



Town of Minerva

Payroll and Cash Receipts

Report of Examination

Period Covered:

January 1, 2013 – April 30, 2015

2015M-342



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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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 Minerva, entitled Payroll and 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Minerva (Town) is located in Essex County and has a population of 810 residents. The Town provides highway, parks, court and general governmental services to its residents. The 2015 Town budget totaled \$2,179,104 for all funds, including special districts. Town expenditures are primarily funded with real property taxes, user fees and State aid.

The Town is governed by an elected five-member Town Board (Board) composed of the Supervisor¹ and four Board members. The Board is responsible for the general oversight and control of the Town's operations and finances. The Supervisor serves as the Town's chief financial officer and chief executive officer and is responsible for the day-to-day management of the Town's financial operations.

Scope and Objective

The objective of our audit was to review the internal controls in place over the Town's payroll process for the period January 1, 2014 through December 31, 2014 and cash receipts process for the period January 1, 2013 through April 30, 2015. Due to concerns related to payroll payments made to the clerk, we expanded our scope for payroll to July 1, 2010 through April 21, 2015. Our audit addressed the following related questions:

- Did the Board establish adequate controls over payroll and employee leave to ensure that employees receive only the pay and benefits that they are entitled to?
- Did the Board ensure cash receipts were properly accounted for and deposited into Town accounts intact and in a timely manner?

Audit Results

We identified a total of \$32,179 in questionable and inappropriate payroll payments and unaccounted for cash receipts. Because the Board has not established proper controls over payroll, the clerk to the Supervisor (clerk) overpaid herself \$13,940 for unauthorized direct deposits and inappropriate withholdings for retirement and health insurance. In addition, the clerk was paid for 482 hours of leave valued at \$8,235 that she had not earned and was not entitled to. The Board's failure to establish comprehensive written policies and procedures for processing payroll and maintaining leave time accruals resulted in a lack of segregation of duties and sufficient compensating controls. This allowed the clerk to control all aspects of the payroll process and to overpay herself without detection.

¹ During our scope period, two Supervisors held office. The former Supervisor held office in 2013. The current Supervisor's term began January 1, 2014.

The Board and Supervisor also allowed the clerk to control most aspects of the cash receipts process and did not provide adequate oversight of her work. As a result, the clerk did not deposit a total of \$10,004 in collections; Town officials cannot account for this shortage. The Board and Supervisor's failure to provide proper oversight of the clerk's financial activities resulted in the apparent misappropriation of Town moneys. There were likely additional cash receipts that were never recorded and deposited that would be almost impossible to find because of the Town's inadequate controls and records. Subsequent to our fieldwork completion in September 2015, we referred this matter to the Essex County District Attorney. As a result, the clerk was arrested and pled guilty, on August 10, 2017, to grand larceny, official misconduct and tampering with public records.

Comments of Local Officials

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

Introduction

Background

The Town of Minerva (Town) is located in Essex County and has a population of 810 residents. The Town provides highway, parks, court and general governmental services to its residents. The 2015 Town budget totaled nearly \$2.2 million for all funds, including special districts. Town expenditures are primarily funded with real property taxes, user fees and State aid.

The Town is governed by an elected five-member Town Board (Board) composed of the Supervisor² and four Board members. The Board is responsible for the general oversight and control of the Town's operations and finances. The Supervisor serves as the Town's chief financial officer and chief executive officer and is responsible for the day-to-day management of the Town's financial operations. The Supervisor is responsible for maintaining the Town's accounting records, including records for cash receipts and disbursements, and ensuring procedures are in place to properly safeguard Town moneys.

The Town's collection process is decentralized and collections received from other Town employees are turned over to the Supervisor's office. Town departments that collect and remit cash directly to the Supervisor's office for deposit include: parks and recreation; code enforcement; transfer station and youth program. The elected Tax Collector deposits collections into a separate Town bank account and writes a check to the Supervisor's office to turn over collections.

The Supervisor appoints a clerk³ who primarily functions as a bookkeeper to maintain the accounting records and prepare deposits. The Supervisor is also assisted by an administrative assistant who is responsible for making collections, including collections relating to the campsite rental fees. The Town also maintains a transfer station and a summer youth program. Departmental staff are responsible for receiving related fees and turning them over to the Supervisor's office for recording and deposit. During our audit scope, the Supervisor's office received approximately \$3 million, including collections remitted by Town departments.

² During our scope period, two Supervisors held office. The former Supervisor held office in 2013. The current Supervisor's term began January 1, 2014.

³ The clerk resigned on April 20, 2015. The administrative assistant assumed the clerk's duties and was subsequently appointed as the clerk to the Supervisor. All mentions of the clerk in the report refer to the former individual and not the current clerk.

During 2014, the Town employed 54 full-time and part-time employees (including elected officials) and had payroll expenditures totaling \$567,458. The Board is responsible for establishing employee wage rates and payroll and leave accrual policies. The Supervisor is responsible for processing payroll and is assisted with this task by his clerk.

Objective

The objective of our audit was to review the internal controls in place over the Town's payroll and cash receipts processes. Our audit addressed the following related questions:

- Did the Board establish adequate controls over payroll and employee leave to ensure that employees receive only the pay and benefits that they are entitled to?
- Did the Board ensure cash receipts were properly accounted for and deposited into Town accounts intact and in a timely manner?

Scope and Methodology

We examined the internal controls over the payroll process for the period January 1, 2014 through December 31, 2014. We examined the internal controls over cash receipts for the period January 1, 2013 through April 30, 2015. Due to concerns related to payroll payments made to the clerk, we expanded our scope for payroll to July 1, 2010 through April 21, 2015. At the request of law enforcement officials, we did not issue our audit report while prosecution was pending. Because our work focused on systems in place during our audit period, we did not perform additional work to assess controls currently in place.

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 Town 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 generally 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.

Payroll

Town officials are responsible for establishing effective internal controls over payroll that include policies and procedures for preparing and disbursing payroll, maintaining leave records, and ensuring employees are paid salaries and wages and provided benefits to which they are entitled. Sound controls help to ensure that employees are paid at Board-approved pay rates or rates prescribed in collective bargaining agreements (CBAs); the proper deductions are made from employees' gross pay; and time worked and leave time earned and used are properly documented, monitored and controlled. In addition, Town officials should segregate payroll duties, when possible, to ensure that no individual controls all phases of a payroll transaction. When segregating duties is not feasible, officials should implement compensating controls to reduce the associated risks.

As indicated in Figure 1, the clerk received \$22,175 in questionable and inappropriate payroll and leave time payments. This amount consists of \$8,640 of excessive direct deposits to her personal bank account and \$5,300 that she inappropriately did not withhold from her pay for retirement contributions, retirement loan payments and health insurance. In addition, the clerk was paid for 482 hours of leave time valued at \$8,235 that she had not earned and was not entitled to. The Town's lax controls over payroll allowed the clerk to make these overpayments without detection. Specifically, Town officials have not established comprehensive written policies and procedures for processing payroll and maintaining leave time accruals. Further, Town officials have not developed sufficient compensating controls to address the lack of segregation of payroll processing duties. We referred this matter to the Essex County District Attorney's Office. Subsequently, the clerk was arrested and pled guilty, on August 10, 2017, to grand larceny, official misconduct and tampering with public records.

Figure 1: Inappropriate and Questionable Transactions

Direct payroll deposits to the clerk's personal bank account	\$8,640
Leave time payments to clerk that she was not entitled to	\$8,235
Amounts not withheld for clerk's retirement contributions and loans	\$4,277
Amounts not withheld for clerk's health insurance	\$1,023
Total	\$22,175

Overpayments and Incorrect Withholdings

Written payroll policies and procedures, combined with detailed job descriptions that assign specific payroll activity responsibilities, help ensure that employees understand their role in the payroll process. It is important that one individual is not responsible for the entire payroll

processing function. If segregating duties is not feasible because of the Town's limited staffing, at a minimum, the Board should implement compensating controls such as providing additional oversight of the payroll process or ensuring that payrolls are adequately reviewed. The review process should involve comparing time cards and time sheets with payroll registers to ensure that payments are based on actual hours or days worked and on Board-authorized or CBA-prescribed hourly rates or annual salaries, and that the proper amounts are withheld from employees' gross pay. The review process should also involve comparing payroll checks, direct deposits and transfers to the payroll account and the payroll register to ensure they are accurate.

The Town processes payroll using a software module integrated into its computerized accounting system. Due to the Town's limited staffing, payroll duties were not adequately segregated. The clerk was responsible for creating employee records; collecting employees' time records; recording the hours worked or salaries to be paid; making changes to employees' pay rates, withholdings and deductions; printing payroll checks; preparing and executing the employees' direct deposits and transferring funds to the payroll account. The clerk also prepared and submitted the electronic monthly retirement reports to the New York State and Local Retirement System (NYSLRS). NYSLRS used these reports to deduct employees' withholdings from the Town's payroll account. Town officials did not establish compensating controls to address the lack of segregation for payroll processing, and the clerk performed all of these duties with limited oversight.

Although the Board implemented an independent review of the payroll process by requiring the Supervisor to sign payroll checks and review the final payroll register, the reviews were inadequate. The current Supervisor⁴ indicated that he reviewed the employees' time cards and time sheets, but he did not compare them to the payroll registers. Also, the current Supervisor did not compare the payroll registers to the amounts transferred to the payroll account to ensure transfers agreed with amounts on the payroll registers.

We reviewed all 2014 payroll payments totaling \$531,112 made to all 31 permanent full- and part-time employees, and five randomly selected seasonal recreation staff. Except for a few minor errors which we discussed with Town officials, 35 of the 36 employees' time records were accurate. These employees were paid the correct amounts and were deducted accurate amounts for health insurance and retirement benefits. However, the proper amounts were not

⁴ Two different Supervisors were in office during our audit period. The current Supervisor's term began January 1, 2014. The former Supervisor held office from January 2010 through December 2013.

deducted from the clerk's gross pay, and direct deposits made to the clerk's personal bank accounts did not agree with the payroll register. Because of these concerns, we reviewed all payroll payments totaling \$146,997⁵ made to the clerk during her employment (July 1, 2010 through April 20, 2015). We found the clerk paid herself \$13,940 more than she was entitled, as discussed further.

Direct Deposits — The total bi-weekly payroll direct deposits made to the clerk's personal bank account exceeded her total net pay amount by \$8,640. Specifically, there were 29 separate bi-weekly payroll direct deposits made during the period July 3, 2013 through January 12, 2015 in which the clerk's bi-weekly direct deposit exceeded her net pay amount listed on the payroll registers by \$200 to \$500. According to the current Supervisor and our discussions with the clerk prior to her resignation, she was the sole Town employee responsible for processing payroll and making the direct deposit transfers until she went on maternity leave in March 2015.

Retirement — Withholdings from the clerk's pay for NYSLRS contributions,⁶ arrears payments⁷ and loans⁸ were \$4,277 less than what they should have been between February 21, 2011 through April 21, 2015. The clerk's retirement withholdings should have been \$5,427 (\$3,796 for contributions and arrears payments and \$1,631 for loan payments). However, actual retirement withholdings from the clerk's gross pay totaled only \$1,150 (\$1,072 for contributions and \$78 for loans). Further, based on information provided by the NYSLRS, the Town reported and remitted \$5,630 for contributions, arrears and loan payments on behalf of the clerk, even though actual deductions from the clerk's gross pay totaled only \$1,150. As a result, the Town inappropriately reported and paid \$4,480⁹ to the NYSLRS from the Town's funds on behalf of the clerk that was never withheld from her pay.

⁵ Gross pay as calculated by the payroll system. Actual net payments made to the clerk totaled \$127,446.

⁶ The clerk joined the NYSLRS on February 21, 2011 and was required to make a 3 percent contribution from her bi-weekly gross pay.

⁷ The clerk owed \$1,023 in mandatory arrears for deductions not taken and reported to the NYSLRS for the period February 21, 2011 through February 28, 2012.

⁸ The NYSLRS allows actively employed members with at least one year of service credit and sufficient contributions on deposit to apply for a retirement system loan. Loan repayment is made through a bi-weekly loan deduction from the employee's gross pay. The clerk took out two separate retirement loans. In August 2013, she borrowed \$1,257 and in September 2014, she borrowed \$2,130. As of March 2015, the remaining loan balance was \$2,036.

⁹ The difference between the amount that should have been deducted and the amount reported and remitted by the Town are due to errors in the Town's calculations. The clerk's retirement related withholdings should have been \$4,277.

Health Insurance — The Town provides health insurance coverage to full- and part-time employees and requires employees hired during or after 1976 to contribute 15 percent towards the cost of their health insurance premiums. The clerk enrolled in the Town’s health insurance plan in January 2014. However, no deductions were taken from her salary during 16 consecutive payrolls from May 6, 2014 through December 1, 2014. As a result, the clerk did not pay \$1,023 she owed for her share of the costs for her health insurance premiums. The clerk used the Town’s funds to cover the shortage of payments toward her health insurance costs. Because the clerk was responsible for processing the payrolls, it was her responsibility to ensure the proper amount of health insurance contributions were withheld from employees’ pay.

The Supervisors’ lack of adequate oversight of the payroll process resulted in the clerk being able to overpay herself through unauthorized and excessive direct deposits to her bank account and inappropriately reducing her withholdings for retirement and health insurance.

Leave Accruals

A good system of accounting for employee leave time (i.e., vacation, personal and sick leave) requires the Board and Town officials to establish comprehensive policies and procedures to ensure adequate records are maintained and periodic independent reviews of leave accrual records and balances are performed. Town officials also should ensure that Town personnel properly calculate and deduct leave time used from employee leave accrual balances and that leave is earned in accordance with Town policies, CBAs and Board resolutions.

Town officials did not establish comprehensive policies and procedures to provide proper guidance or implement sufficient controls over employees’ leave accrual records. Consequently, the clerk and a maintenance employee maintained their own leave accrual records with no oversight by Town officials. In addition, Town officials could not provide us with the clerk’s leave accrual records during our audit period, although she earned and used leave time. Furthermore, while the Highway Superintendent maintained the leave accrual balances for the Highway Department employees, no one periodically reviewed or reconciled these records with the time records.

We reviewed the available 2014 leave accrual records for all six Town employees (maintenance employee and five highway employees) who are entitled to earn leave. Except for a few minor errors, leave time was properly recorded and deducted for the highway staff. However, the maintenance employee’s total vacation, sick, personal and comp time leave balances for the year ending 2014 were overstated by 107 hours due to several errors in his accrual record. This occurred because the leave recorded on his time sheet was not always deducted

from his accrual record. For example, during the pay period ending January 12, 2014, two days of sick leave recorded on his time sheet were not deducted from his accrual record. These errors did not result in any instances of the maintenance employee earning leave he was not entitled to or being paid for leave time he did not have.

Due to the clerk's lack of accrual records, we reviewed all the clerk's time records (time sheets and time cards) during her term of employment (July 1, 2010 through April 20, 2015) and recalculated her leave accrual balances (i.e., vacation, sick and personal leave) based on when leave time was earned¹⁰ and when the time records (time sheets and time cards) indicated that leave was used. We determined the clerk was paid for 387.75 hours of sick leave and 94.25 hours of personal leave valued at \$8,235 that she was not entitled to.

The clerk was paid for more leave time than she earned in each year of employment, and the leave accrual deficits accumulated from year to year. For example, on January 1, 2015, the clerk had an accumulated sick leave deficit of 115.75 hours, which increased to a deficit of 387.75 hours as of April 20, 2015. This deficit increased primarily due to her charging time off as sick leave while on maternity leave from March 4, 2015 through April 20, 2015. Although the clerk had no available sick leave, the current Supervisor approved payroll payments to her for seven weeks of paid sick leave. According to the current Supervisor, the clerk informed him that she had adequate leave balances. However, he did not verify the clerk's available leave time prior to authorizing its use.

Accurate leave accrual records are essential for ensuring that Town employees receive and are compensated only for the correct amounts to which they are contractually entitled. Further, without periodically reconciling leave accrual records with time records, there is an increased risk that errors or irregularities could occur, remain undetected and result in employees getting paid for leave time they did not earn.

Recommendations

The Board and Town officials should:

1. Seek recovery of \$13,940 from the clerk for unauthorized direct deposits and inappropriate withholdings.
2. Seek recovery of \$8,235 from the clerk for leave time she was paid for that she had not earned.

¹⁰ In accordance with the Town Personnel Manual

3. Correct the maintenance worker's leave accrual balances.
4. Establish comprehensive payroll processing and leave time accrual policies and procedures that incorporate the duties to be completed and records to be maintained for processing payrolls and maintaining leave records.
5. Segregate duties over payroll processing or, if it is not practicable to segregate duties, establish appropriate compensating controls, such as increased management review procedures.
6. Ensure that leave accrual records are maintained for all employees that earn and use leave time.
7. Ensure that an individual independent of maintaining leave records periodically reviews leave accrual records and balances for accuracy.
8. Ensure that employee leave benefits are provided in accordance with the provisions of the Town's employee manual or applicable CBA.

The Supervisor should:

9. Compare payroll registers to payroll source documents when reviewing payrolls to ensure that payments are based on actual hours or days worked and on Board-authorized or CBA-prescribed hourly rates or annual salaries. This also will ensure that the proper amounts are withheld and deducted from employees' gross pay.
10. Verify that payroll checks and direct deposits agree with the payroll register. The Supervisor should complete this review before the Town makes the corresponding payroll payments.
11. Ensure that employees have adequate leave accrual balances prior to granting leave.

Cash Receipts

The Board is responsible for establishing written policies and procedures for cash receipts that address the duties, procedures, records and oversight required to safeguard Town funds. Town Law requires the Supervisor to deposit money received no later than 10 days after receipt. It is also critical that cash receipts are deposited intact¹¹ to reduce the risk of errors or irregularities occurring with the processing of collections. It is important that detailed records and deposit tickets are maintained for verification that all collections are adequately accounted for and deposited. Further, New York State Town Law (Town Law) requires the Board perform an annual audit of the financial records for all Town officers and employees responsible for making collections.

We identified a total of \$10,004 in collections that were not deposited and cannot be accounted for by Town officials. The clerk commingled collections when preparing and making deposits, making it difficult to trace the identified cash shortage to particular collections. However, we were able to trace \$8,087 of the missing cash to specific collections, as indicated in Figure 2. This shortage occurred because of the Town's lax controls over cash receipts. There were likely additional cash receipts that were never recorded and deposited that would be almost impossible to find because of the Town's inadequate controls and records. As mentioned previously, subsequent to completion of our fieldwork, this matter was referred to the Essex County District Attorney's Office for their review.

The Board did not establish comprehensive written policies and procedures to ensure all cash receipts were properly accounted for and deposited to Town accounts intact and in a timely manner. The clerk performed all the duties related to receiving and processing cash receipts for the Supervisor's office and other Town departments with little oversight by the Supervisor. The Supervisor does not review receipts and logs, revenues recorded in the central accounting system or bank reconciliations. Further, the Board did not audit the Supervisor's records, as required, which would have identified this cash shortage.

¹¹ Intact means the deposits are for the same amount and in the same form (i.e., cash, check, money order) as the collections.

Figure 2: Unaccounted for Collections

Campsite rental fees	\$3,650
Youth program fees	\$2,021
Transfer station fees	\$1,354
Miscellaneous collections	\$1,062
Total	\$8,087

Supervisor's Office

The Supervisor, as the Town's chief financial officer, is responsible for the collection and custody of all Town money. Oversight of the cash receipts process should include a review of documentation of the collections to the collections being deposited in Town bank accounts and reported by the Supervisor to the Board. Issuing duplicate press-numbered receipts (duplicate receipts) when no other adequate documentation of the collections is available, including duplicate receipts for cash remittances between Town departments and employees, can help ensure that cash transactions are properly documented and recorded. Duplicate receipts should indicate when payment was received, from whom, the form of payment (i.e., cash or check) and the signature of the person receiving the payment. A copy of the duplicate receipt and any relevant receipt documentation¹² should be retained on file. Further, when cash receipts are deposited, detailed deposit slips should be prepared and retained with the bank validated deposit slip to ensure the composition of deposits agrees with the receipt documentation.

The Supervisor's office collects campsite rental fees, remittances from the various Town departments and other miscellaneous revenues.¹³ Collections are received by mail or turned in directly to the Supervisor's office and received by either the part-time administrative assistant or the clerk. Regardless of who receives the collections, all the duplicate receipts and collections are recorded in the computerized accounting system and deposited by the clerk. Once the clerk has recorded the collections, she prepares the duplicate deposit slips and makes the deposit. However, the clerk did not always retain and file a copy of the detailed deposit slip and/or bank validated deposit slip, and she did not always print a copy of the batch report supporting the deposit. While the clerk typically made the deposits, the Supervisor told us he would occasionally take large deposit amounts to the bank, such as when the Tax Collector remitted real property tax collections to his office.

¹² Other receipt documentation includes items such as customer applications, check stubs, copies of checks or any other relevant documentation.

¹³ The Supervisor's office also receives electronic payments from Essex County for unpaid property tax, penalty and interest on real property taxes, State aid and insurance recoveries.

The current and former Supervisors did not implement a consistent procedure for issuing duplicate receipts for collections received from the public or remitted to their office from other Town departments and staff. The transfer station and the Tax Collector were the only departments that were issued duplicate receipts for collections remitted to the Supervisor's office. The youth program, code enforcement officer and the administrative assistant were not issued duplicate receipts when remitting collections to the clerk. Also, while duplicate receipts were issued to customers for collections received for the youth program, parks and recreation, code enforcement and transfer station, the youth program staff did not consistently turn over receipts when remitting collections to the Supervisor's office and did not provide some other form of documentation to the Supervisor's office to support the collections being remitted.

In addition, other than the Supervisor and the Board receiving monthly reports¹⁴ identifying money received, there was no oversight of the cash collections process. Neither the former nor the current Supervisor reconciled duplicate receipts or other supporting documentation to collections deposited, recorded in the accounting system or included on the monthly reports. Cash has a high inherent risk for theft, and the risk associated with cash was further increased by the clerk having control over multiple stages of the collection process, including recording collections, preparing and making deposits, and preparing monthly reports to the Board with no oversight by others to verify the clerk's work. Furthermore, the cash receipts batches recorded to the accounting system can be deleted or replaced with a new batch with no audit trail of who is making the deletions or changes to the cash receipts batches.

We reviewed all 1,360 collections totaling \$3,039,380 that were received and processed by the Supervisor's office during our audit period, including collections remitted by Town departments,¹⁵ to verify that all receipt information was complete, properly accounted for in the central accounting system and deposited intact and in a timely manner. The clerk did not always retain a copy of the detail deposit slips and bank deposit receipts. Because we could not rely on the Town's accounting records to quantify receipts, we obtained and reviewed all of the Town's bank deposit compositions from the Town's bank for deposits made during our audit period.

¹⁴ Monthly reports include a budget to actual report on all Town revenues and appropriations, camping revenue reports and the transfer station's monthly cash ledger. The youth director submits annual reports and the code enforcement officer submits monthly reports to the Board, but these reports do not include collection details.

¹⁵ These include park and recreation, transfer station, youth program, code enforcement and Tax Collector.

We found no discrepancies with remittances from the Tax Collector, Justice and Town Clerk totaling \$2,323,359. These offices remit their collections to the Supervisor's office in check form. However, for the remaining collections totaling more than \$700,000, there were discrepancies identified with collections and accounting for transfer station fees, youth program fees, parks and recreation fees and other miscellaneous¹⁶ collections totaling approximately \$10,000. The clerk deposited departmental collections together and did not maintain documentation with which to trace these collections to a department or bank deposit. These commingled funds and lack of documentation prevents verification that collections were deposited. Typically, the form of these collections on the receipts were either not identified at all or identified as being cash collections. In addition, all of the deposits made from February 14 through July 21, 2014 included only checks in the deposit composition, even though the Supervisor's office received cash collections during this period.

The clerk commingled collections when preparing and making deposits, making it difficult to trace the identified cash shortage to particular collections. Further, it is likely that there were additional cash receipts that were never recorded and deposited. Because of the inadequate controls and records, it would be almost impossible to find them. However, we were able to trace over \$8,000 of the \$10,000 in missing cash to specific collections, as follows:

Campsite Rental Fees — The Town maintains a Town park and collects fees for campsite rentals at the park. Collections for campsite rentals are received at the Town Hall by the administrative assistant or the clerk in her absence. If campers arrive after the Town Hall is closed, payment can be made to the campground night watchman or the contracted Town beach concession stand operator. Once payment is made, the collecting employee completes a press-numbered duplicate reservation slip that identifies the type of collection, amount and payee. The collection is then remitted to the clerk for recording and deposit.

We identified 26 collections totaling \$3,650 that could not be traced to a deposit. However, the clerk recorded all but four of these collections totaling \$465 to the accounting system, which indicates that these collections were turned over to the clerk. For example, on April 14, 2014, the clerk collected and receipted \$300 in cash for a seasonal campsite rental and recorded it to the accounting system on April 17, 2014. However, there was no documentation to trace this collection to a subsequent deposit. In another instance, on April 30, 2013, the clerk receipted \$300 in cash for a seasonal campsite rental

¹⁶ Insurance recoveries, code enforcement fees and printing fees.

and recorded the collection to the accounting system. However, the deposit associated with this collection included no cash; a \$300 check from a prior collection was substituted for this cash collection.

Youth Program Fees — The Town appoints a youth director each year who is responsible for running – and collecting all fees associated with – the summer youth program. The youth director is responsible for issuing receipts and maintaining supporting documentation, such as registration forms for collections and remitting these collections and supporting documentation to the Supervisor’s office.

Our review identified 28 collections totaling \$2,021 that could not be traced to a deposit. The clerk recorded 18 of these collections totaling \$1,856 to the accounting system. Furthermore, two insurance recovery checks totaling \$348 were substituted for seven youth program collections totaling \$348¹⁷ in an October 9, 2014 deposit totaling \$8,569. A detailed deposit slip was not attached for this deposit. According to the accounting system batch printout attached to the bank deposit receipt, this deposit was composed of youth program receipts totaling \$348 and a State aid payment totaling \$8,221. However, according to the bank’s deposit composition, the deposit consisted of three checks (the State aid check and two insurance recovery checks). Further, these insurance recovery payments were not recorded to the accounting system and we could not trace the \$348 youth program collection to any other deposit.

Transfer Station Fees — The Town employs two transfer station attendants who are responsible for collecting and issuing duplicate receipts for transfer station fees for disposal of construction and demolition materials, refrigerators, air conditioners, tires, televisions and monitors. The attendants also record collections on a cash log and periodically remit the collections, duplicate receipts and the collection log to the Supervisor’s office. The clerk or administrative assistant then issue a remittance receipt to the transfer station attendant.

We identified 46 collections totaling \$1,354 that were remitted to the Supervisor’s office that could not be traced to a deposit. All but three of these collections totaling \$100 were either receipted or recorded to the accounting system by the clerk, indicating that they were turned over to the clerk for recording and deposit. For example, on April 28, 2014, the clerk collected and receipted \$220 in cash remitted from the transfer station and recorded \$210 of the collection to the accounting system. However, there was no documentation to trace this collection to a subsequent deposit.

¹⁷ These seven collections were receipted in July 2014, including two receipts totaling \$128 issued by the clerk. The seven receipts did not indicate the form of collection (check/cash).

Miscellaneous Collections – The Supervisor’s office collects other miscellaneous payments including insurance recovery payments from elected officials and retirees, remittances from the code enforcement officer, youth ski program fees and fees for making copies.

We identified 20 collections totaling \$1,062 that could not be traced to a deposit. Seven of these collections totaling \$650 were recorded to the accounting system. For example, on January 28, 2015, the administrative assistant receipted a \$348 cash health insurance payment from a retiree. The clerk recorded the collection to the accounting system on January 31, 2015; however, Town officials did not have documentation with which to trace this collection to a subsequent deposit.

These discrepancies occurred because the Supervisors and the Board did not maintain the proper oversight of the cash receipts processes, such as requiring duplicate receipts to be remitted with collections and periodically reconciling collection records with deposits.

Annual Audit

Town Law requires the Board to perform an annual audit of the records of all officers or employees responsible for collecting and disbursing Town funds. In conducting the audit, it is important for the Board to determine whether effective procedures are in place and properly functioning to ensure financial transactions are properly recorded and reported, and that all moneys are accounted for properly. This is especially important because the clerk and Tax Collector have the ability to perform multiple tasks associated with processing collections, including accepting collections, issuing receipts, recording the collections and making deposits.

The Board did not examine the Supervisor’s and Tax Collector’s records for the 2012 and 2013 fiscal years. A Board member told us that Town officials were unaware an annual audit was required. Without an audit of these records, the Board cannot ensure that all Supervisor and Tax Collector funds were properly accounted for and deposited in a timely manner. Had the Board performed an audit of the Supervisor’s records, it could have detected the \$10,000 shortage identified in this report.

Recommendations

The Board should:

12. Seek recovery of \$10,004 from the clerk for collections not deposited.
13. Adopt written policies and procedures for cash receipts that include collection, recording and depositing procedures to ensure all cash receipts are properly accounted for and deposited into Town accounts intact and in a timely manner.

14. Complete an annual audit of all financial records of officers and employees responsible for collecting and disbursing funds as required by Town Law.

The Supervisor should enhance oversight of the cash collections process by:

15. Ensuring that duplicate receipts documenting the type of payment received are remitted when cash collections are turned over by Town departments. Voided receipts should also be turned over and logged.
16. Ensuring that someone not involved in the cash receipts process reconciles duplicate receipts issued for cash collections made by the Supervisor's office and Town departments to corresponding departmental collection records/reports and bank deposits.
17. Ensuring that Town departments reconcile duplicate remittance receipts received from the Supervisor's office to corresponding departmental records/collection sheets and to bank deposits.

APPENDIX A

RESPONSE FROM TOWN OFFICIALS

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

Council Members

David LaBar
Keith Dubay
Douglas McCall
Keith Iversen

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Town Supervisor
Stephen McNally

Town Clerk
Diana Mason

Highway Superintendent
Bruce McGinn

September 19, 2017

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
Mr. Leonard,

I would like to thank the Comptroller's office for the completed audit. If ever the Town needed clarification on the inaccuracies within our accounting system, this was the perfect time.

I took office January 1st, 2014 and prior to this time I was serving as a Councilman for the Town of Minerva. As with any new job it takes time to acclimate into the new position and the duties that go with that position. At that time my assumption was that without any glaring discrepancies the accounting and record keeping was adequate and that I would monitor moving forward before making any changes.

Starting within the first months the Board and I had many questions with the accuracy in our monthly reports and had issues getting everything to match up. We decided to have an outside accountant come in for training and corrective action. This accountant has worked with the company that created the municipal accounting program as well as having worked for Minerva Town Supervisors in the past. She had not been utilized by the previous Supervisor but was contracted to help rectify our accounting and banking systems.

Before our accountant could begin a full examination of the accounts and procedures, the state sent in a junior auditor for a regularly scheduled audit. Our accountant began her review in the fall of 2014. As the results of her findings, the Town contacted the Comptroller's office in early March 2015. Since then, she has worked on training our employees and correcting our daily accounting procedures after getting things to balance. The accountant has made monthly trips in to the Town office to look at the procedures and see what is being done on a daily and monthly basis.

After our exit interview with the auditors, and after we showed them what has been done as far as checks and balances and additional procedures, I believe that our system meets the standards that any municipal accounting should employ. We will be submitting a corrective action plan to explain our new procedures and what has been done to rectify this situation.


Sincerely,

Stephen McNally
Supervisor, Town of Minerva

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our objective was to review the Town's payroll processing for the period January 1, 2014 through December 31, 2014 and cash receipts for the period January 1, 2013 through April 30, 2015. To accomplish our payroll audit objective and obtain relevant audit evidence, our procedures included the following:

- We interviewed Town officials and employees. We reviewed Town policies, the Town's employee manual, the collective bargaining agreement (CBA) and various financial records and reports to gain an understanding of the internal controls in place over payroll processing and maintaining leave accruals. We documented any associated effects of deficiencies found in those controls.
- We reviewed all payroll payments made to 31 permanent full- and part-time employees, and five randomly selected recreational staff during our audit period. We verified whether the information entered into the payroll system agreed with the time records, pay rates agreed with Board resolutions or the CBA, and gross pay and net pay was calculated correctly. We also traced the net pay calculated by the payroll system to the payroll check and/or direct deposit.
- We reviewed the payroll records for all employees who were required to make retirement and health insurance contributions during our audit period. We verified whether the proper amounts were deducted from the employees' gross pay in accordance with the provisions of the New York State Local Retirement System and the Town's employee manual or the CBA.
- We reviewed all employees' leave accrual records during our audit period to verify that the days employees recorded using leave time on their time records were properly deducted from their leave accrual balances. We also verified that the amounts of leave credited and carried forward during 2014 agreed with the Town's employee manual or the CBA.

To accomplish our cash receipts audit objective and to obtain valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and reviewed Board meeting minutes to gain an understanding of the collection process, internal controls over cash receipts, and monitoring of the cash receipts at the Town.
- We interviewed the clerk, administrative assistant, code enforcement officer, and a transfer station employee to gain an understanding of their collection processes and the records they maintain.
- We reviewed all cash receipts received by the Supervisor's office during our audit period to determine if detailed information posted to the cash receipts or initial record of receipts was accurate and complete, receipts were being deposited timely and intact, and if the cash receipts records and supporting documentation agree to collections posted in the general ledger.

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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Gabriel F. Deyo, Deputy Comptroller
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