



City of Oneonta Departmental Collections

Report of Examination

Period Covered:

January 1, 2011 — November 15, 2012

2013M-13



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 Oneonta, entitled Departmental Collections. 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 Oneonta (City) has approximately 14,000 residents and is located within Otsego County in central New York. The eight-member Common Council (Council) is the City's legislative branch. The Mayor serves as the head of City government. The City Manager is the City's chief executive officer (CEO) and is in charge of administering the City's fiscal affairs.¹ The Director of Finance (Director) is the City's chief fiscal officer (CFO) and is responsible for all moneys belonging to the City. The Council also appointed a City Clerk, Director for Transportation and Director for the Water Department. The City Charter governs City operations and outlines the powers and duties of the Council, Mayor, City Manager, Directors of Finance and Transportation, and City Clerk.

The Department of Finance (Finance Office) collects money directly for parking tickets, and water/sewer billing. The Finance Office also accounts for money collected by the various City departments including Transportation, Recreation, City Clerk, Personnel, Police and Water. The City collected revenues totaling approximately \$25 million in 2012 from sources including real property taxes, sales taxes distributed by the County, and State and Federal aid, and departmental revenues.

The Department of Public Transportation collected fees totaling approximately \$700,000 for bus fares, passes and advertising sales. The Water Department collected fees for water quality tests totaling approximately \$36,000 in 2012.

Objective

The objective of our audit was to review selected cash receipts processes. The audit included the following selected departments: Finance, Water, Transportation, and the City Clerk. Our audit addressed the following related question:

- Did City officials ensure certain money received was properly accounted for?

Scope and Methodology

We examined certain cash receipts for selected City departments for the period January 1, 2011 to November 15, 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 is included in Appendix B of this report.

¹ The Council appointed the first City Manager in October 2012. Prior to that date, the City Mayor was the CEO.

**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 findings and recommendations and indicated they planned to initiate corrective action.

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.

Departmental Collections

The City's Charter provides that the City Manager is the CEO and is responsible for the daily administration of all City affairs. This includes the coordination and delivery of services, and oversight of fiscal management. The Director of Finance (Director) is the CFO and administers the City's financial affairs. The Director is responsible for the general supervision of the City's financial systems and developing policies to safeguard the City's financial interests to the fullest extent. Other responsibilities include the custody and receipt of City moneys, and ensuring that all City moneys paid to her office are accurate and deposited in a timely manner.

Various departments collect moneys and remit the funds to the Finance Office for deposit and recording in the central accounting records. To safeguard City funds, the Director should prescribe the time and manner in which moneys received by the departments shall be reported and paid to the Finance Office. The Director also should ensure that serially press-numbered receipts are used by all City departments, including pre-printed tickets. The use of consecutively press-numbered receipts/stock helps to verify the amounts of money collected by each person responsible for collecting cash. In addition, each City officer and employee who collects fees should be held accountable for all unused receipts and stock issued to him/her and there should be a clear audit trail from completed receipts to remittances to the Finance Office. Further, an effective system of internal controls provides for the segregation of duties such that no single individual controls all phases of a transaction. If limited staffing prevents an adequate segregation of duties, City officials should implement compensating controls, such as management oversight.

We audited certain moneys collected by four² of the seven departments within the City responsible for collecting and/or depositing City moneys: the Finance Office, Public Transportation Office, Water Department, and the City Clerk's Office. Except for minor discrepancies, which we discussed with City officials, we determined that cash receipts collected by the Finance and City Clerk's Offices were adequately accounted for. However, unless City officials improve their recordkeeping practices, the risk will remain increased that all moneys due to the City will not be received, recorded and deposited properly.

² The Departments were selected based on revenues and controls over the collection process.

Public Transportation — The Transportation Office collected fees for bus passes totaling approximately \$116,000³ in 2012. The bus passes are for individual fares or organizations that purchase in bulk. The passes sold to individuals are issued from a ticket machine and imprinted at the time of sale, while the passes sold to the organizations are pre-printed, stored in the office, and sold in bulk. The Transportation Office is responsible for depositing all collections and remitting the bank receipt to the Finance Office.

The Director cannot be sure that all moneys paid to the City for bus passes are turned over to her office. We found a lack of segregation of duties and oversight regarding the sale, handling and depositing of cash from the bus passes sold at the Transportation Office. The desk operator sells bus passes, performs a reconciliation of the cash drawer, prepares the bank deposit, and makes the deposits at the bank without adequate oversight or mitigating controls. These incompatible duties provide the desk operator with the opportunity to misappropriate cash receipts without detection or correction. Although the Finance Office receives bank deposit receipts and monthly bank statements, it cannot be sure that all money collected at the Transportation Office is actually deposited and recorded because the desk operator does not remit supporting daily cash receipts with the weekly bank deposit receipts.

We also found that the Transportation Office does not have inventory controls over the pre-printed ticket stock used for manual bus passes, eliminating any possibility to track or monitor manual ticket sales. The desk operator does not issue tickets in sequential order; rather, he stores the tickets in cardboard boxes and sometimes writes the number of tickets he issued that day on the boxes. The desk operator does not maintain a running total of ticket stock. As a result, accountability over pre-printed tickets is compromised and the Transportation Office does not have assurance that receipts for tickets sold were properly recorded and deposited. We reviewed all eight instances totaling \$4,245 of documented pre-printed manual bus passes issued during the audit period to determine whether they were properly recorded, deposited and authorized. We could not determine if cash collected for any of these pre-printed bus passes sold was properly deposited and recorded due to the lack of controls over the stock.

We also reviewed five weeks of cash deposits⁴ totaling \$6,985 for bus passes sold from the ticket machine and deposited by the desk operator, and verified that these receipts were properly deposited and recorded.

³ This represents over-the-counter bus passes and cash card revenues. Moneys collected directly on the buses were not part of our review.

⁴ See Appendix B, Audit Methodology and Standards, for details of our sample selection.

In addition, we reviewed five advertising contracts⁵ totaling \$3,624 to determine whether the proper records were maintained and that the amount deposited was correct. We did not find any discrepancies.

The Transportation Director told us he did not know that pre-printed passes existed or that the desk operator did not provide supporting documentation for weekly deposits to the Finance Office. He did tell us he periodically reviewed selected cash collections but did not document this review. Given these circumstances, the risk exists that manual bus passes may be sold and the proceeds not deposited.

Water Department — The Water Department collected fees for water quality tests for homeowners and businesses both in and outside the City limits totaling approximately \$36,000 in 2012. Homeowners must pay the testing fee when they bring their water to the Department for testing. The Department allows businesses requesting a water test to be billed for the fee. The Department does not release test results until the testing fees are paid in full. All fees collected at the Department must be paid by check or money order. The Water Department remits all fees collected to the Finance Office.

The Water Department Director delivers the checks for water tests to the Finance Office without any supporting documentation as to who the customer was or when the test was performed. As a result, the Director cannot be sure that all money collected for water testing is actually recorded and deposited. The Water Department Director told us that the current computerized system does not allow for a daily report to be printed accompanying the checks. The computerized recordkeeping system and lack of supporting documentation provided by the Water Department does not allow for an efficient reconciliation of fees collected to the deposit. As a result, the risk is increased that water test fees are not properly recorded and deposited.

We attempted to trace a sample of 47 water tests completed in the 2011 and 2012 fiscal years and the associated fees totaling \$1,645⁶ to the recording and deposit and were not able to verify in a timely manner that all were properly recorded and deposited. Specifically, City officials could not provide the proper documentation to verify that fees for 28 tests totaling \$980 were recorded and that fees for 43 tests totaling \$1,505 were deposited.

We also compared total revenues recorded by the Water Department as collected to the total revenues recorded by the Finance Office for 2011 and 2012. For 2011, we did not find any material differences; fees

⁵ ibid

⁶ ibid

collected by both offices totaled approximately \$33,000. However, for the 2012 fiscal year, the Finance Office recorded approximately \$36,700 in water fees, which was \$1,900 more than the approximate \$34,800 recorded as collected by the Water Department. Due to the lack of supporting documentation for water testing revenues, and because the Water Department and Finance Office do not record Water Department revenues in a consistent manner, it is difficult to determine whether all fees collected were remitted and deposited. As such, the risk is increased that revenues could be lost or misappropriated without detection.

Recommendations

1. The City Manager should require that the Director develop procedures to ensure that departments maintain adequate deposit information and accounting software reports/access so that all moneys are properly recorded and deposited.
2. The City Manager should require that each department provide sufficient details to the Director to support departmental receipts to ensure that all moneys received are properly recorded and deposited.
3. The Director should ensure that all cash collection duties in each City department are adequately segregated or implement compensating controls, such as management oversight.
4. The Director should require that all departments issue receipts in sequential order and maintain an adequate inventory of all receipts/stock.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

City officials attached their policy and procedure for departmental cash receipts as part of their response. We did not include this policy and procedure in the final report because the response contained sufficient information without it.



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April 1, 2013

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Dear Mr. Eames,

We have reviewed the Departmental Collections Report of Examination for the period January 1, 2011- November 15, 2012. Several recommendations were made for the City to improve the departmental cash collection process. We have reviewed the results of your review and our response with the City Council. We accept the recommendations provided in the draft report, and have taken several measures to ensure that moneys collected by City departments are properly accounted for.

Following is our combined response and Corrective Action Plan (CAP) for the recommendations included in your report.

Recommendation:

- 1) The City Manager should require that the Director develop procedures to ensure that the departments maintain adequate deposit information and accounting software reports/access so that all moneys are properly recorded and deposited.

Response:

The Director of Finance has developed the attached Departmental Cash Receipts Policy and Procedure which will be reviewed by the Finance Committee and adopted by Common Council in the near future. In addition, as indicated in the proposed policy, department heads of departments who collect monies will be given access through the City's accounting software [REDACTED] to the revenue ledgers for their respective collections, and will periodically access those accounts to ensure that all monies collected have been properly recorded.

Recommendation:

- 2) The City Manager should require that each department provide sufficient details to the Director to support departmental receipts to ensure that all moneys received are properly recorded and deposited.

- 2) The City Manager should require that each department provide sufficient details to the Director to support departmental receipts to ensure that all moneys received are properly recorded and deposited.

Response:

As required by Departmental Cash Receipts Policy and Procedure, each department will submit adequate documentation to support departmental receipts that are remitted to the Finance Department. While the Departmental Cash Receipts Policy and Procedure has not yet been formally adopted, implementation of this recommendation has already taken place.

Recommendation:

- 3) The Director should ensure that all cash collection duties in each City department are adequately segregated or implement compensating controls, such as management oversight.

Response:

As required by Departmental Cash Receipts Policy and Procedure, each department head, or their designee will be required to approve each remittance to the Finance Department. In addition, the City is in the process of implementing the position of Transportation Processing Clerk (see attached duties statement) in an effort to provide further segregation of duties for the Public Transportation Department's cash collection process.

Recommendation:

- 4) The Director should require that all departments issue receipts in sequential order and maintain an adequate inventory of all receipts/stock.

Response:

As required by Departmental Cash Receipts Policy and Procedure, each department must ensure that customers are issued a sequentially numbered receipt. In addition, we have confirmed that both prepaid passes and bus passes issued at the bus station are sequentially numbered. We are also in the process of accumulating an inventory of all pre-printed ticket stock held by the Transportation Office. The stock will be stored in a secure location, and the use of this stock will be tracked and stock on hand will be periodically reconciled.

This audit report has provided recommendations which will allow us to further improve the integrity of our cash collection process. We appreciate your assistance in accomplishing this.

Respectfully,

Michael H. Long
City Manager

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 January 1, 2011 to November 15, 2012. Our examination included the following:

- We interviewed City officials, each department head, and any employees involved in or responsible for cash receipts.
- We observed Water Department staff count the number of water tests performed during the 2011 and 2012 fiscal years. We then attempted to reconcile the total revenues collected and recorded by the Water Department to the total revenues collected and recorded by the Finance Office for the two fiscal years for reasonableness.
- We selected a judgmental sample of 10 days of water testing receipts and attempted to trace those receipts from the Water Department records to the Finance Department records and subsequent bank deposit.
- We reviewed all eight instances of documented manual bus passes issued during the audit period to determine whether they were properly recorded, deposited and authorized.
- We selected a judgmental sample of every 10th advertising contract from the listing maintained by the Assistant to the Director of Transportation, for a total of five contracts, to determine whether the proper records were maintained and the amount deposited was correct.
- We selected a judgmental sample of five weeks of cash deposits of bus passes sold and deposited by the desk operator to determine whether they were properly deposited and recorded. We chose this sample by selecting the first deposit of the month for each of the following months: August and September 2011, March 2012, and August and September 2012.

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.

APPENDIX C

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