



Town of Beekman

Misappropriation of Cash Receipts

Report of Examination

Period Covered:

January 1, 2013 — July 31, 2014

2015M-41



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2015

Dear Town 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 Town 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 Town of Beekman, 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

The Town of Beekman (Town) is located in Dutchess County and has approximately 15,000 residents. The Town is governed by an elected five-member Town Board (Board), which comprises the Town Supervisor (Supervisor) and four Board members. The Town Supervisor is a member of the Board and serves as the chief executive officer. The Board is the legislative body and is responsible for the general management and control of the Town's financial affairs, including establishing internal controls over financial operations and maintaining sound financial condition. The Town Comptroller (Comptroller) is the Town's accounting officer and is responsible for maintaining the Town's accounting records. The Comptroller's responsibilities include collecting and depositing cash receipts from Town departments.

In February 2015, the former Comptroller pleaded guilty to second-degree grand larceny in the theft of \$390,178 from the Town and will be sentenced on those charges in April 2015. When Town officials suspected that there were additional missing funds, they requested that we conduct an audit. The findings presented in this report are in addition to the \$390,178 theft and were provided to law enforcement officials. On March 5, 2015, the former Comptroller was charged with grand larceny related to the amounts uncovered in our audit.

Objective

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

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

Scope and Methodology

We examined the Town's departmental cash receipts process for the period January 1, 2013 through July 31, 2014. We expanded our scope to January 1, 2010 to review cash collection from the recreation department.

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.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated that they planned to take, or have already taken, 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 Town Clerk's office.

Cash Receipts

The Board is responsible for establishing adequate internal controls to properly safeguard the Town's assets. A necessary control over cash is the segregation of duties so that no one individual controls most or all phases of a transaction. Where duties cannot be segregated, the Board should establish proper supervisory review or other compensating controls to mitigate potential risk. In addition, New York State Town Law (Town Law) requires cash collections to be deposited into the Town's bank accounts within 10 business days of receipt.

The Board did not adequately segregate duties, which allowed the former Comptroller to perform duties related to the receiving and processing of cash receipts without oversight. For example, he collected cash receipts, made bank deposits and obtained and maintained bank statements. The Board did not mitigate this risk by ensuring that cash collected by the Comptroller was reconciled with collections remitted to him from other departments. As a result, \$149,219 received by the Comptroller's office was not deposited and could not be accounted for. In addition, the Comptroller did not comply with the law. Cash receipts were not deposited within 10 days; some receipts were deposited between 11 to 67 days.

Missing Cash Receipts

Town officials are responsible for establishing procedures to properly safeguard cash receipts from loss or theft. It is important for employees' duties to be segregated so that no one individual controls most or all phases of a transaction. For example, the same person should not be responsible for collecting, depositing and recording cash receipts and reconciling bank statements without proper oversight.

We initially selected all 111 cash receipts collected by five of the Town's departments during the period January 1, 2013 through December 31, 2013, totaling \$4,035,169. The departments that submitted cash receipts included Recreation, the Town Clerk's office, Justice Court, Building and Receiver of Taxes. All the receipts submitted by the Receiver of Taxes, the Town Clerk, the Justice Court and the Building Department were deposited into the Town's account. However, \$35,535 of the receipts submitted by the Recreation Department to the Comptroller's office was not deposited in the Town's bank account. We extended our scope and reviewed all receipts, totaling \$767,904, which the Recreation Department submitted to the Comptroller's office during the period January 1, 2010 to December 31, 2013. A total of \$149,219 in cash was not deposited into any of the Town's bank accounts and cannot be accounted for.

Figure 1: Missing Cash Receipts	
Year	Amount
2010	\$42,029.50
2011	\$36,450.75
2012	\$35,203.75
2013	\$35,534.75
Total	\$149,218.75

The four other departments, which had no missing funds, maintained their own department bank accounts and deposited collected fees and charges into these accounts. They submitted checks from their accounts to transfer the funds to the general Town accounts.¹ The Recreation Department did not maintain its own bank account but brought all cash receipts to the Comptroller's office for deposit. During this four-year period, several different employees worked in the Comptroller's office when receipts were submitted. The only person employed there for the entire period was the former Comptroller. Improper segregation of duties and inadequate oversight of the former Comptroller's office allowed the misappropriation of funds to occur and not be detected.

Timeliness of Deposits

Town Law requires the supervisor to deposit money received no later than 10 days after receipt. In a town in which the office of the comptroller has been established, the town board may, by resolution, determine that all of the accounting duties of the supervisor be transferred to and be performed by the comptroller. While the statutory deadline is the latest point in time at which a deposit may be made, good business practice calls for money to be deposited as soon as possible after collection. The longer money remains on hand and not deposited, the greater the risk of loss or theft.

We examined 111 cash receipts received from the Town Clerk, Receiver of Taxes, the Town Justices, the Building Department and the Recreation Department which were deposited by the former Comptroller during the last completed fiscal year (January 1, 2013 to December 31, 2013), totaling \$4,035,169. Of the 111 receipts, 56, totaling \$214,334, were not made in a timely manner.

¹ Escrow money for planning or zoning would go directly to the Comptroller.

Figure 2: Delayed Deposits			
Department	Number of Instances	Total Amount	Range of Days Delayed
Recreation	36	\$108,917	11 to 67
Building	6	\$66,025	12 to 31
Justice Court	9	\$16,567	18 to 37
Town Clerk	4	\$3,885	14 to 20
Receiver of Taxes	1	\$18,940	15

Town officials have no oversight or monitoring procedures in place to ensure that deposits are made timely. Since Town money was either not deposited in a timely manner or not deposited at all, funds were not available to meet Town obligations and could not earn interest revenue from the bank.

Recommendations

The Board should:

1. Seek recovery of \$149,218.75 for collections not deposited.
2. Adopt written policies and procedures over cash receipts that include collection, recording and depositing. The policies should require segregating incompatible functions related to cash receipts. Alternatively, the Board should establish, and the Supervisor should implement, compensating controls.
3. Ensure that deposits are timely and in accordance with applicable laws.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF
BEEKMAN
New York

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March 30, 2015

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

To whom it may concern:

On behalf of the Town of Beekman, I would like to take this opportunity to respond to the Report of Examination for the Misappropriation of Cash Receipts. I would like to say that we are grateful for the expert work performed by the representatives from the New York State Comptroller's Office in determining their final results.

At the beginning of my term as Supervisor in 2014, the Town's Finance Department was overhauled, including a new Comptroller and Bookkeeper. Soon after I began my term as Supervisor, I requested that the New York State Comptroller Office come to Beekman for a review of our books and records. My focus of concern were the books and records from 2010 – 2013. We were hoping for a thorough review of all our books and past record keeping practices.

The need for an audit by the New York State Comptroller's Office became more apparent when the Bookkeeper of 2014 found checks being written to an account that the Town no longer used. He had begun the reconciliation process that had not been performed during 2010 – 2013. This information was immediately turned over to the Dutchess County DA's office for further investigation. Shortly after that time we did receive notice that the Comptroller's Office would be performing an Audit for the Town of Beekman.

In August of 2014 we were happy to receive notification of an Audit to be performed in Beekman. We were told that the Audit would be focused on an Evaluation of Internal Controls. Once the Audit began, we were not surprised when this focus turned to Misappropriations of Cash Receipts. We are grateful to your examiners for uncovering another \$150,000 in missing funds.

The report talks of the "Town Board". I would like to make this perfectly clear that the "Town Board" mentioned in the report sat from 2010-2013. The current Town Board of 2014-2015 has learned from the past mistakes and have made very conscience efforts to have a better handle with the current bookkeeping practices. We have implemented ways in which to make the review of the vouchers and checks more transparent. We feel very confident that the process now in place has corrected any issues that may have existed. We have also hired a private accounting firm, for an audit to be completed for

not only 2014, but 2015 and 2016. And the Bookkeeper does reconcile all accounts every month. We are in the process of attempting to recover the misappropriated money from our Insurance Companies.

I thank you for the thorough audit. The results are informative and have offered Beekman much appreciated guidance. The audit team was helpful in discussing the items found during the audit and was beneficial in helping us understand the much needed changes. We have taken your recommendations very seriously. We will move forward with these recommended changes, as we value the trust and confidence the residents the Beekman have put in us.

Sincerely,

Barbara A. Zulauf, Supervisor
Town of Beekman
845-724-5300 Ext 225

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy the Town's internal controls. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. During the initial assessment, we interviewed Town officials, performed limited tests of transactions and reviewed pertinent documents such as Town policies and procedures, Board Minutes and financial records and reports.

After reviewing the information gathered during our initial assessment, we determined where weakness existed and evaluated those weaknesses for the risk of potential fraud, theft or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected cash receipts for further testing for the period January 1, 2013 to July 31, 2014.

To accomplish our audit objective and to obtain valid audit evidence, our audit procedures for cash receipts included the following:

- We interviewed the current Comptroller and Bookkeeper, who are responsible for maintaining accounting records and reports, and reviewed the Board minutes to obtain an understanding of the Town's accounting practices.
- We interviewed the Recreation Director, Town Clerk, Legislative Aide, Justice Court Clerks and Receiver of Taxes to gain an understanding of their collection process and the records they maintain.
- We requested accounting records from the Comptroller, Bookkeeper, Recreation Director, Receiver of Taxes and Legislative Aide.
- We obtained bank statements for all the Town accounts and detailed composition of deposits for the Town's deposit accounts to determine if there were cash receipts that were not deposited.
- We traced the 1,843 invoices in the recreation records to the MyRec income report for 2013 and seven transmittals for Senior Trips not included in MyRec. We traced the individual invoices to the 2013 composition of deposits.
- We traced the 1,575 invoices in the recreation records to the MyRec income report for 2012 and six transmittals for Senior Trips not included in MyRec. We traced the individual invoices to the 2012 composition of deposits.
- We traced the 1,199 invoices in the recreation records to the MyRec income report for 2011, four transmittals for Senior Trips and two transmittals for the Teen Leadership Club not included in MyRec. We traced the individual invoices to the 2011 composition of deposits.

- We traced the 1,278 invoices in the recreation records to the MyRec income report for 2010. We listed 106 checks representing recreation fees that were cleared by the bank. We traced the individual invoices to the 2010 composition of deposits.
- We compared all bank deposits from the M&T Bank-delivered bank statements to the bank-supplied composition of deposits to determine completeness for 2010, 2011, 2012 and 2013.
- To determine the amount of cash received by the bank, we reviewed every composition of deposit for the period and noted all “cash in” teller tickets.
- To determine timeliness, we compared the report amounts and check amounts from monthly Town Clerk, Building and Town Justice reports, compared the check information to the composition of deposits and the entered dates of deposit and tested for timeliness. For the Recreation receipts, we compared the transmittal amounts and dates turned over to the Comptroller to the composition of deposits and entered dates of deposit and tested for timeliness. For the Receiver of Taxes, we compared the check amounts and the Receiver of Taxes transmittal reports to the composition of deposits and the entered dates of deposit and tested for timeliness

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.

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