



Town of Seneca Falls

Cash Collections

2023M-57 | August 2023

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Report Highlights

Town of Seneca Falls

Audit Objective

Determine whether Town of Seneca Falls (Town) officials effectively managed the Town’s cash collection function.

Key Findings

Town officials did not effectively manage the Town’s cash collection function. Therefore, cash was not adequately or appropriately safeguarded.

- Officials did not properly deposit and record approximately \$10,000 of permit fees and \$2,000 of security deposits for facility rentals in accordance with statutory requirements.
- The Town Supervisor’s office did not maintain adequate receipt documentation for cash collections totaling \$186,873 and reconciliations were not always performed or reviewed.
- The accounting functions performed by staff were not always properly segregated or reviewed.
- The Town Board (Board) did not adopt a written Town-wide cash collection policy.

Key Recommendations

- Adopt a written cash collection policy.
- Require department officials to maintain adequate cash collection documentation and to deposit and record cash collections in a timely manner.
- Ensure that adequate reconciliations are performed and reviewed.

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

Background

The Town, located in Seneca County, is governed by an elected five-member Board. The Board is responsible for overseeing the Town’s operations and finances. The Town Supervisor (Supervisor) is a Board member and as the chief fiscal officer is responsible for various financial functions, including maintaining the Town’s financial records, and receiving and depositing Town cash collections.

The Board appointed a Town Manager in August 2022 to assist in the day-to-day management of Town operations.

Department heads are responsible for overseeing cash collections within their respective departments.

Departments that collect cash include the Town Clerk/Tax Receiver (Clerk), Justice Court, Supervisor (accounting office), and the recreation department.

Quick Facts

2023 Budget	\$16.9 million
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Total Cash Collections Reviewed (April 2021 and May 2022)	\$1.7 million
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Audit Period

January 1, 2021 – March 17, 2023

Cash Collections

The Town's cash collection process is decentralized and departments use various software programs to record cash receipts.¹ The Supervisor is responsible for the collection, recording and deposit of water and sewer payments, retiree health insurance payments, highway department scrap metal sales, police department fees, recreation department fees and other general Town cash receipts. The Clerk's office receives payments for marriage, dog, hunting and fishing licenses, building permits, dumpster rentals and real property taxes for the Town, as the Clerk is also the Receiver of Taxes. The Justices are responsible for adjudicating cases brought before them and accurately accounting for and reporting Court related financial activities and collecting and recording cash receipts in the Justice Court software. After the end of each month, the Clerk and the Justices turn over their receipts to the Supervisor.

How Should Officials Effectively Manage the Town's Cash Collection Function?

To adequately safeguard cash collections, a board should adopt a written cash collection policy that establishes a clear and consistent process that requires all departmental collections be adequately documented and deposited timely and intact.² This process should require employees collecting cash, where no other evidence satisfactory for purpose of audit is available, to issue duplicate receipts that adequately document the source, date, amount, form (i.e., cash or check) and purpose of the collections. Reconciliation of recorded cash receipts documentation to detailed activity records and financial reports can aid officials in identifying recordkeeping errors, incorrect fees charged or patterns indicative of fraud.

Receipts should be issued in consecutive numerical order and documentation should be retained as evidence of collection. Departments should use and retain copies of receipts and ensure that pre-numbered manual stock receipt books are inventoried and secured. Receipt sequences should be periodically reviewed, and any missing receipt numbers investigated. Cash collections should be recorded in the appropriate software program as soon as possible after receipt.

Town officials are required to deposit collections into the town's bank accounts within a set number of days,³ which varies for different officials. Furthermore, sound business practices call for collections to be deposited as soon as possible after receipt to minimize the risk of theft or loss.

Town officials are required to deposit collections into the town's bank accounts within a set number of days. ...

1 The term "cash" refers to money, checks and money orders.

2 In the same amount and form as received

3 New York State Town Law Sections 29 and 30 and New York Codes, Rules and Regulations 214.9(a)

The board or other authorized supervisory personnel should approve refunds prior to such refunds being made. The reasons for refunds should be documented and retained for audit purposes. Appropriate prior approval helps ensure that refunds are made consistently and according to the locality's policy. In addition, requiring board or supervisory approval will reduce the opportunities for unauthorized adjustments, such as fake refunds to cover the theft of cash or reductions in billings to cover the nonpayment of an employee's personal bill.

When segregating incompatible duties is not practicable, officials should implement compensating controls such as routinely reviewing and monitoring the work of employees with incompatible financial duties to ensure that money is properly accounted for. Another option for providing compensating controls over cash collections would be the implementation of a lockbox service. Lockbox services are provided by a bank or trust company via contract, in which the bank or trust company would receive and process the payments for the town. Lockbox services may be used for the collection of real property taxes, special assessment and water and sewer rents.

The Board Did Not Adopt a Cash Collection Policy

The Board did not adopt a written cash collection policy to guide departments that collect cash and did not ensure that the departments implemented effective and sufficient policies and procedures over cash collections. As a result, the Board and Town officials could not ensure that departments adequately fulfilled their duties and safeguarded cash collections.

Without effective and consistent Board guidance, each department established its own procedures, which were not all clearly documented, consistent or effective. As a result, we identified multiple deficiencies in internal controls over, and documentation of, the cash receipts processes in the various departments.

Cash Collections Were Not Always Recorded or Deposited in a Timely Manner

Town officials and employees did not record and deposit all receipts in a timely manner. Through our cash count review, we identified:

- Approximately \$10,000 of cash collections for building permits that were being held in the Clerk's cash drawer. The Clerk informed us that she holds these fees until the permits are issued and will only then deposit the fees into the Clerk account. These fees are then included in the Clerk's monthly report and remitted to the Supervisor. If the permit is not issued, the Clerk returns the permit fee in the same form as received.

- \$2,000 of the Recreation Department’s cash collections for security deposits related to facility rentals that were not recorded or deposited. The recreation director stated that security deposits are receipted on press-numbered receipts and held until the rental date, if there are no issues with the facility, the security deposit is then returned in the same form as initially collected.

However, collections should be deposited as soon as possible after receipt to minimize the risk of theft or loss. This improper process of holding cash collections weakens accountability over these collections and can delay recording, securing and depositing them by months.

We also reviewed 180 deposits (which included 2,289 individual cash collections) totaling \$1.7 million made during our audit period. While we did not identify any issues with the timeliness of deposits and cash collections in the Justices’ accounts, we found 12 cash collections (totaling \$786,775) in the Supervisor’s office and 67 cash collections (totaling \$1,250) in the Clerk’s office which were not deposited timely. The bulk of the late deposit amount in the Supervisor’s office was related to one check (totaling \$785,954) which was for community host agreement fees accepted by the Clerk’s office. The Clerk indicated that the check was misplaced following the Board meeting at which it was presented; however, the check was found two weeks later when the bookkeeper inquired about it. The remaining 10 late deposits were from the recreation department and were made between one and 65 days late. The late deposits in the Clerk’s office were made between one and 11 days late (see Figure 1).

Figure 1: Untimely Receipts

Location/Type	Receipts Reviewed	Amount	Late Receipt Deposits	Amount
Supervisor (Direct)	205	\$1,083,973	2	\$786,139
Supervisor (Indirect)				
Water & Sewer	1,607	\$533,059	0	\$ 0
Police Department	15	\$5,960	0	\$ 0
Recreation Department	29	\$4,407	10	\$636
Supervisor (Total)	1,856	\$1,627,399	12	\$786,775
Tax Receiver	34	\$69,581	0	\$0
Justice Court	187	\$33,069	0	\$0
Town Clerk	212	\$4,278	67	\$1,250
Total Receipts	2,289	\$1,734,327	79	\$788,025

We also found that the Supervisor’s cash collections were initially recorded on a spreadsheet prior to being recorded in the computerized financial records. However, cash collections were not regularly recorded in the financial records in 2022 and the principal account clerk responsible for updating the computerized

financial records abruptly resigned in November 2022. Therefore, in December 2022, the Town hired a third party to begin the process of updating the financial records. The longer cash collections remain unrecorded or undeposited, the greater the risk that errors, loss or theft could occur without detection. In addition, the lack of updated financial records and reports hinders the Board's ability to effectively monitor and oversee the Town's finances.

Cash Collection Documentation Was Not Always Properly Maintained

Town officials and employees did not maintain adequate documentation to ensure all cash collections were recorded and deposited. Specifically, of the 1,856 cash collections handled by the Supervisor's office (totaling \$1.6 million) that we reviewed, which included direct and indirect receipts deposited by this office, we found that 310 cash collections (totaling \$186,873) did not have sufficient receipt documentation, such as a press-numbered manual or computerized receipt, or other supporting documentation intended to be maintained by the Town. Additionally, Town officials could not locate one of the press-numbered receipt books, nor were there procedures in place to appropriately safeguard the Town's manual receipt books. Due to insufficient receipt documentation, there was no way for Town officials to ensure that all cash collections were appropriately and accurately recorded and deposited.

Incompatible Duties Were Not Always Adequately Segregated or Reviewed

While we found that duties within the Justice Court were segregated and the cash collection process was adequate, the water and sewer clerk was responsible for billing, collecting, recording and depositing many cash collections in the Supervisor's office with minimal oversight. We also found that duties were inadequately segregated within the Clerk's office. Specifically, the Clerk had three deputy clerks who all used the same cash drawer. While the Clerk said she reconciled the cash drawer nightly, she could not provide documentation to support her reconciliations. She explained that documenting the reconciliations was not a part of her process as she has been doing it like this for years. Additionally, the three deputy clerks all used the same login credentials to access the computer to enter cash collections; therefore, there was no accountability over cash collections. Officials attributed these internal control weaknesses to significant personnel turnover in key areas of the Town's financial operations. Because of this turnover, staff were not adequately trained or cross-trained on different operations.

Therefore, we reviewed the cash collection activity and bank reconciliations performed during the audit period. We did not find exceptions with the Justices' or Clerk's bank accounts; however, we found that the Supervisor's bank accounts

... [T]he lack of updated financial records and reports hinders the Board's ability to effectively monitor and oversee the Town's finances.

were not reconciled or reviewed during 2022. The bookkeeper stated that this was due to the financial records not being updated. However, bank account activity could have been reconciled regardless of the condition of the financial records. Furthermore, we found that although reconciliations of the Supervisor's bank accounts were done in 2021, the reconciliations were not reviewed timely or at all. Because of limited staff performing accounting functions in the Supervisor's office, it is especially important to ensure reconciliations of cash collections and account activity are regularly performed and reviewed to ensure irregularities are detected in a timely manner.

We also reviewed 14 water-sewer payment journals with 265 online credit card transactions for billed water and sewer payments totaling \$59,075 and found that Town officials were not reconciling the payments received from the third-party processing vendor to ensure all funds were received and individual accounts were appropriately credited. Due to a significant turnover of staff performing the accounting functions of the Town, current staff had limited knowledge and understanding of how credit cards were processed and the process by which these funds were eventually received, recorded and reconciled in the financial system. The Board hired an accounting firm independent of the Town's financial auditor at the end of 2022 to reconcile the Town's 2022 financial records and reports including the water and sewer accounts, which are now being performed monthly. As of March 2023, Town financial records were only partially updated through May 2022.

The Board voted on March 7, 2023, that effective April 2023, the Town will be moving to a lockbox system at its local bank for the collection of payments for water and sewer bills, in lieu of accepting payments at Town hall. This system will help ensure that water and sewer rents are deposited timely, and reduce the risks associated with inadequate segregation of duties within the Supervisor's office.

What Do We Recommend?

The Board should:

1. Adopt a written cash collection policy to help ensure adequate controls are in place and documentation is consistently maintained to support receipts by all departments.
2. Require the Supervisor to present accurate and timely monthly financial reports.

The Board and Supervisor should:

3. Require department officials to deposit and record receipts in a timely manner.

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4. Ensure that any fees required to be returned are authorized by the Board or other authorized supervisory personnel prior to being refunded.
 5. Ensure that all departments maintain adequate documentation to support collections, and issue pre-numbered or duplicate receipts for each collection.
 6. Ensure duplicate receipts inventory is secured and maintained.
 7. Ensure that adequate reconciliations are performed, documented and reviewed.
 8. Ensure that department heads have implemented adequate written procedures for cash receipt operations to adequately segregate and document duties.

The Supervisor should:

9. Ensure that financial records are accurate and up to date, and reconciliations are performed and reviewed timely.

The Clerk should:

10. Deposit receipts in a timely manner as required.
11. Adequately segregate duties in the Clerk's office and/or provide additional oversight.
12. Maintain documentation of the nightly cash drawer reconciliations that are performed.
13. Require separate login credentials for each deputy clerk.

Appendix A: Response From Town Officials



TOWN OF SENECA FALLS

Town of Seneca Falls Response to Office of the State Comptroller Audit 2023M-57 Cash Collections

The Town Supervisor and Board members recognize the issues identified in the audit report and fundamentally agree with the audit's findings. This response will focus exclusively on the issues that have been identified as Town Board and Town Supervisor related issues. Matters dealing with the Town Clerk's office will be left to the Town Clerk to respond to at her prerogative.

Item 1: The Town Board Did Not Adapt a Cash Collection Policy

The Town will adopt a formal cash collection policy and institute a training and compliance program.

Item 2: Cash Collections Were Not Always Recorded or Deposited Timely

The report found that the Recreation Department stored facility-use security deposits locally and returned said deposits to facility rental customers upon completion of a post-event facility inspection. Effective immediately this practice has been modified to ensure that all facility deposits are recorded and deposited in fewer than 10 days from receipt. Funds will be refunded upon board approval at the next scheduled board meeting.

The report further found that cash receipts in the Supervisor's accounts were not being recorded in the accounting system of record on a timely basis in 2022. This has been an ongoing issue that began in January of 2022 with the transition to a new Principal Account Clerk. The Town has taken steps to remediate this issue by contracting with a third-party accounting firm to review the financial records of the Town for this period and register all transactions into the accounting system of record in a manner that conforms to GASB and New York State statutes. This work is nearing completion. Upon completion cash receipts will be recorded within the time prescribed by the OSC in this report.

Item 3: Cash Collection Documentation

As part of the cash collection policy development, procedures for documenting cash collection and subsequent safeguarding of receipts, computerize and hard copy, will be documented and implemented.

Item 4: Incompatible Duties Were Not Always Segregated or Reviewed

In response to the recommendations of OSC personnel, the Town has effectively segregated responsibilities in the Water and Sewer utility enterprise for billing, cash collection, and recording of deposits to conform with best practices and guidance from OSC staff. Bank reconciliation has also been separated from the Water and Sewer administration office to assure timeliness of performance and to eliminate potential task segregation issues.

Respectfully Submitted,

Michael Ferrara

Town of Seneca Falls Supervisor

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 Town officials and employees and, reviewed Town policies and Board meeting minutes to gain an understanding of the cash collection processes.
- We performed departmental cash counts to document all cash on hand on August 9, 2022, August 16, 2022 and August 23, 2022.
- We selected two months (April 2021 and May 2022) and tested cash collections for accuracy and timeliness of recording and deposits, and to determine whether cash collections were appropriately receipted. We randomly selected one month from each fiscal year in our audit period. In these test months, we reviewed 180 deposits, which included 2,289 individual cash collections, totaling \$1.7 million.
- We obtained and reviewed deposit compositions for April 2021 and May 2022 for all Town bank accounts to confirm whether deposits were made intact and accurately based on Town records provided.
- We reviewed the Supervisor's 2021 bank account activity and reconciliations, and the Clerk's and Justices' 2022 bank statements and reconciliations for completion, timeliness and evidence of review.
- We reviewed 14 water-sewer payment journals which included 265 individual credit card transactions for water and sewer credit card collections (totaling \$59,075) for the months of April 2021 and May 2022, to determine whether credit card payments were accurately and timely recorded in the financial system and reconciled with the bank statements and individual water and sewer customer accounts.

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.

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.

The Town 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 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/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

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

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

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

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