

Village of Sherman

Treasurer's Cash Receipts

APRIL 2022



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

Contents

- Report Highlights 1**

- Treasurer’s Cash Receipts 2**
 - How Should Village Officials Safeguard Cash Receipts? 2

 - The Board Did Not Implement Adequate Cash Receipt Procedures. 2

 - The Treasurer Did Not Properly Record and Deposit Cash Receipts 3

 - The Board Did Not Provide Adequate Oversight or Conduct Annual Audits 4

 - What Do We Recommend? 5

- Appendix A – Response From Village Officials 6**

- Appendix B – Audit Methodology and Standards 9**

- Appendix C – Resources and Services. 11**

Report Highlights

Village of Sherman

Audit Objective

Determine whether the Village of Sherman (Village) Treasurer recorded and deposited all collections received in an accurate manner.

Key Findings

The former Treasurer did not record and deposit collections in an accurate manner.

- The former Treasurer did not deposit more than \$20,000 in recorded real property taxes, water, sewer and general fund receipts collected during the period July 1, 2012 through August 3, 2016.
- The Board and Village officials did not establish adequate written policies and procedures over the cash receipt collection process.
- The Board did not provide adequate oversight of the Treasurer and did not annually audit the former Treasurer's records and reports.

Key Recommendations

- Take appropriate action to recover the missing funds.
- Develop written policies and establish procedures over the cash receipt collection process.
- Provide adequate oversight and annually audit the Treasurer's reports and records.

Village officials agreed with our recommendations and have indicated they have initiated or plan to initiate corrective action.

Background

The Village is located in the Town of Sherman in Chautauqua County (County). The Village provides highway, water, sewer and general administration services to its residents.

The Village is governed by an elected Board of Trustees (Board) composed of four Trustees and the Mayor. The Board is responsible for the general management and control of Village finances and safeguarding assets.

The Mayor is the chief executive officer. The Treasurer is the chief fiscal officer responsible for collecting and depositing Village receipts, disbursing funds, and for maintaining accounting records and reports.

The Treasurer is responsible for collecting water and sewer rents, real property tax payments and other general fund receipts such as building permit fees.

Quick Facts

Population	730
2018-19 Real Property Tax Levy	\$199,894
2018-19 Budgeted Water Rents	\$85,000
2018-19 Budgeted Sewer Rents	\$156,000

Audit Period

June 1, 2012 – November 27, 2018
Release of this report was delayed while the matter was under review by outside law enforcement.

Treasurer's Cash Receipts

The Treasurer is responsible for recording and depositing all cash collections. The Treasurer accepts cash or check payments and issues either an electronic or duplicate press-numbered receipt or a “paid” stamped stub or bill as evidence of payment, records all receipts in the accounting records and deposits the funds.

During our audit period, two individuals held the position of Treasurer. The former Treasurer was appointed on June 9, 2007 and resigned on August 2, 2016. The current Treasurer began her duties on August 8, 2016.

How Should Village Officials Safeguard Cash Receipts?

A board is responsible for providing adequate oversight. This includes establishing internal controls to provide reasonable assurance that cash is safeguarded and financial transactions are properly recorded. Such controls should include adopting written cash receipt collection policies, issuing and retaining acceptable forms of receipts (electronic or duplicate) and ensuring that transactions are properly recorded and accounting records are up to date, complete and accurate.

Board oversight becomes particularly important in smaller operations which may not have an adequate system of controls because employees are required to perform duties that should optimally be segregated. To improve controls, key duties should be segregated to prevent one employee from performing all phases of a transaction. When staffing levels prevent this, the board should become more involved to help ensure that sufficient control is being maintained over departmental operations.

An annual audit is a fundamental step in this oversight process. A board is required to annually audit,¹ or cause an audit of, the treasurer's annual financial report and supporting documents. This periodic audit should be thorough and when properly done can provide the board with an understanding of those operations, which is essential to effective oversight.

The Board Did Not Implement Adequate Cash Receipt Procedures

The Board did not establish adequate internal controls over cash receipts. The Board did not adopt written cash receipt policies, collection duties were not properly segregated and it failed to provide adequate oversight of the Treasurer. As a result, the Treasurer had complete control over the cash receipt process.

When the Board does not adopt written policies or ensure adequate procedures have been implemented, there is a heightened risk that funds could be lost, misused or misappropriated.

Board oversight becomes particularly important in smaller operations which may not have an adequate system of controls because employees are required to perform duties that should optimally be segregated.

¹ New York State Village Law, Section 4-408(e)

The Treasurer Did Not Properly Record and Deposit Cash Receipts

The Treasurer's records appeared to be well maintained. Collection reports on file agreed with bank deposits and receipt documentation was retained. We reviewed deposit compositions² for all deposits made from June 1, 2014 through September 30, 2016 to determine whether recorded cash receipts were deposited intact, or in the same order and form as received (i.e., cash or check), and found no material exceptions. However, further review of records from the Village's computerized accounting system showed that although certain receipts were recorded in the accounting system these transactions were excluded from the printed reports used in the deposit reconciliation.

For example, the printed collection report dated June 9, 2016 showed recorded water and sewer collections totaling \$84,295, which agreed with bank deposits but also showed eight gaps in the receipt sequence or eight unaccounted for receipt numbers. We were able to determine that three receipts were never issued and one was issued for a payment that was deposited about a month later. However, four receipts were issued for cash payments totaling \$528 that were posted as collected to customer accounts but not deposited.

We reviewed collection reports for water and sewer receipts obtained from the system, totaling approximately \$1.3 million for the period June 1, 2012 through May 14, 2018,³ and identified receipts totaling \$8,113 that were recorded but not deposited. All of these receipts were collected while the former Treasurer was in office.

The Treasurer initially records real property tax payments, and issues receipts, through the County's real property tax collection system. Because the County's system does not interface with the Village's accounting system, the Treasurer is then required to enter those receipts into the Village's system before depositing the funds. However, the former Treasurer did not record all real property tax payments in the Village's system.

The County's system is also used to identify and report any unpaid real property taxes at the end of the collection period. We compared records, with recorded receipts totaling approximately \$1.3 million, from the two systems and determined that more than \$12,000 of real property tax collections were recorded in the County's system but not deposited by the former Treasurer or recorded in the Village's system (Figure 1).

² See Appendix B for information on our methodology.

³ See Appendix B for information on our methodology.

Figure 1: Undeposited Cash Receipts

Year ^a	Water and Sewer		Real Property Tax		General Fund		Shortage Amounts
	Payments	Amount	Payments	Amount	Payments	Amount	
2013-14	6	\$2,594	0	\$0	0	\$0	\$2,594
2014-15	2	194	2	1,154	1	20	1,368
2015-16	19	4,171	10	4,790 ^b	0	0	8,961
2016-17	7	1,154	14	6,280	0	0	7,434
Totals	34	\$8,113	26	\$12,224	1	\$20	\$20,357

a We did not identify any exceptions in 2012-13.

b This includes a \$442 payment that was not recorded in the County system.

This cash shortage of \$20,357 was not detected because the former Treasurer controlled all phases of the cash receipt collection process without adequate oversight. The former Treasurer had the ability to manipulate records and report only selected items. She printed collection reports with each deposit that included only those receipts that matched the amount of the deposits she had prepared. We also found printed receipts to be in disarray, often misfiled by date or not attached to any deposit information. We were unable to locate the printed receipts (or payment stubs) for three water and sewer receipts totaling \$480 and 11 real property tax receipts totaling \$4,666 recorded in the records.

The Board Did Not Provide Adequate Oversight or Conduct Annual Audits

The Board did not annually audit, or cause an audit of, the Treasurer's 2012-13 through 2016-17 reports and records. Without an effective audit, the Board could not provide adequate assurance that all funds were properly accounted for. Had the Board reviewed the former Treasurer's records and checked for inconsistencies (e.g., gaps in receipt sequences) or compared the reported receipts to the computer-generated collection reports, it may have detected the amounts undeposited.

The current Board and Mayor⁴ have taken a more active role in their oversight duties. The Mayor told us that they are in the process of developing written cash receipt collection policies and procedures and plan on fulfilling their annual audit requirements.

⁴ The current Mayor was appointed to the position on November 8, 2017 and was subsequently elected to the position.

What Do We Recommend?

The Board and Village officials should:

1. Adopt written policies and develop procedures for the collection and accounting of cash receipts.
2. Segregate the Treasurer's duties to the extent possible and/or provide adequate oversight.
3. Take appropriate action to recover the missing funds.
4. Compare the collection reports used in the deposit reconciliation process and the County's real property tax collection reports with the Village's accounting records to ensure all receipts are accurately accounted for.
5. Ensure that all receipt documentation is retained.

The Board should:

6. Ensure the Treasurer's reports and records are audited annually.

Appendix A: Response From Village Officials

VILLAGE OF SHERMAN
HOME OF THE YORKER MUSEUM
111 MILL ST, PO BOX 629, SHERMAN, NY 14781
716-761-6781 TDD 711 * VILLAGE.SHERMAN@GMAIL.COM
WWW.SHERMANNY.ORG

April 11, 2022

Melissa Myers, Chief Examiner
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

RE: Village of Sherman Treasurer's Cash Receipts Report of Examination
No.: 2019M-39

Dear Chief Examiner Myers,

This letter serves as both the Village of Sherman Audit Response Letter to the NYSOSC Audit and the Corrective Action Plan (CAP) for the Village of Sherman.

The Village Board of Trustees agrees with the finding of the NY State Comptroller's Office and wishes to express our deepest appreciation for the hard work and diligence of the examiners, through this lengthy and exhaustive process. The Audit – Report of Examination produced a thorough and accurate assessment of the collection of cash receipts over the period of time between July 1, 2012 and August 3, 2016.

The audit and subsequent investigation revealed the lack of oversight and procedures which led to an environment ripe for theft. It is extremely disheartening to discover this loss suffered by the Village of Sherman, but even more so having seen that advantage was taken from those most vulnerable. Unfortunately, the excuse for the lack of policies has always been that Sherman is 'such a little Village', but regardless of size and structure, the local municipality entrusted with the community's most critical assets must be vigilant in its responsibility to the Village residents and stakeholders. The Mayor and Board of Trustees understand the need for accountability to secure the assets and limit liability in order to continue the Village's Mission in serving the community of Sherman to maintain a stable and sustainable future. Since 2017, we have taken measures to make policy improvements, including by not limited to, the following Corrective Action Plan:

The Board and Village officials should:

1. Adopt written policies and develop procedures for the collection and accounting of cash receipts.

The Village of Sherman drafted policies and procedures over the years of 2018 and 2019. The latest written policies and procedures (73 pages) reflect the practices as of December 2019. The review for necessary updates to procedures applicable to current software systems in use and daily practices must be revised into the policies and procedures for the final adoption expected this December of 2022 in coordination with the Single Audit of 2021-2022.

"Preserving our Past... Working for our Future"

THE HONORABLE COLLEEN MEEDER, MAYOR
DEPUTY MAYOR RYAN SANDERS
TRUSTEES KIRK AYERS, DENNIS WATSON, AND GARY EMORY

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The final draft of policies and procedures will be adopted by the Board of Trustees no later than December 2022, the updates will be overseen by the mayor and the clerk/treasurer will assist in the editing.

2. Segregate the Treasurer's duties to the extent possible and/or provide adequate oversight.

Since November 2017, the mayor's presence in the office and review of the tax and utility billing and collection has provided more direct oversight and verification of reconciliations performed. The clerk/treasurer confers with the mayor when questions or discrepancies arise which allows for them to be researched and resolved timely. All checking and accounts receivable accounts are reconciled to the exact amount, i.e. "to the penny". Due to the size of the Village, it is difficult to divide responsibilities in the office, however practicing these procedures provides for consistent review. The procedures in place have proved to not only be effective in ensuring accountability, but also, once established the systematic procedures are an efficient way to collect, record, and file, and return to when later reference is necessary, essentially streamlining the process in a busy office filled with interruptions.

It is the responsibility of the mayor to oversee the accounting functions of the Village, including but not limited to the tax collection, utility billing, payroll, benefits, and other municipal services provided.

3. Take appropriate action to recover the missing funds.

The Village of Sherman has been in regular contact with the insurance agencies regarding this situation. The Village Property Taxes were the primary area of missing funds. During the period audited by the NYSOSC, the Village did not have the tax collector position bonded, and the insurance policy excluded the tax collector from the employee theft coverage under the general criminal policy. However, the Village will be making a formal inquiry into the water and sewer funds not deposited. The Chautauqua County District Attorney's Office is pursuing an investigation of criminal charges. Bringing charges against the clerk/treasurer involved has been challenging because of COVID delays and the out-of-state residency of the former clerk/treasurer.

Beginning with the insurance policy dated November 11, 2017, the Village properly insured the clerk/treasurer and mayor positions. The Village of Sherman has increased coverage as required by the terms of the grant agreements under recent capital projects.

It is the responsibility of the mayor and board of trustees to annually review the insurance policy for appropriate insurance coverage.

4. Compare the collection reports used in the deposit reconciliation process and the County's real property tax collection reports with the Village's accounting records to ensure all receipts are accurately accounted for.

Beginning June 2017, the Village reconciled and continues to reconcile the bank statements, deposit slips, and the County's real property tax collection reports on a monthly basis to the outstanding property tax receivable. (This is also the practice for the utility deposits from the water and sewer rents billed.)

The clerk/treasurer serves as the tax collector, the mayor reviews and verifies the reconciliation of the account balances and details related to all the accounts receivable and checking accounts for accuracy.

CLERK-TREASURER JEANETTE RAMM	716-761-6781
STREETS & WATER SUPERINTENDENT DOUGLAS CRANE	716-269-9096
WWTP CHIEF OPERATOR JAMES IRWIN	716-581-3397

VILLAGE OF SHERMAN * 111 MILL ST, PO Box 629 * SHERMAN, NY 14781

5. Ensure that all receipt documentation is retained.

Beginning June 2017, tax receipts, utility stubs, and miscellaneous cash receipts log are kept in date order, filed and stored orderly for later reference, as are the bank deposit slips that are attached to the related detailed reports from the County tax collection system and the utility billing system.

The clerk/treasurer is responsible for maintaining these records, the mayor provides supervision.

6. Ensure the Treasurer's reports and records are audited annually.

The Village Board of Trustees conducted its first financial audit on fiscal year 2017-18. The period of COVID made this process difficult. The Village's capital project funding will meet the Federal threshold for a Single Audit, and the Village has executed a three-year contractual agreement with a qualified firm to perform the annual audit beginning Fiscal Year Ending May 31, 2022. In order to establish a base for the audit, the auditors will be verifying the accuracy of the beginning balances which will involve a review of Fiscal Year Ending May 31, 2021, as well.

It is the responsibility of the mayor and board of trustees to continue an annual audit of the reports and records in lieu of a Single Audit.

Sincerely,

Colleen M. Meeder
Mayor
Village of Sherman

RES: 2022-04-11.1

Following the review of the draft Report of Examination and the Village of Sherman's Response Letter with the Corrective Action Plan, a motion was made by Trustee Dennis Watson and seconded by Trustee Gary Emory to approve the written Audit Response combined with the Corrective Action Plan. Unanimously Approved.

cc: caps@osc.state.ny.us
Office of the New York State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

CLERK-TREASURER JEANETTE RAMM	716-761-6781
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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 objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed Village officials to gain an understanding of the cash receipt collection process. These discussions allowed us to understand the Village's internal control system and assess whether the established controls were sufficient to protect resources from possible loss or improper use and minimize the risk of errors and irregularities.
- We counted the Village's cash on hand as of May 14, 2018. Our cash count included a review of receipts and deposits collected from May 1 through May 14, 2018.
- We obtained bank deposit compositions for all deposits made from June 1, 2012 through April 30, 2018. We compared checks and cash deposited against cash collection entries for the period June 1, 2014 through September 30, 2016 to determine whether receipts were deposited intact. Because we found no exceptions during our initial testing, we limited our comparison of computer-generated collection reports against deposits to the period June 1, 2012 through May 30, 2014.
- We examined the Village's financial records for the period June 1, 2012 through May 14, 2018 to determine whether water, sewer, real property tax and general fund receipts collected were accurately recorded, deposited and reported during the period June 1, 2012 through September 30, 2016. We tested through September 30 because it was the end of the real property tax collection period. We also performed a limited review for the period October 1, 2016 through April 30, 2018 (after the current Treasurer took office) to determine whether all real property tax cash payments and water and sewer cash payments greater than \$250, were recorded and deposited and found no exceptions.
- For water and sewer rents and general fund receipts collected during the period June 1, 2012 through September 30, 2016, we used a combination of printed and computer-generated collection reports to identify whether there were gaps in the receipt sequence. For any sequence gaps identified, we determined whether the receipt had been issued by verifying the receipt was recorded in the accounting system and applied to the customer's accounts.
- We compared the County's real property tax collection reports against the Village's accounting records to determine whether payments were recorded in both systems. We also obtained the unpaid tax collection reports directly from the County real property tax director to determine whether any of our identified exceptions were reported as uncollected taxes. For identified exceptions, we used bank statements to identify amounts collected but not deposited.

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 relevant population size 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 Village Clerk-Treasurer's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/fiscal-monitoring

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

www.osc.state.ny.us/local-government/publications

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

www.osc.state.ny.us/local-government/resources/planning-resources

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

www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.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/local-government/required-reporting

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

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Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/local-government

Local Government and School Accountability Help Line: (866) 321-8503

BUFFALO REGIONAL OFFICE – Melissa A. Myers, Chief Examiner

295 Main Street, Suite 1032 • Buffalo, New York 14203-2510

Tel (716) 847-3647 • Fax (716) 847-3643 • Email: Muni-Buffalo@osc.ny.gov

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