826
Phone 585-384-5252
Fax 585-384-5454

Board Members:
Trustee Janice Sahrle
Trustee Sandra Azzi
Trustee Kathryn Gray
Trustee Wendell Freelove

July 31, 2015

State of New York
Office of the State Comptroller
The Powers Building
16 West main Street – Suite 522
Rochester, NY 14614

Re: 2015 Audit

To whom it may concern,

The Village of Cohocton would like to thank you for the time and dedication you put into the audit to address the issue of the missing tax payments in the Village. In response to the audit findings:

The Village Clerk-Treasurer notified the Mayor immediately when she noticed the missing tax payments. The Mayor then notified the proper authorities to begin the investigation. Investigator Kurt Eaton of the NYS Police was then assigned the case.

Prior to the audit the Village purchased [REDACTED] tax collection software to more efficiently process tax payments and to more easily reconcile. At the request of the auditors the Clerk-Treasurer and the Deputy Clerk now process all payments as they come in, furnish receipts for all cash receipts and makes a copy of all checks that do not have a receipt attached. The Clerk's office also receives all building permit applications, numbers them and makes a copy of the permit for her records, and also photocopies the check to put with the deposit. A list with the permit number, name and amount collected is also kept for reconciliation purposes. Fire and Safety inspections will be handled the same way.

The Village Board audits the Clerk-Treasurer's books monthly, and is considering hiring an accountant to conduct an audit every three to five years.

The Village Board also currently approves the certified list of unpaid taxes to be levied by motion annually at a monthly meeting.

Thank you once again for your recommendations to the Village of Cohocton and the matter concerned in this audit.

Thomas Cox
Mayor

TC/kmw
cc:file

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APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our examination was to determine if cash receipts were properly accounted for in the Village Clerk's office for the period of June 1, 2013 through March 12, 2015. We extended our review of water account adjustments back to January 1, 2013 and tax collections to June 1, 2009. To accomplish our audit objective and obtain valid audit evidence, our procedures included the following:

- We interviewed appropriate Village officials and reviewed Village policies and procedures, Board minutes and financial records and reports.
- We traced all cash receipts during our audit period from source documentation to bank statements to determine if all receipts were deposited into Village bank accounts.
- We compared accounting records to bank statements for the 2013-14 fiscal year and 2014-15 fiscal year through December 31, 2014.
- We extended our review of tax collections to the 2009-10 fiscal year to determine if they were properly collected, recorded and deposited.
- We reviewed manual cash receipt books used during the audit period to determine if receipts were issued in sequence and adequately accounted for.
- We reviewed control account records to determine if accounting records were maintained accurately and adjustments were appropriately authorized.
- We reviewed water billings and collections for the audit period.
- We reviewed water account adjustments for the period January 1, 2013 through December 31, 2014.
- We performed a cash count of undeposited cash receipts and petty cash on January 15, 2015.
- We obtained and reviewed bank statements and deposit compositions for the period June 1, 2009 through December 31, 2014.

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

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