

Village of Hamburg

Recreation Department Cash Receipts – Cash Shortage

MAY 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Hamburg

Audit Objective

Determine whether Recreation Department (Department) cash receipts were properly recorded, reconciled and remitted in a timely manner.

Key Findings

- From August 1, 2011 through November 30, 2017, the recreation attendant (attendant) did not remit Department cash collections of approximately \$170,000 for deposit.
- OSC's Division of Investigations in conjunction with the Erie County District Attorney's Office jointly investigated this matter. In October 2018, the attendant admitted stealing more than \$150,000 from the Village and altering public records from 2011 through 2017. She pleaded guilty to grand larceny, false filing and official misconduct in October 2018 and was sentenced in March 2019. As part of her sentence, she repaid the Village \$156,374.
- The Board did not ensure there were adequate controls over Department cash receipts. The attendant performed the majority of Department bookkeeping and cash reconciliation functions with minimal oversight.

Key Recommendations

- Adopt policies and develop procedures for the collection and accounting of Department cash receipts.
- Ensure that cash collections are properly receipted, documented and accounted for.

Village officials agreed with our recommendations and have initiated or indicated they planned to initiate corrective action.

Background

The Village of Hamburg (Village) is located in the Town of Hamburg in Erie County (County).

The Village is governed by an elected Board of Trustees (Board) composed of four Trustees and the Mayor. The Board is responsible for the general management and control of Village finances and safeguarding assets.

The Mayor is the Village's chief executive officer and appoints all non-elected officers subject to the Board's approval. The Village Treasurer¹ (Treasurer) is the chief fiscal officer and is responsible for maintaining custody of all funds.

The Department provides a variety of recreation programs and services to residents and the surrounding community. A Recreation Supervisor (Supervisor) oversees operations with the assistance of three full-time office staff.

Quick Facts

2016-17 Department Revenue	\$313,000
2017-18 Department Budget	\$720,000
Population	9,590

Audit Period

August 1, 2011 – December 20, 2017. We extended our audit scope period back to June 1, 2010 to review cash collections and deposits.

¹ The Treasurer's official title is Village Administrator/Clerk-Treasurer

Recreation Department Cash Receipts

Department staff oversee the Village parks, playgrounds, swim center, youth center and community center. The Department provides various youth, athletic and educational programs, such as after school and summer programs, flag football, an annual golf tournament, swim center memberships and facility rentals. Residents and non-residents are charged a fee for program participation.

Department staff accept only cash or checks and prepare a press-numbered duplicate receipt as evidence of payment. One receipt copy is provided to the customer and the other copy is retained. The attendant is responsible for various Department accounting duties including collecting fees, writing receipts, reconciling the cash drawer, preparing cash collections for deposit and organizing and storing the Department's receipt copies.² On August 1, 2011, the Board promoted a part-time recreation employee to the full-time attendant position.

Cash and checks collected are remitted to the Treasurer for deposit. A clerk in the Treasurer's office verifies the amount submitted and provides the Department with a receipt as confirmation of the amount remitted.

How Should Village Officials Safeguard Cash Receipts?

The Board, together with the Mayor, Treasurer and Supervisor, is responsible for providing adequate Department oversight. This includes establishing internal controls to provide reasonable assurance that cash is safeguarded and financial transactions are properly recorded. Such controls should include adopting written cash receipt policies, segregating key duties to ensure that one employee does not perform all phases of a transaction, using press-numbered duplicate receipts, ensuring that transactions are properly recorded and accounting records are up-to-date, complete and accurate.

The Supervisor is responsible for overseeing financial operations, the programs and services offered and ensuring that personnel follow Board policies and procedures. Accordingly, the Supervisor must ensure that all cash collected is properly accounted for, receipted, recorded and remitted to the Treasurer in a timely manner.³

Collection, Receipting and Remittance Procedures Were Inadequate

The Board and Village officials did not establish adequate internal controls over Department cash receipts. The Board did not adopt written cash receipt policies, cash receipt duties were not properly segregated and the Supervisor did not

² The attendant was responsible for organizing receipts sequentially, bundling them in groups of 100 and securing them in a storage room.

³ The Board may establish guidance in a written cash receipts policy that follows the statutory guidance established for the treasurer in New York State Village Law, Section 4-408 (10 days). Alternatively, it may require more frequent deposits. From an internal control perspective, the best approach is to deposit money as soon as possible. The longer money remains undeposited, the greater the risk that loss or theft can occur.

adequately oversee the cash receipt function. As a result, the attendant had almost complete control over the cash receipts without adequate oversight.

Although cash receipts were collected by several Department employees, the Attendant was the only person⁴ involved in the cash receipts reconciliation process. She did this task with minimal supervisory review or oversight. Cash and checks were collected from customers by Department employees who would generally complete press-numbered receipts with pertinent information such as customer name, program, amount collected, form of payment (cash or check) and collection date. The collections and receipts were then placed in an unlocked drawer in the Department office.⁵

The attendant would count the collections and compare them to the press-numbered receipts. She then created a summary cash report indicating the total fees collected by program or account code. However, the attendant prepared these reports sporadically and did not submit the collections and report to the Supervisor on any predetermined basis (e.g., daily or weekly).

The Supervisor would take the collections and report to the Treasurer for deposit, but did not verify that the amounts provided were supported by the receipts or matched the report. The reports did not include any evidence to support the source and amount of the funds remitted to the Treasurer, such as corresponding receipts or a detailed itemized list showing the amount collected from each customer. Additionally, Village and Department officials did not periodically confirm that cash collections, as reported by the attendant, matched the amount collected according to the corresponding press-numbered receipts.

Department officials did not maintain a list of daily cash receipts and the primary method of recording individual cash receipts was the duplicate receipt copy. However, Department employees did not always issue duplicate receipts for all cash collected or for checks received by mail. Allowing the attendant to have custody of cash receipts and be responsible for reconciling the cash drawer and recordkeeping without adequate oversight increases the risk that cash receipts may not be deposited or that errors or irregularities could occur and remain undetected and uncorrected.

Cash Receipts Were Not Remitted or Deposited

We compared the amounts deposited and shown in the attendant's reports to the press-numbered receipts from August 1, 2011 through November 30, 2017. We

4 From August 1, 2011 through September 28, 2017, the attendant prepared all cash reports, except for the four reports prepared in January 2017 by another Department employee. It should be noted that we did not identify any cash shortages when this employee prepared the cash reports in January 2017.

5 Village officials indicated that the standard procedure is that collections and receipts are locked in a desk at the end of each day.

found that the attendant regularly prepared inaccurate reports and reported less cash than the amount received by Department employees.

While collections paid by check were generally reported accurately, receipted cash was consistently under reported. For example, on November 16, 2016, the attendant's report showed that \$485 in cash was collected from the approximate period of November 1, 2016 through November 15, 2016. However, receipts written during this period showed that collections paid in cash totaled \$1,575, a difference of \$1,090. For the seven years that the attendant was responsible for reconciling the cash drawer, she under reported the amount of cash collected and receipted on a regular basis.

From August 1, 2011 through November 30, 2017, we reviewed approximately 2,000 receipts⁶ issued by Department employees for cash collections totaling approximately \$264,000.⁷ We estimate that additional unreceipted cash of \$14,000 was collected for swim gate fees during this period. However, the attendant reported cash collections of approximately \$107,700,⁸ a cash shortage of more than \$170,000. During this period, less than half the amount of cash receipted by employees was remitted to the Treasurer. Officials implemented new procedures in the Department starting in September 2017. We did not identify any cash discrepancies once these new procedures were implemented.

Figure 1: Recreation Department Cash Receipts 2011 - 2017

Fiscal Year	Cash Received ^a	Estimated Unreceipted Swim Revenue ^b	Total Cash Received	Cash Remitted to the Treasurer ^c	Shortage
August 2011 – May 2012	\$24,780	\$2,000	\$26,780	\$9,312	\$17,468
June 2012 – May 2013	\$36,155	\$2,000	\$38,155	\$13,393	\$24,762
June 2013 – May 2014	\$33,700	\$2,000	\$35,700	\$8,603	\$27,097
June 2014 – May 2015	\$40,790	\$2,000	\$42,790	\$10,510	\$32,280
June 2015 – May 2016	\$42,543	\$2,000	\$44,543	\$17,913	\$26,630
June 2016 – May 2017	\$55,186	\$2,000	\$57,186	\$25,323	\$31,863
June 2017 – November 2017	\$30,945	\$2,000	\$32,945	\$22,671	\$10,274
Totals	\$264,099	\$14,000	\$278,099	\$107,725	\$170,374

a According to available recreation receipts

b Based on 2010-11 gate fee revenue

c According to the cash report and receipts

6 Receipts that indicated cash was collected. We excluded from our analysis receipts that indicated checks were received.

7 Because there were approximately 1,700 receipts missing from a total of approximately 11,000 receipts (cash and checks) issued by the Department, we were unable to fully analyze cash collections for this period.

8 Because of missing receipts, not all cash remitted to the Treasurer was included in this amount. We did not include any cash that was remitted when there were large gaps in the sequence numbers of missing receipts.

The Supervisor told us that the attendant never reported any discrepancies when she was reconciling the cash drawer. When asked to explain the cash shortages, the attendant had no reasonable explanation. She told us that she always ensured that the amount of cash and checks reported on the report matched the total in the cash drawer and the corresponding receipts. She also told us that she never noticed a discrepancy between cash totals and receipt totals when reconciling the drawer.

Due to the lack of oversight and inadequate documentation of financial activity, the attendant was able to misreport the amount of cash collected and receipted without detection.⁹ OSC's Division of Investigations in conjunction with the Erie County District Attorney's Office jointly investigated this matter.

The Attendant Did Not Properly Perform Job Duties or Maintain Adequate Records

In addition to reconciling the cash drawer, the attendant was responsible for accounting duties such as maintaining a manual record of revenues by program (i.e., journal book), recording swim gate fees and organizing and securing the Department's copies of receipts and other records. We found that she did not properly perform these job duties and may have destroyed or removed Department records.

Swim Gate Fees – The Village's swim center allows guests to use the pool by paying a \$5 daily entrance (gate) fee. These fees must be paid in cash and receipts are not provided to guests. However, a pool attendant documents the guest's name and contact information on a sign-in sheet and records daily attendance counts and cash collections on a daily report. The report, sign-in sheets and cash collected are picked up by a Department employee and given to the attendant for processing. The attendant was responsible for recording daily attendance information and gate fees received in a computerized spreadsheet, filing this documentation and ensuring that the money collected was included on the summary cash reports and remitted to the Treasurer.

We requested the daily swim reports, sign-in sheets and spreadsheets for the last seven years. However, the Supervisor was unable to locate these reports and told us that the reports for the previous seven years were missing and appeared to have been removed from the storage room. In addition, a Department employee opened the swim gate fee spreadsheets maintained on the attendant's computer and found that the columns that recorded attendance and associated revenues collected from gate fees had been deleted.¹⁰ When the Supervisor asked the

⁹ From August 1, 2011 through approximately August 31, 2017. New controls and procedures were implemented as of September 1, 2017.

¹⁰ The date the spreadsheet files were modified was the same date we informed Department officials that we planned to audit cash receipts.

attendant about this, she offered no explanation for the missing and altered records.

Based on entries made in 2010 by the previous attendant, we conservatively estimate that annual revenue from swim gate fees was at least \$2,000 per year.¹¹ We found that, since July 2011, swim fees were not documented on the report, entered in the journal book or reported to the Treasurer.¹²

Missing Entries and Receipts – The attendant was responsible for making entries to record revenues by the specific program or activity in the journal book. Entries were handwritten and maintained in a binder. We reviewed entries for 2016-17 and found that the attendant stopped making entries soon after the start of the fiscal year (June 1, 2016) because very few entries were made after June 30, 2016. In addition, the attendant's entries were inaccurate because she based them on her report and did not include all cash received by Department employees.

Additionally, we found that numerous receipts were missing. When we requested all receipts written from June 1, 2010 through November 30, 2017, we found that they were unorganized and included several years with gaps of missing receipts. For example, all of the receipts from September and October 2014 were missing. Of approximately 11,000 receipts written for cash or checks during this period, 1,700 were either missing or unaccounted for.

Untimely Deposits – The Board did not adopt written policies and the Supervisor did not establish procedures to ensure that all cash was deposited timely. Instead, the attendant was allowed to determine when the cash drawer would be reconciled and receipts would be deposited. Consequently, the drawer was generally not reconciled on a regular basis resulting in excessive amounts of cash being retained for extensive periods.

From June 1, 2016 through May 31, 2017, we found seven instances when more than \$10,000 (cash and checks) and three instances when more than \$20,000 (cash and checks) were left in the Department office without the attendant performing a reconciliation. During this period, an average of 13 days elapsed between reconciliations and remittance to the Treasurer and in two instances more than 20 days elapsed. Because Department officials did not reconcile the drawer in a timely manner, assets were at an increased risk of loss or theft.¹³

11 During 2010-11, swim fees were \$4 per guest and guest use was more limited. Therefore, we would expect current revenues would likely be much more than \$2,000 per year.

12 The previous attendant who retired as of August 1, 2011, documented swim fees on the cash report and also recorded these revenues in the journal book.

13 Once cash from the Department was remitted to the Treasurer, it was generally deposited within two days.

The attendant was able to misappropriate a significant amount of cash without detection because the Board and Village officials did not provide sufficient oversight of Department financial activities. The attendant did not provide a reasonable explanation for any of the discrepancies identified in this report. Our Division of Investigations notified the County District Attorney of the attendant's misappropriation in November 2017. Village officials placed the attendant on paid administrative leave and eventually terminated her employment. Because of the numerous missing receipts and records, the actual cash shortage is most likely greater than the amounts identified in this report.

In October 2018, the attendant admitted stealing more than \$150,000 from the Village and altering public records from 2011 through 2017. She pleaded guilty to grand larceny, false filing and official misconduct in October 2018 and was sentenced in March 2019. As part of her sentence, she repaid the Village \$156,374.

What Do We Recommend?

The Board and Village officials should:

1. Adopt written policies and develop procedures for the collection and accounting of Department cash receipts that address segregating duties and provide guidance for recording, reconciling and depositing fees.

The Supervisor should:

2. Ensure cash collections are properly receipted and recorded at the time of collection and adequately secured until deposit.
3. Provide proper oversight of the cash receipt process and ensure an employee other than the attendant reconciles the cash report, press-numbered receipts and deposit.
4. Ensure money is remitted to the Treasurer in a timely manner.

Appendix A: Response From Village Officials

VILLAGE OF HAMBURG

MAYOR

THOMAS J. MOSES, SR.

TRUSTEES

THOMAS P. TALLMAN
PAUL G. GAUGHAN
LAURA PALISANO HACKATHORN
MARK C. DIPASQUALE

ATTORNEY

EDWARD J. MURPHY, III

ADMINISTRATOR/CLERK-TREASURER

DONALD P. WITKOWSKI



VILLAGE JUSTICE

ANDREW P. FLEMING

CHIEF OF POLICE

MICHAEL C. MELISZ

RECREATION SUPERVISOR

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May 1, 2019

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Division of Local Government and School Accountability
295 Main Street, Suite 1032
Buffalo, New York 14203-2510

RE: Village of Hamburg
Recreation Department Cash Receipts
Audit Report # 2018M-104

Dear Mr. Mazula:

The Village of Hamburg has received the above referenced audit report for the period June 1, 2010 – December 20, 2017. Please let this correspondence serve as both our response and corrective action plan.

The Village accepts the report and appreciates the diligence of your auditors in uncovering a problem and providing us with guidance to strengthen controls surrounding cash receipts within the Recreation Department.

The Village's Corrective Action Plan is as follows:

Audit Recommendation - 1:

Adopt policies and develop procedures for the collection and accounting of Department cash receipts.

Implementation Plan of Action:

The Village Board of Trustees will develop and adopt written policies and procedures for the collection and accounting of Department cash receipts.

Implementation Date:

Within 90 days of the final audit report being issued by the Comptroller's Office.

Person Responsible for Implementation:

Policies and Procedures to be developed by the Village Administrator, adopted by the Village Board, and implemented by Department Heads.

Audit Recommendation -2:

Ensure that cash collections are properly received, documented and accounted for

Implementation Plan of Action:

Village wide procedures for cash collection will be developed and implemented. Procedures that have been implemented to date in the Recreation Department include the issuance of numbered receipts for all transactions, daily reconciliation of cash receipts, daily reconciliations are performed by two employees, and funds collected are deposited with the Treasurer's office on a more frequent basis. In addition the department has reduced the number of cash transactions through the implementation of a system that allows users to pay fees by credit card. Employees that handle cash will be trained in the new procedures.

Implementation Date:

Procedures were implemented in the Recreation Department immediately upon notification by the State Comptroller (September 1, 2017). Modification to these procedures and implementation of procedures for all Village Departments will occur within 30 days of adoption of the policies and procedures by the Village Board.

Person Responsible for Implementation:

Village Administrator and Department Heads.

The Village Board of Trustees takes its fiduciary responsibilities seriously. We understand that we are stewards of the public's funds and would like to thank you and your staff for helping the Village mitigate our risk through the strengthening of our internal controls.

Sincerely,



Thomas J. Moses, Sr.
Mayor

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 Village officials and employees to gain an understanding of the processes and procedures in place for accepting, recording and accounting for Department cash collected and receipted and remitted to the Treasurer's office.
- We performed a Department cash count to document all cash on hand on September 11, 2017.
- We requested all available Department receipts from June 1, 2010 through November 30, 2017. We identified and documented any missing receipts.
- We documented cash collections from June 1, 2010 through November 30, 2017 according to Department receipts. We documented the program or activity listed on the receipt, the individual who accepted payment and whether payment was made by cash or check.
- We requested the Treasurer's receipts from June 1, 2010 through November 30, 2017 to determine whether they were accounted for in sequence.
- We documented revenue remitted to the Treasurer from June 1, 2010 through November 30, 2017 according to the attendant's cash reports and the Treasurer's receipts. We identified how much was remitted in cash and checks. We also identified which account code was credited according to the reports.
- We determined whether all money remitted by the Department to the Treasurer from June 1, 2016 through May 31, 2017 was properly deposited.
- For the period June 1, 2010 through November 30, 2017, we compared the amount collected according to Department receipts to the amount remitted to the Treasurer based on the date the receipt was written and the date the money was remitted to the Treasurer. We documented any discrepancies between collections and the amount remitted.
- For the period June 1, 2010 through November 30, 2017, we identified any money remitted to the Treasurer when a Department receipt was not written and adjusted our analysis accordingly. When periods included large gaps of missing receipts we eliminated them from our testing.
- We requested accounting records; swim center daily reports, sign-in sheets and spreadsheets; after school program registration forms; and flag football registration forms for 2010-11 through 2016-17.
- We performed reliability testing to provide reasonable assurance that the payment method as marked on Department receipts could be relied upon.

We did this by examining bank compositions for three Department bank deposits totaling \$56,300 made on April 28, 2017, May 12, 2017 and May 30, 2017. We judgmentally selected these dates because they consisted of some of the larger deposits made by the Department during the 2016-17 fiscal year. We matched checks on the bank composition to Department receipts based on the last name and other notations on check. Testing indicated that collections paid by check were generally properly remitted to the Treasurer. As a result, we concentrated our audit procedures on collections that were paid by cash.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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 relevant population size and the sample selected for examination.

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 Village Clerk-Treasurer's¹⁴ office.

¹⁴ The Treasurer's official title is Village Administrator/Clerk-Treasurer

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/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/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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