



Town of Orchard Park

Recreation Department

Cash Receipts

Report of Examination

Period Covered:

January 1, 2015 – January 27, 2017

2017M-81



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 2017

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 Orchard Park, entitled Recreation Department 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 Orchard Park (Town) is located in Erie County and has a population of approximately 29,000 residents. The elected three-member Town Board (Board) is responsible for managing Town operations, including establishing internal controls over financial operations and policies and procedures governing Town operations. The Town Supervisor (Supervisor) is a member of the Board and serves as the chief fiscal officer. The Town provides various services including street maintenance, snow removal, police, water and sewer, refuse collection and general government support. The Town's 2016 expenditures totaled approximately \$21 million for all operating funds. Operations are financed primarily by real property taxes, user fees, sales tax and State aid.

The Town operates a recreation department (Department) which provides a variety of programs open to residents and non-residents. The Department director (Director) oversees the day-to-day operations. The Department is staffed by an assistant director and three part-time support staff. Department revenue totaled \$568,000 in 2015 and \$486,000 in 2016.¹

In 2010 the Board approved a contract with a vendor to facilitate online recreation program registration. The vendor processed \$486,700 and \$440,000 in recreation program fees in 2015 and 2016, respectively. Program fees and other revenue are also collected at the Department office.

Objective

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

- Did the Department properly record, deposit and remit cash receipts?

Scope and Methodology

We examined the Department's financial records and reports for the period January 1, 2015 through January 27, 2017.

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. Unless otherwise indicated in

¹ Overall, reported recreation program revenue decreased in 2016 from prior years due to Green Lake maintenance and middle school gym renovations. These projects are now completed and revenue is expected to increase in 2017 from 2016 levels.

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.

**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 agreed with our findings and indicated they plan to take 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 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 Director is responsible for ensuring that Department cash receipts are properly recorded, deposited in a timely manner and remitted to the Supervisor within 15 days after month end. The Board is responsible for providing adequate oversight of the Department, which includes adopting written policies and developing adequate procedures over cash receipts.

The Department generally recorded and deposited cash receipts properly, but did not remit money to the Supervisor in a timely manner. The Director did not reconcile recreation fees collected by a vendor with cash receipts records. The Director also did not ensure that Department personnel always issue a press numbered duplicate receipt or consistently comply with the credit/refund policy. This occurred because the Board did not provide adequate oversight of Department financial activity. The Board did not adopt written policies over financial operations or approve a key Department contract. As a result, the Department is at risk of errors and omissions going undetected.

Cash Receipts Records

Department personnel should maintain accurate and complete cash receipts records. These records can be used as part of the bank reconciliation process to ensure that all money collected has been deposited. In addition, using press numbered duplicate receipts helps ensure that all fees collected are properly accounted for.

Fees for preschool programs, day camps and sports programs can be paid online by credit card or paid in person by credit card, cash or check at the Department office. The collection of these fees is recorded in the vendor's software program, and program fees paid by credit cards, on line or in person, are deposited into a bank account in the custody of the vendor. All payments made by cash and check are deposited into the Department bank account. Periodically, the vendor mails a check representing recreation program revenues to the Department, net of credit card processing fees withheld by the vendor as compensation for its services. The Director does not reconcile the amount of the check from the vendor to the cash receipts records to ensure that the amount is accurate.

The monthly cash receipts report that the Department prints out and provides to the Supervisor's office lists fees by participant and date of collection, but cannot be reconciled with the checks from the vendor because the checks are not based on the same monthly time period as these reports. Furthermore, the monthly cash receipts report includes

non-monetary transactions, such as when credit account balances are applied to program fees and when refunds are issued.

After discussing this matter with the vendor, they provided us with a report that lists all recreation program fees the vendor processed for a selected time frame, less applicable administrative and credit card processing charges, that can be reconciled to the checks received from the vendor. Department personnel were not aware that this report was available. We tested eight vendor payments in 2015 totaling \$205,000 and six payments from 2016 totaling \$202,000 and found that the vendor payments agreed with these cash receipts records.

In addition, the Department also collects certain fees, such as donations from sponsors, field rentals, sales of tee shirts and other miscellaneous items, which are not recorded in the vendor's software program or deposited into the vendor's bank account. Instead, these cash receipts are recorded on a spreadsheet maintained by Department personnel and deposited into the Department bank account. A computer generated receipt from a word processing program is issued for donations and field rentals, but these receipts are not prepared in duplicate or press numbered. In addition, there are not adequate controls of receipts for sales of tee shirts and other miscellaneous items. Without press numbered duplicate receipts, there is no assurance that all fees are properly deposited into the Department bank account.

Monthly Remittances

The Department is required to remit all fees collected to the Supervisor's office by the 15th of the month following the month of collection.² The Department maintains a separate bank account. After the end of each month, the Department provides its monthly cash receipts report to the Supervisor's office but does not include a check for the monthly cash receipts at that time. Instead, the Supervisor's office transfers funds from the Department bank account to the main operating bank account. Seven monthly transfers from 2015 and eight transfers from 2016 were made past the 15 day deadline. The most recent delays occurred in October and November 2016 with submissions occurring approximately 50 and 24 days past the deadline.

As of January 1, 2017,³ \$20,800 in cash receipts remained on deposit in the Department bank account. The balance consists of October and November 2016 cash receipts totaling \$12,700,⁴ \$5,000 from August 2015, and the remaining \$3,100 which appears to have been collected prior to 2015. The delays occurred because the Department did not

² See New York State Town Law

³ Excludes December 2016 collections deposited into the Department bank account

⁴ Supervisor's office made the transfers on January 5 and 9, 2017, respectively.

submit the cash receipts records to the Supervisor's office in a timely manner and the Supervisor's office did not make the transfers timely. If the Department remitted a check to the Supervisor's office shortly after month end, or deposited cash receipts directly into a Town account, these delays could be eliminated.

The Director was not aware that the Department could have been paid by the vendor on a weekly basis rather than the current biweekly schedule. Requesting the vendor issue a check on a weekly basis and making all deposits directly into the Supervisor's main operating bank account would ensure the timely remittance of Department cash receipts.

Credits and Refunds

Credits and refunds can occur for a variety of reasons such as a class cancellation, rain day and scheduling conflict on the part of the participant. The Department credit/refund policy provides for full refunds for program cancellations and prorated refunds for medical reasons. The Department issues a credit on an account should a participant decide to withdraw from a program. For 2016, there were 149 credit card refunds totaling \$20,900⁵ and there were 462 credit balances totaling \$19,000 as of January 6, 2017. We noted 40 instances of credit card refunds for schedule conflicts which, according to Town policy, should have been treated as a credit on account. In addition, there were 30 refunds with no explanation, while 79 of the refunds appear to be for valid reasons.

The assistant director processes the majority of credit/refunds, but due to the small number of Department staff, any of them can process these transactions. All check refunds are processed through the Town's claim voucher system but credit card refunds are processed by Department staff. While there is a description on the refund report stating the reason for the credit or refund, there are few source documents to substantiate this information. Also, there was no evidence to indicate that the Director routinely reviewed and approved the refund reports or the supporting documentation.

The assistant director provided us with 18 class cancellation rosters for the two-year period.⁶ For 10 rosters we recalculated the refund credit for 16 participants and found that the refunds were properly calculated.

Vendor Contract

It is the Director's responsibility to be aware of vendor contract milestones in order to give the Board adequate time to assess the current contract and make changes and/or approve renewals as needed.

⁵ Ten refunds paid by check totaling \$976 were not included in our testing.

⁶ Five canceled class rosters for 2015 and 13 for 2016

Town officials were unable to locate the contract between the Town and the vendor who processes recreation program registrations. We obtained the contract from the vendor and noted that it was renewed in 2013 and again 2016. The Director indicated the Board approved the initial contract in 2010, but we found no evidence to indicate that the Board approved the subsequent 2013 and 2016 renewals.⁷ According to the contract, when a customer pays online, the administrative and credit card processing fees⁸ are paid by the customer, but the Town must absorb the fees on in-house transactions. These fees totaled \$9,800 in 2015 and \$6,600 in 2016.⁹ When collecting recreation program fees by credit card, the Board can opt to pass the administrative and credit card processing fees to the customer.¹⁰ There was no evidence in the minutes to indicate that the Board agreed to have the Town absorb the processing and administrative fees for customers who pay for a program at the Department office.

These deficiencies with the Department occurred because the Board did not provide adequate oversight. The Board did not adopt written policies for cash receipts or ensure Town officials developed adequate procedures. In addition, the Board did not ensure that online payments collected and remitted by a third party vendor and customer credits and refunds were properly reviewed. Lastly, the Board did not review and approve contractual agreements/renewals.

Proper Board oversight of the Department may result in more cost-effective and efficient operations.

Recommendations

The Board should:

1. Adopt written policies related to Department cash receipts including procedures over recording, depositing and remitting cash receipts.
2. Review and approve the contract with the vendor who processes Department registration fees and ensure the approval is included in the Board's minutes.
3. Adopt a written policy stating whether the Town will absorb the cost of credit card processing and administrative fees.

⁷ The vendor requires a one year advance notice to cancel the contract.

⁸ Administrative fees of \$2.68 and credit card processing fees of \$3.21 for a maximum total of \$5.89 per transaction.

⁹ 2016 charges may have been lower because the Town did not sponsor any events this year and Green Lake was closed for repairs.

¹⁰ See General Municipal Law

The Director should:

4. Ensure that press numbered duplicate receipts are issued for all cash receipts processed at the Department office.
5. Ensure that all Department cash receipts are remitted to the Supervisor's office in a timely manner.
6. Request vendor payments of fees paid with credit cards on a more frequent basis.
7. Review and reconcile vendor payments of online receipts to the cash receipts records.
8. Review credit and refund reports for accuracy and ensure personnel consistently comply with Department policies.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



TOWN OF ORCHARD PARK

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July 7, 2017

State of New York
Office of the State Comptroller
Attn: Jeffrey D. Mazula, Chief Examiner
110 State Street
Albany, New York 12236

Dear Mr. Mazula,

The Town of Orchard Park has received the State Comptroller's draft audit report of the Town of Orchard Park Recreation Department Cash Receipts for the period of January 1, 2015 through January 27, 2017 and accepts the report.

On behalf of the Town, we appreciate the feedback and will reflect on the recommendations made. We are pleased that the audit did not identify any instances of fraud or misappropriation of funds.

We will utilize the recommendations provided by the State Comptroller's audit report to strengthen controls surrounding cash receipts within the Recreation Department. A corrective action plan will be submitted to the Office of the State Comptroller within 90 days of the release of the final report. We look forward to answering any questions or providing further documentation, as needed.

Sincerely,

Dr. Patrick J. Keem
Orchard Park Town Supervisor

Visit the Town's website at www.orchardparkny.org

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We reviewed Town policies and procedures and interviewed Town officials to gain an understanding of the Department's cash receipts procedures.
- We reviewed 2015 and 2016 accounting records, bank statements and deposit records to determine if Department cash receipts were properly recorded, deposited and remitted to the Supervisor's office.
- We compared eight vendor payments from 2015 and six from 2016 to cash receipts records.
- We judgmentally selected 10 of the 18 recreation program rosters with canceled days and traced participants to the refund report. In addition, we recalculated 16 of the 25 participant refunds.
- We obtained an account history for a judgmental sample of 13 credits on account and traced the credits to the refund report.
- We obtained and reviewed the contract with the online registration vendor and interviewed the vendor's account manager to gain an understanding of the online payment system.
- We interviewed Board members and reviewed Board minutes to determine the level of Board oversight of the Department.

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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