



**Town of
East Fishkill
Recreation Department
Cash Receipts
Report of Examination**

Period Covered:

January 1, 2012 — December 1, 2013

2014M-95



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

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 East Fishkill, 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 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 East Fishkill (Town) is located in Dutchess County and has approximately 29,000 residents. The Town is governed by the Town Board (Board), which comprises four elected members and an elected Town Supervisor (Supervisor). The Board is the legislative body responsible for the Town's overall management, including oversight of operations and finances.

The Supervisor is the Town's chief fiscal officer and oversees the Comptroller who is responsible for maintaining accounting records and providing financial reports to the Supervisor and Board. The Recreation Director (Director) is responsible for planning and directing the Town's recreation programs.

The Town provides services including police protection, water, public works, justice court, building code enforcement, senior service and cultural and recreational activities. These services are funded primarily with revenues from real property taxes and departmental income. The Town's general fund expenditures totaled \$12 million for the 2013 fiscal year.

The Recreation Department (Department) comprises the Town's parks, playgrounds, a recreation center and a community center. The Department provides social, cultural and educational programs to residents and non-residents. The Department collects money for activities such as children's school and athletic programs, room rentals and adult health and leisure programs. The Department employs 18 part-time, 10 full-time and 75 seasonal employees.¹ The Department's revenue is accounted for in the Town's general fund and is supplemented by recreational fees. During the audit period, the Department received revenue of \$707,698 and expenditures totaled approximately \$2.5 million.

Objective

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

- Did the Board properly design and implement controls in the Department to ensure all moneys were properly recorded and deposited?

¹ Total employees as of December 2013

**Scope and
Methodology**

We examined the Department’s internal controls over cash receipts recordkeeping for certain recreational activities for the period January 1, 2012 through December 1, 2013.

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.

**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 recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk’s office.

Cash Receipts

The Board is responsible for establishing a system of internal controls that provides reasonable assurance that cash is safeguarded and financial transactions are properly recorded. Controls include the segregation of duties to ensure that no individual performs all phases of a transaction. It also include procedures, such as using press-numbered duplicate receipts, that ensure all transactions are properly recorded and accounting records are up-to-date, complete and accurate.

The Board did not establish adequate internal controls to ensure all moneys were properly recorded and deposited. Specifically, cash collection duties in the Department were not properly segregated. One employee had almost complete control of the cash receipt function, without adequate oversight. In addition, receipts were not issued for all collections. Collections recorded in the records did not agree with the amounts deposited in the bank and deposit slips did not include sufficient detail to verify that all moneys collected were deposited. As a result, there is an increased risk of the misappropriation of the moneys collected by the Department.

Segregation of Duties

An important component of any internal control system is proper segregation of duties to ensure that no one person controls all phases of a transaction. Specifically, it is important that one person does not have the ability to control the entire cash collecting and recordkeeping processes. Concentrating key duties (i.e., recordkeeping and cash custody) with one individual with little or no oversight weakens internal controls. When it is not practical to segregate duties, effective oversight by Town officials, and ultimately the Board, is essential to help ensure that transactions are properly recorded and reported and that all moneys are accounted for.

The Department's cash collection duties are not properly segregated because employee duties are not adequately segregated and Town officials do not adequately oversee activities. For instance, the inter-departmental clerk² (clerk) collects fees, issues receipts, enters transactions into the accounting records, prepares deposit slips and makes deposits for the Department's fees. Other Department employees also collect moneys for various activities³ and remit that money to the Director, who then remits the money to the clerk. While Town officials have implemented compensating controls such as having the Comptroller prepare bank reconciliations, we found

² This employee works for both the Town Clerk and Recreation Department.

³ Such as fees for the youth basketball program and recreational center

that the Comptroller does not reconcile amounts deposited to the Department's accounting records. Therefore, the amounts recorded in the Department's accounting records are not verified with the amounts reported as being collected by employees.

We tested all cash receipts remitted to the clerk by the Director during our audit period totaling \$397,039. Although, we did not note any discrepancies between the amounts remitted and the amounts deposited, we did find discrepancies in the amounts reported in the Department's records and those amounts remitted to the clerk. (See Table 1.) Although cash receipts are collected by more than one person, allowing the clerk to be responsible for cash collection, custody and recordkeeping without adequate oversight increases the risk that cash receipts will not be deposited and recorded or irregularities could occur and remain undetected and uncorrected

Recordkeeping

The Board should develop and formally adopt policies and establish control procedures for daily financial operations. Properly recording the amount and form of payment received (i.e., cash or check) and issuing a duplicate receipt⁴ enables Town officials to follow transactions from the point of collection through the accounting records to bank deposits and monthly reports. Moreover, General Municipal Law (GML) requires that duplicate receipts be issued when no other form of documentation is available to evidence collections. Using detailed records and reports, Town officials can track cash receipts from the accounting records to the bank statements to verify that all Town moneys have been deposited in Town accounts and are accounted for.

The Board has not adopted any policies concerning the collection of cash and Town officials have not provided written procedures for Department employees to follow when collecting fees for recreational programs. In addition, the Director did not ensure use of or maintain adequate records for moneys received. We reviewed the Department's three major revenue sources:⁵ fees for use of the Town park, including season passes and daily use fees, and fees for the summer camp program. We found discrepancies between amounts recorded, remitted and deposited.

Department staff do not consistently issue duplicate receipts for cash that is collected. For instance, while receipts were issued for summer camp program fees, receipts were not issued for daily use fees or from

⁴ A "duplicate" receipt has more than one copy associated with each individual receipt issued. One copy is given to the person remitting payment and the other is retained by the Town. Duplicate receipts allow the individual paying the money and the entity receiving the money to evidence that payment was made.

⁵ These programs were deemed significant as they accounted for approximately 56 percent of the total revenue earned during our audit period.

the sale of season passes for the park. Instead, Department employees accounted for the collection of these fees by using the season pass registration forms and daily attendance reports for the park. This was not an effective manner in which to account for these fees because these forms contained errors and could be easily changed.

We reviewed 133 daily attendance reports for the park and found all were completed in pencil, no supervisory signature was present and the reports were not sequentially numbered. Additionally, in some instances, the reports were not dated and were not signed by the employee responsible. We also reviewed 459 season pass registration forms and found 14 were unaccounted for and six were issued duplicate season pass numbers. The Director and Comptroller stated the discrepancies were due to both user and application error. Because Department employees did not consistently issue duplicate receipts, an accurate record of moneys collected is not being maintained by the Department. By using attendance reports, which could easily be altered, and not tracking season pass numbers, there is a high risk that moneys could be received and not be recorded as Department revenues.

Due to the inconsistent recordkeeping practices, we reviewed and tested all available documentation pertaining to the three major recreation programs for our audit period. While moneys remitted agreed with amounts deposited, the Department records accounted for \$18,562 less than the moneys remitted and deposited. With the variations in amounts, Town officials cannot be fully assured of the true amount of money that should have been received, remitted and deposited.

Program	Amount Collected^a	Amount Remitted^b	Amount Deposited	Difference^c
Daily Use Fee	\$67,322	\$73,121	\$73,121	\$5,799
Season Passes	\$35,580	\$35,525	\$35,525	(\$55)
Summer Camp	\$275,575	\$288,393	\$288,393	\$12,818
Totals	\$ 378,477	\$397,039	\$397,039	\$18,562

^a Based on Department records
^b Calculated from cash receipts issued for moneys remitted by the Director to a designated employee responsible for recording and depositing those amounts.
^c Difference between amounts to be collected less amounts deposited

In addition, we found that deposit slips did not include sufficient detail. Some deposit slips identified the payees who paid by check. However, only a “lump sum” was recorded for cash payments. As a result, Town officials would not be able to trace amounts on deposit slips back to Department accounting records. Employees responsible for making deposits should document the composition of the receipt

as cash, check or money order. This information should follow the receipted moneys through to the deposit in the bank, which should be documented by a detailed deposit slip. It is important that collections are deposited intact – in the same amount and form (cash, check or money order) as received – and that detailed records and deposit tickets are maintained for verification purposes.

The Director told us that due to a lack of consistent procedures, program moneys were often collected at various times and places. As a result, not all transactions were properly documented.

Cash has the greatest potential for theft if a system of internal controls is not in place and functioning effectively. Without adequate supporting documentation, processes and oversight, Town officials have no assurance that cash is properly recorded in the accounting records and that all moneys received are deposited into Town accounts.

Recommendations

1. The Board should adopt a policy and Town officials should establish written procedures to govern the Department's cash receipts, including provisions to properly segregate financial duties.
2. Town officials should require that duplicate receipts be issued for all moneys received by Department employees and the Director should reconcile duplicate receipts to season passes and daily attendance records to ensure they correspond to daily cash reports.
3. Town officials should require that all deposit slips are sufficiently detailed.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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



Town of East Fishkill

Dutchess County, New York

330 Route 376, Hopewell Junction, New York 12533

Telephone 845-226-2634

RESPONSE FROM LOCAL OFFICIALS

The Town of East Fishkill would like to thank the New York State Office of the Comptroller for conducting a professional risk assessment of the Town of East Fishkill. After your initial risk assessment covering all town departments, it was determined that a more thorough audit of only the recreation department's internal controls was warranted. It is a priority of town officials that first rate recreation programs are offered to residents of the town, but also that associated revenues are properly tracked and secured to ensure public moneys are being properly accounted for.

In response to your audit, the Town will craft a policy to govern recreation department cash receipts and record keeping. This policy will stipulate a separation of duties between the person(s) receiving cash and the person(s) maintaining cash receipt records. The policy will also have a requirement that duplicate receipts be issued for every cash transaction. Furthermore, deposit records will be maintained in such a manner as to easily link the deposit itself with the payee and related program. Additionally, the Town comptroller will be responsible for auditing recreation department records on an annual basis in order to reconcile program users with program revenues as practicable. Or put differently, to reconcile expected revenues with actual deposits.

John Hickman
Town Supervisor

6/6/14

Date

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed and evaluated those weaknesses for the risk of potential fraud, theft, or professional misconduct. We then decided upon the reported objective and scope by selecting for audit the areas most at risk. We selected cash receipts in the Department for further audit testing. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed appropriate Town officials to gain an understanding of the Department's internal controls over cash receipts.
- We reviewed Board minutes to determine if adequate oversight over the Department was provided.
- We examined accounting reports such as transaction reports, Department register receipts, attendance sheets, bank deposit slips and bank statements.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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