



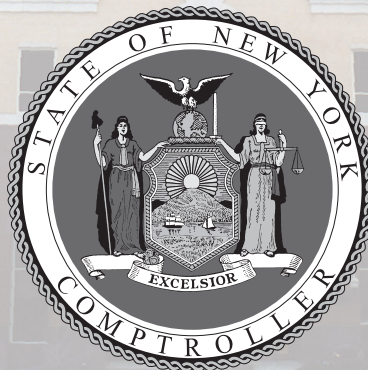
Town of Tonawanda Recreation Fees

Report of Examination

Period Covered:

January 1, 2016 – April 18, 2017

2017M-133



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2017

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Tonawanda, entitled Recreation Fees. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Tonawanda (Town) is located in Erie County and has a population of approximately 74,000 residents. The Town is governed by an elected five-member Town Board (Board), which is composed of a Town Supervisor (Supervisor) and four council members. The Board is responsible for overseeing the Town's financial affairs. The Supervisor is responsible, along with other administrative staff, for the Town's day-to-day management and operations. A Town Comptroller (Comptroller) is appointed to oversee daily financial activities including accounting and financial reporting.

The Town provides various services to residents including general governmental support, police, highway maintenance and improvements, snow removal, sewer and drainage, lighting and recreational services. The Town's 2017 operating budget is \$101 million. Operations are financed primarily by real property taxes, user fees, sales tax and State aid.

The Town operates a youth, parks and recreation department (Department) which provides a variety of programs to residents and non-residents. The Department Director (Director) oversees the day-to-day operations. The Department is staffed with a recreation supervisor, general crew chief and central office administrative support staff. For 2015 and 2016, the Department's annual revenues totaled approximately \$4.5 million.

Recreation fees are collected by cashiers at 18 locations including the Town's golf dome, golf courses, aqua and fitness center, pools and youth centers. All fees are remitted to the attendant in the central office to be deposited. Eleven of the 18 locations have cash registers connected to a point-of-sale (POS) system that captures all of the financial transactions processed at these locations. The registers at the remaining seven locations are older models and are not connected to the POS system; therefore, fees collected at these locations are input into the system by a central office employee.

Objective

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

- Did Town officials ensure recreation fees were properly reconciled, recorded and deposited?

Scope and Methodology

We examined the Department’s financial records and reports for the period January 1, 2016 through April 18, 2017.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to take corrective action.

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

Recreation Fees

Town officials are responsible for establishing adequate internal controls over Department operations. The Board is responsible for providing adequate oversight of the Department, which includes adopting written cash receipt policies, reviewing periodic financial reports and ensuring that an annual audit of the Department's books and records is performed. The Director is responsible for developing adequate procedures to implement the Board's policies and ensuring that Department personnel follow these policies and procedures. The Comptroller is responsible for ensuring that financial transactions are properly recorded and accounting records are up-to-date, complete and accurate.

Town officials did not establish adequate internal controls over recreation fees. The Board did not adopt adequate written policies or ensure that an annual audit of the Department was performed. The Director did not develop procedures to segregate cash receipt duties or provide adequate oversight of the cash receipt function. As a result, a single Department employee had almost complete control over the cash receipt function without adequate oversight. Although the Department's POS system maintained an adequate record of the recreation fees collected, Town officials did not review or use these records to ensure that cash receipts were properly accounted for, recorded accurately or deposited in a timely fashion. Despite the risk created by these poor internal controls, we found that recreation fees were generally recorded accurately and deposited in a timely fashion.

The Director did not ensure that the Department's cash collection and recordkeeping duties were properly segregated. One of the recreation attendants reconciled and deposited all recreation fees. The attendant also reported the fees to the Comptroller so the accounting records could be updated. However, the Director did not adequately monitor the attendant or review her work, and the Comptroller did not adequately review records to ensure fees were properly deposited and accurately recorded in the accounting records.

At each location, the cashiers and the location supervisor count daily cash to verify that cash on hand reconciles to the POS system's daily sales. The cash sheets are signed by the cashiers and supervisors and submitted to the attendant with the day's cash receipts. The attendant reconciles the cash to the amounts in the POS system for each cashier's drawer and makes adjustments due to shortages or overages. The attendant told us that she sometimes discusses these adjustments with the location supervisor, if they are significant, but her adjustments are

not reviewed or approved by the Director or the location supervisor. Furthermore, location supervisors are not provided with a receipt or confirmation from the attendant to acknowledge the cash received and deposited. A record acknowledging receipt would provide location supervisors an opportunity to hold the attendant accountable and mitigate risk.

Typically, the attendant would make daily deposits and record the types of fees collected and deposited using a computerized spreadsheet. The attendant reported the amounts collected and deposited to the Comptroller's office where the fees were recorded in the accounting records. Although staff in the Comptroller's office reviewed monthly bank statements to ensure that the attendant's spreadsheet correctly captured all deposits, they did not reconcile the amounts reported to the POS system records or other documents such as individual cashier's cash counting sheets or perform any other reviews to verify that fees were properly accounted for. In fact, the attendant's work is not reviewed by any other Town official or employee. Town officials do not compare the spreadsheet or deposits to the POS system or to the daily cash sheets. Allowing the attendant to have custody of cash and be responsible for reconciling and recordkeeping without adequate oversight increases the risk that cash receipts will not be deposited and recorded or that irregularities could occur and remain undetected and uncorrected.

We compared the amounts deposited and recorded to the POS system from January 2016 through January 2017. We reviewed cash receipts totaling more than \$4.5 million and found that the attendant generally deposited all fees in a timely fashion; however, we noted numerous discrepancies between the attendant's records and the POS system. The differences were relatively insignificant and the attendant's records usually reported larger daily totals than the POS system. The monthly cash receipt totals and variances are summarized in Figure 1.

Figure 1: Monthly Cash Receipt Totals			
Month	Attendant's Records	POS System	Variance
Jan-16	\$285,324	\$284,928	\$396
Feb-16	\$275,258	\$275,454	(\$196)
Mar-16	\$317,047	\$316,916	\$131
Apr-16	\$572,184	\$572,615	(\$431)
May-16	\$463,576	\$462,965	\$611
Jun-16	\$491,666	\$486,193	\$5,473
Jul-16	\$432,913	\$431,622	\$1,291
Aug-16	\$373,171	\$375,275	(\$2,104)
Sep-16	\$280,133	\$280,018	\$115
Oct-16	\$249,807	\$249,321	\$486
Nov-16	\$186,150	\$185,646	\$504
Dec-16	\$268,450	\$267,944	\$506
Jan-17	\$293,419	\$293,610	(\$191)

We traced three months¹ of receipts totaling nearly \$1.2 million from each location's daily count sheets and POS collection records to bank deposits, bank statements and the accounting records. We found the variances were primarily caused by timing differences and manual adjustments. For example, the attendant deposited a check for \$3,510 in June 2016 but it was not recorded in the POS system. A timing difference caused the large negative variance in August when the attendant recorded and deposited a check that she received for \$1,644 on July 31, but did not input the check into the POS system until August 1, 2016. Although the attendant always made sure her records tied to the amounts deposited and recorded in the accounting records, she did not always record receipts or adjustments in the POS system in a timely manner and sometimes not at all.

The attendant did not always update her records daily and often combined several days' activities into one day even though she was making daily deposits. As a result, cash receipts during the last few days of the month were sometimes not included in her records until the beginning of the next month. Although the attendant would document cash shortages or overages on the location's daily cash sheets along with explanations and retain the daily cash sheets as support for her adjustments, she would not consistently record the adjustments in the POS system because nobody else at the Town reviewed or used the records generated by the system.

¹ June 2016, August 2016 and January 2017

However, the POS system could be used to monitor the attendant and periodically review her work, thereby mitigating the control weaknesses created by the lack of segregation of duties. Town officials could use the detailed system records and reports to trace cash receipts from the point of collection to bank deposits and monthly reports.

The Board approved and established fee schedules for recreation programs and events and reviewed monthly financial reports provided by the Comptroller. However, the Board did not ensure cash receipt policies or procedures were in place to address the segregation of duties or the recording, reconciling and depositing of recreation fees. Also, the Board did not require the Comptroller to annually audit, or retain a public accountant to audit, the Department's books and records.² The Town retained the services of an independent public accountant to perform annual audits of the Town Clerk and the two Town Justices but not for the Department even though the Department's annual receipts averaging \$4.3 million were more than the two Justices' combined receipts which totaled \$2.3 million annually.

When it is not practical to segregate duties, effective oversight by Town officials, and ultimately the Board, is essential to help ensure transactions are properly recorded and reported and that cash receipts are accounted for. Had the Board required the Comptroller to annually audit, or retained a public accountant to audit, the Department's books and records, Town officials may have been aware of the internal control weaknesses and taken action sooner to remedy the concerns identified in this report.

Recommendations

The Director should:

1. Establish written procedures for cash receipts including ensuring cash collection and record keeping duties are segregated.
2. Review the attendant's work to ensure fees are deposited and recorded, especially adjustments due to cash shortages or overages.

² New York State Town Law requires a town board to annually audit, or retain a public accountant to audit, the books and records of town officers and employees who received or disbursed money during the fiscal year. Generally, when a town comptroller has been appointed, that individual takes over certain duties that otherwise would be the board's responsibility including auditing the books and records.

3. Require the attendant to provide written receipts or confirmations of cash received and deposited and to discuss adjustments with location supervisors.
4. Ensure someone other than the attendant reconciles POS system records, and other documents such as individual cashier's cash counting sheets, with the spreadsheet and deposits on at least a monthly basis.

The Comptroller should:

5. Review and reconcile fees deposited using source documents, such as POS system records or daily cash count sheets, to ensure all fees are accounted for, deposited and recorded.

The Board should:

6. Ensure that written policies and procedures are in place for the central office cash receipt function that address segregating duties and provide guidance for recording, reconciling and depositing fees.
7. Ensure Town officials use detailed records and reports generated by the POS system to trace cash receipts from the point of collection through the records to bank deposits and monthly reports.
8. Require the Comptroller to annually audit, or retain a public accountant to audit, the Department's books and records.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

October 13, 2017

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

Dear Mr. Mazula,

The Town of Tonawanda has received the State Comptroller's draft audit report of the Town of Tonawanda Recreation Department Cash Receipts for the period of January 1, 2016 through April 18, 2017 and accepts the report.

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

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

Sincerely,

Joseph H. Emminger, Supervisor
Town of Tonawanda

"A GREAT PLACE TO LIVE, WORK AND PLAY"

Ken-Ton
A FIRST RATE COMMUNITY
Where Community Counts!

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

- We reviewed Town policies and procedures and interviewed Town officials to gain an understanding of the Department's cash receipt procedures.
- We analyzed the Department's revenues for the last five years to identify trends and fluctuations and reviewed significant fluctuations.
- We reviewed POS system cash receipts records from January 2016 through January 2017 and compared these records to the amounts deposited and recorded by the attendant.
- We judgmentally selected three months to identify the causes of variances between the POS system and the attendant's records. We selected the two months in 2016 with the largest variances and the first month of the current fiscal year to trace certain year-end reconciling items into the current year and determine whether they were cleared/reconciled properly.
- We reviewed bank statements and monthly reconciliations performed by the Comptroller's office for the months in our sample.
- We interviewed Board members and reviewed Board minutes to determine the level of Board oversight of the Department.

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

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