

Town of Chester

Justice Court Operations and Credit Card and Employee Reimbursements

JULY 2017



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Town of Chester

Audit Objective

Determine whether Justice Court moneys were collected, recorded, deposited, disbursed and reported in a proper and timely manner.

Determine whether internal controls over credit cards and employee reimbursements were adequately designed and operating effectively.

Key Findings

- The Justice's cash exceeded known liabilities for each of the 22 months in our audit period by an average of \$15,700.
- Employees made 12 Town credit card purchases without receipts totaling \$1,916.
- Employees were not required to obtain prior authorization to make 204 reimbursed purchases totaling \$9,078.

Key Recommendations

- Determine why the Justice's cash exceeds known liabilities and remit any unidentified funds to the Office of the State Comptroller's Justice Court Fund (JCF).
- Ensure the Court receives three credit card authorizations totaling \$533 that were not deposited.
- Adopt policies and procedures that limit the use and reimbursement of personal funds used for Town purchases.

Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Town of Chester (Town) is located in Warren County. The Town is governed by an elected five member Town Board (Board) which is composed of the Town Supervisor (Supervisor) and four council members. The Board is responsible for the general management and control of Town finances and overseeing financial activities, including the Justice Court (Court). The Town has one elected Justice and one full-time Court clerk.

The Supervisor, as chief fiscal officer and chief executive officer, is responsible for the Town's day-to-day management, including basic accounting functions and maintaining accounting records, under the Board's direction.

Quick Facts

\$713,000	Fines, fees and bail collected during audit period
\$24,700 and \$14,000	Credit Card Purchases and Employee Reimbursements
\$4.4 Million	2017 Budgeted Appropriations

Audit Period

January 1, 2015 - October 31, 2016. We extended our scope to December 28, 2016 for bails.

Justice Court Operations

The Court has jurisdiction over vehicle and traffic, criminal, civil and small claims cases. Justices adjudicate legal matters within the Court's jurisdiction and administer money collected from fines, surcharges, civil fees, restitution and bail. The clerk, who is appointed by the Justice, collects payments, issues receipts,¹ posts payments in the computer system, prepares and makes deposits and prepares monthly reports to the JCF.

How Should Justices Account for Court Funds?

Justices are required to issue receipts to acknowledge the collection of all funds paid to the Court, record each receipt in the accounting records and deposit all funds intact (i.e., in the same amount and form as collected) as soon as possible but no later than 72 hours from the date of collection, exclusive of Sundays and holidays. Justices should also submit monthly reports detailing all fines, fees, surcharges and forfeited bail collected to the JCF by the tenth day of the succeeding month.

On a monthly basis, Justices should perform a bank reconciliation to the checkbook and an accountability of funds by preparing a list of court liabilities and comparing it to reconciled bank balances and money on hand. Court liabilities should equal the cash balance and any unidentified funds should be remitted to the JCF. Justices collect bail² from defendants to ensure their appearance in Court to answer charges. The Justice should maintain records of the date of receipt, who paid it and to which case it relates. Disbursements generally involve returning bail, transferring moneys to other courts and monthly remittances to the Town Supervisor or JCF. The clerk can prepare the checks but they must be reviewed and signed by the Justice.

Collections Were Largely Receipted, Deposited and Reported

We reviewed 676 computerized receipts totaling \$121,921 and found they were issued in sequential order, deposited in a timely manner and accurately reported to the JCF. Except for a few minor exceptions that we discussed with Court officials, all collections were deposited intact.

¹ Receipts were printed out of the Court's computer system.

² Bail is returned when the case has been adjudicated or used to pay fines and fees imposed by the Court.

Bank Reconciliations Were Not Accurate and Accountabilities Were Not Prepared

The clerk calculated a monthly adjusted bank account balance on a timely basis. However, she did not always compare the adjusted bank balance to her checkbook register balance. Additionally, none of the adjusted bank balances calculated for our audit period included deposits in transit or identified and resolved discrepancies related to credit card payment deposits. We prepared a bank reconciliation for all 22 months in our audit period and found the adjusted bank balances exceeded the checkbook register balances by between \$730 and \$5,000 for all the months. In addition, we identified three credit card authorizations totaling \$533 that were not deposited into the Court's bank account.

In addition, the clerk did not prepare monthly accountability analyses to ensure liabilities agreed with cash. We prepared an accountability analyses for all months in our audit period and found the cash on hand exceeded known liabilities (unremitted fines and fees and bail held on pending cases) by approximately \$15,200 to \$16,000 for each month during our audit period, with an average variance of approximately \$15,700. The clerk and the Justice believe the excess cash related to old outstanding and unreturned bail. However, because they maintained poor records, they could not accurately determine the composition of the unidentified balance in the bank account.

In our prior audit report issued in 2011 [Report 2010M-159], we identified a similar finding that the clerk did not prepare monthly accountability analyses and that cash on hand exceeded the known liabilities by \$10,165 as of December 31, 2009. Town officials could not determine the composition of the unidentified balance in the Justice account in 2009 and the unidentified funds were not remitted to the JCF as required. When monthly bank reconciliations are inaccurate and monthly accountability analyses are not prepared, there is a risk that unidentified funds can remain on deposit and that errors or irregularities can occur and remain undetected for several months or years.

Pending Bail Report Was Not Accurate

The Court's computer system produces a record of current pending bail as of the date the report is printed and the clerk records bail in a supplemental manual bail book. We reviewed records as of December 28, 2016³ to calculate the

³ The Court did not accept or return bail from November 1, 2016 through December 28, 2016.

outstanding bail. We found that the pending bail report included bails totaling \$3,670 for 11 individuals, but did not include bails totaling \$750 for two individuals recorded in the manual bail book.

This occurred because the clerk did not regularly generate a current pending bail report or reconcile the balance in the manual bail book to the bank account. The pending bail reports must be regularly generated because the computer system cannot provide a report as of a previous point in time. As discussed previously, the Justice used only one bank account for fines, fees and bails and we found that bank account contained approximately \$15,200 to \$16,000 more than the known liabilities. As a result, the Justice cannot accurately reconcile the bail in the accounting records to the bail on deposit.

In our prior audit report [Report 2010M-159], we identified similar findings for the same clerk and Justice. The Justice's failure to correct the deficiencies in our prior audit report resulted in continuing problems with the accounting for bail proceeds. Without accurate and complete bail records, the Justice is unable to ensure bail is properly accounted for and appropriately disbursed. Had pending bail reports been generated and compared to the manual bail book and the bank account, these errors likely would have been detected.

Disbursements Were Appropriate but Were Not Always Processed Properly

We reviewed all 69 checks totaling \$710,700 disbursed during our audit period and found they were for appropriate purposes. However, 15 checks totaling \$438,800 that were payable to the Supervisor were not cashed because they were voided by the bookkeeper who instead electronically transferred the amounts out of the Justice's bank account into the Supervisor's bank account.⁴ The Justice was aware the bookkeeper sometimes made these transfers and did not specifically authorize the bookkeeper to make these transfers but also did not ask the bookkeeper to stop making the transfers or contact the bank to remove the bookkeeper's access. When someone other than the Justice or clerk has access to court bank accounts, there is a risk that errors or irregularities can occur and remain undetected.

⁴ The bookkeeper wrote void on these checks and retained them with the documentation for electronic transfers.

What Do We Recommend?

The Justice should:

1. Ensure bank reconciliations are prepared monthly and that they include deposits in transit and card payment deposits.
2. Ensure the Court receives the three credit card authorizations that were not deposited into the Court's bank account.
3. Ensure accountability analyses are prepared monthly, whereby known liabilities are reconciled to available cash. Any differences should be promptly investigated and resolved.
4. Identify the source of the overage in the Court's bank account and remit any unidentified funds to the JCF.
5. Regularly generate a current pending bail report and reconcile that report to the manual bail book and the bank account.
6. Update the Court's computer system to reflect the bails held for two individuals totaling \$750 that were recorded in the manual bail record.
7. Ensure that no individuals have access to his bank account without formal authorization.

Town Credit Cards and Employee Reimbursements

How Should Officials Control Credit Cards and Employee Reimbursements?

Because credit cards can be used almost as easily as cash, it is critical that the Board establish policies and procedures for credit cards that identify authorized users, define credit limits, describe the purchases allowed and the prior approval and documentation required. If credit cards are used by more than one employee, Town officials should implement controls over custody to ensure accountability. Also, there is an increased risk if employees make Town purchases with their personal funds and seek reimbursement. Since the Town has credit cards that can be used for this purpose, the practice of employees making purchases with their own funds and then seeking reimbursement should be stopped.

Controls Over Credit Cards Were Not Adequate

The Town had two general credit cards each with a limit of \$2,000 and two store credit cards with limits of \$5,000 and \$3,200. Additionally, the Town had a line of credit with an online retailer with a limit of \$6,000 and a line of credit with a retailer with a limit of \$10,000. All four credit cards were stored in a locked filing cabinet in the bookkeepers' office. Although the general and store cards were not issued in the bookkeeper's name, the bookkeeper had control over them and used them to make purchases. In addition, he allowed other Town officials (e.g., library and parks and recreation employees) to use them to make purchases. For example, one general card that was issued to the former Supervisor who left office on December 31, 2015 was used by other Town officials until it expired in July 2016.

The bookkeeper had custody of the cards, had access to both lines of credit and allowed other employees to use them. Although the Board was aware of this, the Board did not specifically authorize the bookkeeper to do so or establish policies and procedures over their use. Also, the bookkeeper did not record and track the custody of the credit cards or monitor their use.

The Town paid 96 credit card, store card and line of credit claims totaling \$24,679 during our audit period. We reviewed 12 claims for 98 purchases totaling \$10,609 and found that 12 purchases totaling \$1,916 were not supported by receipts or other documentation. From our review of the credit card statements, the claims and conversations with Town officials, we determined certain information for the purchases (e.g., vendor names and brief descriptions of the items purchased) and what some of the purchases were for (e.g., a filing cabinet, wire racks and printer toner). Although we obtained reasonable assurance these purchases were for legitimate purposes, the Board should not have audited and approved these

claims for payment without appropriate documentation. The lack of controls over credit cards increases the risk of unauthorized purchases.

Controls Over Employee Reimbursements Were Not Adequate

Employees are required to complete detailed vouchers and submit receipts for reimbursement. However, Town officials did not establish policies and procedures that limit the types of purchases employees make and are reimbursed for or the circumstances under which they are made. As a result, employees are not required to obtain prior authorization to make Town purchases with personal funds and then seek reimbursement from the Town. In June 2016, the Clerk began reviewing vouchers and receipts prior to submitting them to the Board for approval of payment.

We reviewed 53 vouchers totaling \$14,019 and found all 53 were properly supported with receipts and for valid Town purposes. However, these vouchers included 204 purchases totaling \$9,078 for goods and services for the Town purchased by employees with their personal funds that did not require prior authorization. For example, the Town Clerk who is also the Youth Director made purchases totaling \$2,805 for the youth program (uniforms, umpires and supplies). Also, the bookkeeper made purchases totaling \$4,701 primarily for postage and office supplies using his personal credit card. The Town Clerk and bookkeeper told us they used personal funds because in some cases the balance on the Town's credit card had reached the credit limit and because it was an easier way to pay the umpires and buy supplies for the youth program.

Even though these purchases were properly supported and for valid Town purposes, Town purchases should only be made with personal funds on rare occasions when no other method (i.e., a Town credit card or voucher) is available. Allowing employees to use their personal funds or credit cards circumvents controls such as the Town's credit limit and increases the risk of improper Town purchases.

What Do We Recommend?

The Board should:

8. Adopt policies and procedures for the use of Town credit cards that identify authorized users, define credit limits, and describe the purchases allowed and prior approval and documentation required. If credit cards are to be

used by more than one employee, controls over custody or separate cards should be implemented to ensure accountability.

9. Ensure that credit cards issued to specific employees are canceled when they separate from service and that no employee uses a credit card issued to another current or former employee.
10. Ensure that the custody and/or use of all credit cards and lines of credit are recorded, tracked and monitored by the bookkeeper.
11. Ensure that all credit card charges are for legitimate purposes and supported by receipts or other documentation before approving them for payment.
12. Adopt policies and procedures that strictly limit the practice of allowing employees to use personal funds or credit cards to make Town purchases and seek reimbursement.

Appendix A: Response From Town Officials

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[REDACTED]

NYS Office of the State Comptroller
Division of Local Government and School Accountability
One Broad Street Plaza
Glens Falls, NY 12801

July 17, 2017

Dear [REDACTED],

Attached to this letter is the Town of Chester response to the **Town of Chester Justice Court Operations and Credit Card and Employee Reimbursements Report of Examination 2017M-67 of June 14, 2017.**

The Town of Chester either has taken or is in the process of taking the steps described in our response to the items brought up in the Report of Examination.

The audit process as carried out by the examiners in your office must be commended. The staff here at the Town has commented on how helpful, educational, courteous, and knowledgeable the auditors were throughout the process, especially [REDACTED] who was here from beginning to end.

Please contact me if there is need to clarify any of the items in our response.

Kind regards:

Craig Leggett, Supervisor

**Response from Town of Chester regarding:
Town of Chester : Justice Court Operations and Credit Card and Employee Reimbursements Report of Examination 2017M-67 (June 14, 2017)**

Justice Court Operations: What Do We Recommend?

The Justice should:

1. Ensure bank reconciliations are prepared monthly and that they include deposits in transit and card payment deposits.
Toc Response: The Court Clerk will reconcile bank statements and include in-transit and card payment deposits. The audit committee of the Town Board will check on this periodically.
2. Ensure the Court receives the three credit card authorizations that were not deposited into the Court's bank account.
Toc Response: The Court Clerk is pursuing several avenues in order to find the misdirected credit card authorizations and will take action to have the deposits correctly deposited into the Justice Court account once they are located.
3. Ensure accountability analyses are prepared monthly, whereby known liabilities are reconciled to available cash. Any differences should be promptly investigated and resolved.
Toc Response: The Court Clerk will prepare monthly accountability analyses of assets and liabilities and resolutions of discrepancies will be resolved in a timely manner. The audit committee of the Town Board will check on this periodically.
4. Identify the source of the overage in the Court's bank account and remit any unidentified funds to the JCF.
Toc Response: The source of the overage in the Justice Court's bank account could be from unclaimed bail that has accrued over time and before more accurate recordkeeping was established by the Court. The Court Clerk will prepare monthly accountability analyses in order to determine the exact amount of the current overage in the Justice Court's bank account. Once a stable and accurate overage amount is determined that amount will be remitted to the JCF. This will require a period of 3 to 6 months
5. Regularly generate a current pending bail report and reconcile that report to the manual bail book and the bank account.
Toc Response: The Court Clerk will prepare a pending bail report on a monthly basis by using the manual book and the Justice Court bank account. The audit committee of the Town Board will check on this periodically.
6. Update the Court's computer system to reflect the bails held for two individuals totaling \$750 that were recorded in the manual bail record.
Toc Response: The Court Clerk has updated the computer system to correlate with the manual bail record.
7. Ensure that no individuals have access to his bank account without formal authorization.
Toc Response: The Town Bookkeeper has access to the Justice Court bank account because of the nature of the bank's electronic banking system. The Judge grants

Town of Chester Response to Report of Examination 2017M-67

authorization for the Bookkeeper to electronically access the Justice Court bank account for the purpose of printing bank statements for the Court Clerk. Authorization to electronically access the Justice Court bank account for other purposes will be granted by the Judge on an as-need basis.

4 The bookkeeper wrote void on these checks and retained them with the documentation for electronic transfers.

Town Credit Cards and Employee Reimbursements: What Do We Recommend?

The Board should:

8. Adopt policies and procedures for the use of Town credit cards that identify authorized users, define credit limits, and describe the purchases allowed and prior approval and documentation required. If credit cards are to be used by more than one employee, controls over custody or separate cards should be implemented to ensure accountability.
Toc Response: The Town Board will adopt policies and procedures for the use of Town credit cards and store cards that include controls over custody.
9. Ensure that credit cards issued to specific employees are canceled when they separate from service and that no employee uses a credit card issued to another current or former employee.
Toc Response: This recommendation will be incorporated into the Town's credit card/store card policy and procedures.
10. Ensure that the custody and/or use of all credit cards and lines of credit are recorded, tracked and monitored by the bookkeeper.
Toc Response: The Town Board will produce forms that track credit card/store cards custody and use and these forms will be incorporated into the Town's credit card/store card policy and procedures.
11. Ensure that all credit card charges are for legitimate purposes and supported by receipts or other documentation before approving them for payment.
Toc Response: As a regular practice, all credit card charges are correlated with credit card statements by the Town Clerk each month. All charges are coded to the appropriate fund and budget line item and put on the monthly abstract of claims for approval. Copies of receipts and/or other documentation are attached to card statements for reference. The Town Board reviews the claims at their monthly board meeting before approval.
12. Adopt policies and procedures that strictly limit the practice of allowing employees to use personal funds or credit cards to make Town purchases and seek reimbursement.
Toc Response: An Expense, Mileage, and Travel Reimbursement policy is included the Town of Chester Employee Handbook. It includes a provision for the Town to follow the rules for reimbursement of expenses as set forth in the NYS Comptroller's Local Government Management Guides. The Town Board will consider revisions to the existing policies and procedures that clearly prescribe the use of personal funds or credit cards by employees to make Town purchases and seek reimbursement.

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed the Justice and the clerk and reviewed financial records and reports to gain an understanding of the Court's financial operations.
- We judgmentally selected four months of receipts totaling \$121,921 to verify that receipts were issued in sequential order. We selected three months based on variances for the accountability testing we did and one month because it was the last month in our audit scope period. We reviewed bank records and reports to determine whether the collections were deposited timely and intact, and reported to the JCF. We excluded collections for bail because we tested bail receipts records when we calculated the outstanding bail.
- We prepared bank reconciliations and accountability analyses for the Justice's bank account for each month during our audit period to determine whether cash on hand agreed with known liabilities.
- We reviewed cash receipt records, the current pending bail report and the manual bail book as of December 28, 2016 to calculate outstanding bail in the Justice's bank account. We selected December 28, 2016 because it was the date our testing was being done.
- We reviewed all checks issued from the Justice's bank account to determine whether they were for appropriate Court purposes and amounts, issued in sequence and signed by the Justice. We inquired about bank transfers to determine whether they were authorized by the Justice.
- We interviewed Town officials and employees to gain an understanding of the internal controls for credit cards and employee reimbursements.
- We selected a judgmental sample of the six largest dollar amounts of credit card payments which included the 12 claims reviewed for the 96 purchases totaling \$10,609 to determine whether the Board required receipts and other documentation and whether they were approved prior to payment. Our review included credit card statements, claims and conversations with Town officials.
- We randomly selected four months of employee reimbursements and the two highest months of employee reimbursements to determine whether the Board required receipts and other documentation and if they were approved prior to payment.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of 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 the CAP available for public review in the Town Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports / Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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