



Town of Dix

Supervisor's Control of Cash

2022M-57 | June 2023

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Report Highlights

Town of Dix

Audit Objective

Determine whether the Town of Dix (Town) Supervisor ensured cash in his custody was properly collected and disbursed.

Key Findings

The former Supervisor did not ensure all cash in his custody was properly collected and disbursed. We found:

- The former Supervisor did not provide oversight of the bookkeepers, who performed all financial duties, including online banking.
- The Town Board (Board) did not adopt written policies and procedures for cash receipts and disbursements and online banking.
- In 2020, the former bookkeeper received \$1,254 in dental and vision insurance through the Town and paid \$126 of the premium cost. There was no documentation to support she was entitled to receive these benefits.

The findings regarding the former bookkeeper were referred to outside law enforcement for review.

Key Recommendations

- Properly collect, disburse and maintain custody of all Town funds.
- Provide proper oversight of the bookkeeper.
- Adopt written policies and procedures for cash receipts and disbursements and online banking.

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

Background

The Town is located in Schuyler County and includes the Village of Watkins Glen.

The Board is composed of the elected Supervisor and four Board members. The Board is responsible for the general oversight of operations and finances.

The Supervisor is the chief financial officer responsible for custody of Town funds. During our audit period, there were two Supervisors. The former Supervisor's term expired on December 31, 2021.

An appointed bookkeeper assists the Supervisor in performing his financial duties. The former bookkeeper resigned effective December 31, 2020, but continues to assist the current bookkeeper, who was appointed January 1, 2021.

2021 Quick Facts

| | |
|----------------|---------------|
| Appropriations | \$2.1 million |
|----------------|---------------|

| | |
|---------------------------------------|---------------|
| Total Cash Balances as of December 31 | \$2.8 million |
|---------------------------------------|---------------|

| | |
|-----------------------------------|----|
| Number of Employees and Officials | 21 |
|-----------------------------------|----|

Untimely Annual Update Documents

| Year | Date Filed | Days Late |
|------|-------------|-----------|
| 2019 | May 8, 2021 | 433 |
| 2020 | * | 379 |
| 2021 | * | 14 |

*Not filed as of March 15, 2022

Audit Period

January 1, 2020 – March 15, 2022

Supervisor's Control of Cash

How Should The Supervisor Safeguard Cash?

The supervisor, as a chief financial officer, is responsible for the town's day-to-day financial activities including:

- Collecting and maintaining custody of all money belonging to or due the town, according to New York State Town Law (Town Law) Section 29(1),
- Paying board-approved claims per the town clerk's prepared abstracts (i.e., abstract of audited claims),¹
- Authorizing all online banking transactions,
- Processing payroll for employees and officials, and
- Maintaining a complete and accurate account of the receipt and disbursement of all town funds in accordance with the accounting system prescribed by the New York State Office of the State Comptroller (OSC).

Complete and accurate records allow the supervisor to provide monthly financial reports to the board to facilitate timely and prudent financial decisions and monitor town financial operations. Accurate records also are an important tool to ensure cash is properly collected and disbursed. Accurate and timely reports help ensure cash is secure by allowing the board and others to detect unusual trends in cash and compare reported balances to independent documentation.

If the supervisor assigns financial duties to a bookkeeper, the supervisor must provide sufficient oversight by ensuring the bookkeeper's duties are properly segregated or that mitigating controls are in place. Oversight activities can include reviewing budget-to-actual and other financial reports, bank reconciliations, bank statements and canceled check images, and reviewing and approving disbursements prior to payment. The supervisor should also compare disbursements to abstracts and certified payrolls prior to payment to ensure disbursements are for authorized purposes, in the correct amount and made from the proper bank account.

In addition, the supervisor is required by Town Law Section 123 to, at a minimum, annually account to the board for all money received and disbursed during the year by presenting his records and reports to the board for audit. New York State General Municipal Law Section 30 requires the supervisor to file an annual

¹ Exceptions include payment of fixed salaries, principal and interest on indebtedness, regular or stated compensation of officers and employees, and amounts becoming due upon lawful contracts exceeding one year (Town Law Section 125(1)). The supervisor may make payments in advance of audit for public utility services, postage, freight and express charges if authorized by the town board (Town Law Section 118(2)). Disbursing funds only by check (Town Law Section 29(3)). Exceptions include petty cash payments (Town Law Section 64(1-a)) and electronic or wire transfers (General Municipal Law Section 5-a).

update document (AUD) (i.e., annual financial report) with OSC within 60 days of the end of the town's fiscal year. The AUD is a report of a town's financial position and results of operations. It is an important fiscal tool that provides the board with necessary information to monitor town operations and provides other interested parties with a summary of the town's financial activities.

Online banking provides a means of direct access to funds held in town accounts. Users can review current account balances and account information, including recent transactions, and transfer money between bank accounts and to external accounts. Because transfers of funds and automated clearing house (ACH) payments typically involve significant amounts of money, the town must control the processing of its online transactions to help prevent unauthorized transactions from occurring.

General Municipal Law Section 5-a allows a supervisor to electronically disburse or transfer funds, provided the board has entered into a written agreement with the bank. The agreement should prescribe the manner in which electronic or wire fund transfers will be accomplished. The agreement also should identify the names and numbers of bank accounts from which transfers may be made and the individuals authorized to request the transfers. General Municipal Law further requires implementing a security procedure that includes verifying that a payment order is for the initiating town and detecting payment order errors in transmission or content.

The Former Supervisor Did Not Safeguard the Town's Cash

Bookkeeper Oversight – The former Supervisor delegated his financial responsibilities to an appointed bookkeeper. Both the former and current bookkeeper collected, recorded and deposited receipts (e.g., cash and checks) and disbursed funds without oversight. The former Supervisor also relied on the bookkeepers to prepare his monthly financial report to the Board and the AUD.

Although the former Supervisor signed checks and opened the bank statements from the mail and signed them, he stated that he did not review them or the bank reconciliations prepared by the former bookkeeper to ensure all receipts were deposited or disbursements were appropriate Town expenditures. In addition, the former Supervisor did not ensure the former bookkeeper prepared the required monthly reports for the Board. For example, the December 2019 monthly report was provided to the Board in April 2020 and the reports for January 2020 through April 2020 were provided to the Board in May 2020. The former bookkeeper also did not file the 2019 AUD until May 8, 2021, which was 433 days late (Figure 1).

The ...
bookkeeper
collected,
recorded and
deposited
receipts and
disbursed
funds without
oversight.

Figure 1: Untimely AUDs

| Year | Date Filed | Days Late |
|------|-------------|-----------|
| 2019 | May 8, 2021 | 433 |
| 2020 | * | 379 |
| 2021 | * | 14 |

*Not filed as of March 15, 2022

Because the 2020 accounting records and reports were not up to date, the current bookkeeper could not prepare the 2020 year-end closing entries, post the 2021 cash receipts and disbursements journals to the general ledger each month, or prepare the former Supervisor’s monthly reports to the Board for 2021.

Although the former bookkeeper unofficially and sporadically assisted the current bookkeeper during 2021, the limited and informal guidance was insufficient. Therefore, the current bookkeeper lacked the necessary financial training to finalize the 2020 accounting records, which were still not finalized as of the end of fieldwork on March 15, 2022. As a result, the Board did not have complete and timely financial information, which hindered its ability to monitor the Town’s financial affairs, accurately assess the Town’s financial condition, and make sound financial decisions. Further, the 2020 and 2021 AUDs were not filed.

...[T]he Board did not have complete and timely financial information. ...

The Board hired a certified public accounting (CPA) firm to perform an annual audit for 2019 and 2020. However, the auditor withdrew from the audits on July 2, 2021 because the former Supervisor and bookkeeper were unresponsive to the auditor’s information requests on a timely basis. Further, two Board members told us they were unaware of the auditor’s withdrawal and stated the former Supervisor told them the audits were ongoing when they inquired about their status. Without an annual audit, there is an increased risk that errors, irregularities or fraudulent activity could not be detected or corrected in a timely manner. In addition, the Board’s ability to monitor financial operations is diminished.

On January 18, 2022, the Board hired a new CPA firm to perform the 2020 annual audit and provide the needed adjusting and closing journal entries to finalize the 2020 financial records. The current Supervisor also told us he plans to hire a consultant to assist the current bookkeeper in completing bank reconciliations and identifying any errors and making corrections for 2021 and 2022.

Because the former Supervisor did not provide oversight of the bookkeepers, we completed testing of cash receipt, cash disbursement and online banking transactions the bookkeepers completed in 2020 and 2021.

Cash Receipts – Limited cash receipts are collected through the Supervisor’s office because most are directly deposited, such as State aid. Water and sewer customers paid their monthly bills online, by mail or in person to the bookkeepers. The bookkeepers issued duplicate receipts only upon customer request. The bookkeepers received checks for departmental revenues each month from the Town Clerk, Justice and Code Enforcement Officer.

The bookkeepers recorded these transactions in the cash receipts journal, prepared the duplicate deposit ticket and made the deposit at the bank. On occasion, the bookkeepers remotely deposited some of the checks. Neither the former Supervisor nor an independent individual reconciled the supporting documentation for the collections received and deposited to the cash receipts recorded in the computerized accounting system by the bookkeepers.

Because the former Supervisor did not provide oversight of the bookkeepers, we reviewed and compared the cash receipts listed on the highway and general fund bank statements totaling \$4.9 million with the records and supporting documentation available and determined these cash receipts were deposited appropriately. In addition, we tested 10 of the 93 water and sewer customer payments totaling \$1,752 made in June 2020 and October 2021 and determined they also were deposited appropriately.

Cash Disbursements – The bookkeepers prepared the monthly claim vouchers and abstracts instead of the Town Clerk (Clerk), printed checks and recorded disbursements in the cash disbursements journal without oversight. The Clerk’s sequential numbering of claim vouchers and independent preparation of the abstracts not only facilitates the identification of payments, but also strengthens the claims approval process by including someone independent of the custody of cash.

Although the former Supervisor signed checks and the Deputy Supervisor signed in his absence, neither compared the cash disbursements to the abstracts. Further, the former Supervisor signed the biweekly payroll reports prepared by the bookkeepers without verifying that the information was correct.

Although the Board audited claim vouchers each month and reviewed the abstracts inappropriately prepared by the bookkeepers instead of the Clerk, the bookkeepers did not prepare claim vouchers for all disbursements and did not list all claim vouchers on the abstracts presented to the Board for review and approval. However, when comparing bank disbursements for all operating funds totaling \$2.31 million in 2020 and \$2.32 million in 2021 to the total amount listed on the abstracts, we found only minor differences.

To determine whether the Supervisor disbursed cash after proper Board approval of claims, we randomly selected the months of March and November 2020 and February and June 2021 bank statements for disbursement testing. We reviewed the claim vouchers and Board-approved abstracts for the 273 disbursements listed on the bank statements totaling \$1.15 million and found all were appropriate Town expenditures, except for the former bookkeeper's dental and vision insurance premium.

In 2020, the former bookkeeper received dental and vision insurance through the Town and paid 10 percent of the premium cost. In 2021, the former bookkeeper paid 100 percent of the premium cost through payroll deduction while serving as the Court clerk. There was no documentation in Board meeting minutes, an employee handbook or her personnel file that indicated the former bookkeeper was eligible or authorized to receive dental and vision insurance benefits. The former Supervisor stated that he was unaware the former bookkeeper received the dental and vision insurance or that the Town was subsidizing the cost. Furthermore, there is no documented justification for the 10 percent paid in 2020 versus the 100 percent paid in 2021. The former bookkeeper paid \$126 of the \$1,254 2020 annual premium.

The findings regarding the former bookkeeper were referred to outside law enforcement for review.

Because the Board did not approve highway employees' pay rates during the audit period or a salary schedule for 2021, we randomly selected the payroll reports for January and April 2020 and February and June 2021 for review and determined the amounts paid to employees and officials appeared reasonable. However, without Board-approved pay rates and salary schedules, there is an increased risk that the Supervisor could disburse cash improperly, and employees and officials could receive compensation and benefits they are not entitled to.

Online Banking – The bookkeepers performed online bank transactions, such as transfers between bank accounts, wire transfers, ACH debits for payroll direct deposits, and remote check deposits with no Supervisor oversight and did not receive cybersecurity training. The current bookkeeper stated that she was the initiator and secondary authorizer for wire transfers and the former Supervisor stated that he did not access online banking. In addition, officials did not create a new online banking user account for the current bookkeeper. Instead, the current bookkeeper just changed the former bookkeeper's user account password.

There was no documentation ... that indicated the former bookkeeper was eligible or authorized to receive dental and vision insurance benefits.

We reviewed all bank account transfers totaling \$2.8 million in 2020 and \$1.2 million in 2021 and determined they were appropriate. However, the Board did not approve the annual amount transferred into a health reimbursement account for each highway employee and Board members were unaware of the amount that should be transferred for each individual. In 2020, the former bookkeeper transferred \$74,250, and in 2021, the current bookkeeper transferred \$63,000 into the health reimbursement account.

In addition to the lack of Supervisor oversight, the Town did not have a written online banking policy that provided users a detailed approval process to verify the accuracy and legitimacy of online banking transactions, online banking duties were not adequately segregated and authorized access to bank accounts was not limited. Further, a dedicated Town computer was not used for online banking transactions.

Officials also could not provide written banking agreements for all bank accounts and had to contact the bank to obtain them. The agreements did not identify the names and numbers of the bank accounts from which transfers may be made, identify individuals authorized to request the transfer of funds, or detail security procedures to verify payment orders or detect errors in transmission or content of the payment order.

Without a written online banking policy and adequate written agreements, officials cannot ensure that employees are aware of their responsibilities or that funds are being adequately safeguarded during online transactions. As a result, users could unintentionally expose online bank accounts to threats from malicious software and misappropriate funds without detection.

What Do We Recommend?

The Supervisor should:

1. Provide adequate supervision over the bookkeeper to ensure the bookkeeper timely and completely records financial transactions and prepares bank reconciliations for his review.
2. Ensure the Board is provided accurate and timely financial reports each month, including reconciled cash balances by fund.
3. File the late AUDs and ensure future AUDs are filed in a timely manner.
4. Ensure the bookkeeper is provided appropriate financial training.

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5. Annually present monthly financial records and reports along with supporting documentation to the Board for audit.
 6. Reconcile supporting documentation for the collections received and deposited to the receipts recorded in the accounting system and included on the monthly reports.
 7. Compare the check disbursements to abstracts prior to signing the checks.
 8. Review payrolls and compare to disbursements to ensure individuals were paid appropriately.
 9. Compare disbursements via ACH debits to certified payrolls and authorize them prior to payment.
 10. Ensure that the bookkeeper uses a dedicated computer for online banking transactions.
 11. Create a new online banking user account for the current bookkeeper.
 12. Ensure duplicate receipts are properly issued.
 13. Enable notifications and other security measures available from the banks, including secondary approvals and email notifications every time an online transaction occurs.

The Clerk should properly prepare:

14. Sequentially-numbered claim vouchers and certify the abstract of audited claims.

The Board should:

15. Establish written policies and procedures for cash receipts and disbursements that adequately establish controls to safeguard cash.
16. Ensure disbursements are proper and presented to the Board for approval before payment, except where allowed by statute.
17. Consult with legal counsel on how the Town should address the unauthorized benefits provided to the former bookkeeper.
18. Approve all employee pay rates, salaries and benefits.
19. Adopt a written online banking policy that provides users a detailed approval process to verify the accuracy and legitimacy of online banking transactions.

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20. Ensure written banking agreements reflect current operations and provide for adequate controls over online banking transactions.
 21. Ensure cybersecurity awareness training is provided to officials and employees.

Appendix A: Response From Town Officials

Town of Dix

Town Hall – 304 Seventh Street, Watkins Glen, NY 14891
Telephone: (607) 535-7973 Fax: (607) 535-2590

Town Clerk, Extn. 201

Administration, Extn. 202

Code Enforcement, Extn. 205

Date: 5/15/23

Office of the State Comptroller

Division of Local Government and School Accountability


To whom it may concern,

The Town of Dix Board is in receipt of the preliminary draft findings for the audit of the Supervisor's Control of Cash. The Town Board's response to the findings of the Supervisor's Control of Cash is as follows.

The Town of Dix Board agrees with the findings in the audit report and that we will ensure that all policies set forth will be complied with or developed quickly to eliminate any issues highlighted in this report. We will be asking that the Bookkeeper sends to the Board a detailed report of all accounting records for each month for the Board to review and approve at its monthly meeting. We will assist the bookkeeper and Supervisor in all corrective actions that are needed.

As Supervisor I will ensure that all reports will be provided to the Board to review at monthly meetings. I will also get the past AUD reports caught up and filed. 2020 has been submitted and approved already. Also, A Petty Cash policy is in place along with Receipt Book is being used. There are many items that have been implemented in this report since I took office in 1/22. The biggest is having a two-step process for banking process, where the bookkeeper initiates it, and the Supervisor approves it.

Sincerely,

 Dominick Smith

Town of Dix Supervisor

CC:

Joe Hammond

Jeff Mehan

David Hertel

Brian Ervay

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 Board meeting minutes to obtain an understanding of the Supervisor's cash collection and disbursement processes, and the Board's annual audit procedures and approval of health insurance and premium contributions for officials and employees and health reimbursement account contribution.
- We reviewed bank statements for all Town accounts for 2020 and 2021 to determine whether the former Supervisor prepared and reviewed monthly reconciliations.
- We obtained and reviewed the July 2, 2021 withdrawing letter from the external auditors to the former Supervisor.
- We reviewed available monthly Supervisor's financial reports to determine whether they were prepared and provided to the Board.
- We reviewed the AUD filing dates with OSC to determine whether the AUDs were filed in a timely manner.
- We compared cash receipts from the bank statements to the Supervisor's records and other third-party supporting documents (e.g., Town Clerk and Justice monthly reports, Code Enforcement Officer's permits, New York State and Schuyler County payments, property tax warrants, and the Office of the State Comptroller Justice Court Fund invoices) to determine whether cash receipts were properly deposited from January 1, 2020 through December 31, 2021.
- We randomly selected 10 of the 93 water and sewer customer payments for June 2020 and October 2021 totaling \$1,752 using a random number generator to determine whether water and sewer payments were deposited.
- To determine whether disbursements were approved by the Board, we compared the total bank disbursements totaling \$4.6 million to the 2020 and 2021 Board-approved abstracts. We also compared the total bank disbursements to the 2020 claim vouchers and the first six months of 2021 claim vouchers. We only reviewed the first six months of 2021 claim vouchers because there was only one variance between the claim vouchers and the adopted abstracts which was adequately supported.
- Using computerized techniques, we randomly selected March and November 2020 and February and June 2021 and tested the 273 bank statement disbursements totaling \$1.15 million to determine whether they were appropriate Town expenditures.

-
- Using computerized techniques, we randomly selected January and April 2020 and February and June 2021 and compared Board-approved pay rates to payroll records, to determine whether employees and officials were paid accurately.
 - We interviewed the current bookkeeper and observed the online banking logon and logoff procedures.
 - We requested the Town's written banking agreements and reviewed those provided by the bank to determine any security procedures and authorized personnel for online banking.
 - We reviewed all 2020 and 2021 bank transfers totaling \$4 million to determine whether they were appropriate.

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 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

Contact

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