

Village of New Paltz

Internal Controls Over Building Department Operations

DECEMBER 2017



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

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Report Highlights

Village of New Paltz

Audit Objective

Determine whether Village officials established adequate internal controls over Building Department operations.

Key Findings

- The Board and Village officials did not segregate code enforcement duties.
- The Building Department did not always issue press-numbered receipts.
- Money was not always remitted in a timely manner.
- Financial reports were not prepared and submitted to the Board.

Key Recommendations

- Segregate duties or increase oversight of the code enforcement duties.
- Ensure that press-numbered receipts are issued for all revenue collected.
- Ensure that all collections are remitted timely.
- Ensure that financial reports are prepared and submitted to the Board.

Village officials agreed with our recommendations and indicated they are in the process of initiating corrective action.

Background

The Village of New Paltz (Village) is located in the Town of New Paltz in Ulster County.

The Village is governed by an elected Board of Trustees (Board) composed of four Trustees and the Village Mayor. The Board is responsible for the general management and control of Village finances and overseeing financial activities including those of the Building Department. The Building Department has a building inspector, who has responsibility over Department operations, one code enforcement officer (CEO) and a part-time fire inspector.

Quick Facts

2015-16 Fire and Safety Inspection Fees revenue	\$95,826
Population	7,070
Area square miles	1.72

Audit Period

June 1, 2015 – April 13, 2017

Building Department Operations

What Internal Controls Should Be in Place?

The Board and Village officials are responsible for establishing an internal control system to ensure that Department fees are properly collected, recorded and safeguarded, as well as timely remitted and deposited. To fulfill this duty, it is essential that the Board establish procedures to ensure that incompatible duties are segregated, transactions are authorized and properly recorded and policies and procedures for collecting and processing fees are adopted and implemented.

It is also important for the Board to establish policies and procedures to help ensure that all cash receipts are deposited within 10 days as required by New York State Village Law. To ensure that money is properly accounted for, Village officials should issue duplicate press-numbered receipts to payers when collecting revenue. Receipts should be retained along with other adequate supporting documentation to help ensure transactions are traceable from the point of collection to the accounting records and are deposited intact and in a timely manner.

In addition, Village Code requires that the CEO and building inspector annually submit to the Board a written report and summary of all business conducted, including permits and certificates issued, fees collected, orders and notices promulgated, inspections and tests made and appeals or litigation pending. While it is the Building Department officers' responsibility to complete and file annual reports, the Board should have procedures in place to ensure the Building Department officers complete and submit them in a timely manner.

Duties Were Not Segregated

The Board did not adequately segregate the CEO's duties related to cash receipts, which resulted in the CEO performing incompatible duties, including collecting cash, recording receipts and preparing bank deposits. The CEO opens mail, takes in cash receipts, prepares deposits slips, records revenues, issues permits and performs inspections, as well as prepares reports to the Board.

The Board did not mitigate this risk by implementing compensating controls, such as having cash collected reconciled against collections recorded. Because incompatible duties are not segregated and there is no supervisory monitoring, the Village has an increased risk that cash receipts relating to the Building Department could be lost, stolen or misappropriated without detection.

There Was No Fee Collection Process

The Board has not adopted policies and Village officials have not developed written procedures over the Building Department's cash receipts functions.

Due to these weaknesses, Building Department staff did not always record collected funds properly or issue press-numbered receipts. Without established policies and procedures, there is an increased risk that Building Department cash receipts will not be properly accounted for.

Building Department Funds Were Not Properly Recorded – The CEO collected Building Department funds, issued duplicate receipts for cash payments received, entered receipt amounts into the computerized Department management software and prepared the monthly reports to the Board. The CEO also prepared deposit slips for all funds collected.

To determine if collections were properly recorded, we reviewed one month of financial activity reported from the Building Department's computerized management software and traced each entry to the cash receipts log. The CEO did not keep a complete and accurate record of the receipt of all Village funds received in the Building Department's computerized management system, and did not maintain adequate records and reports.

We identified the following discrepancies during our review of cash receipts as compared to the computerized management system for June 2016:

- The cash receipts log, deposit slip and bank deposit receipt all reported \$15,459 of receipts while the computerized management system's monthly financial report showed \$12,126 of income; a difference of \$3,333.
- When comparing the specific transactions reported in the cash receipts log to what was in the computerized management system, the electronic records over-reported \$100 for a certificate of occupancy search revenue and under-reported inspections and permits revenue by \$800.
- There was one instance of a press-numbered receipt provided for a check received. However, the transaction was not recorded in computerized management system, or the cash receipt log until nearly a month later.

These discrepancies occurred because the Board has not clearly communicated that records should be completely and accurately recorded in the Department's computerized management system records as soon as practicable from the date cash is received.

Because Building Department staff did not properly record cash when received, the Village has an increased risk that cash receipts could be lost, or misappropriated without detection. In addition, without accurate records and reports, the Board cannot make informed financial decisions.

Press-Numbered Receipts Were Not Always Issued – Building Department personnel do not issue duplicate receipts for payments received in the mail or by check; only for cash received. While the CEO maintains a manual cash receipts log that notes the date, payee and amount of payment, this log is not periodically reviewed and is not a sufficient alternative to issuing press-numbered receipts for transactions.

We examined seven months of deposit slips to determine if cash received was recorded with a press-numbered receipt. Deposit slips for the seven months included \$650 of cash received. However, we found that press-numbered receipts were not issued for \$100 collected.

These discrepancies occurred because the Board has not clearly communicated appropriate methods to collect, record and remit cash receipts by adopting and disseminating a comprehensive cash receipts policy. As a result, the Village has an increased risk that cash could be collected but not recorded.

When Building Department staff do not record the collection of all receipts in a press-numbered duplicate receipt book that is routinely reviewed by an individual outside of the collection process, the Village has an increased risk that cash receipts could be lost, stolen or misappropriated without detection.

Remittances Were Not Always Made in a Timely Manner

We examined seven months of collections (10 deposits totaling \$79,598 and 362 cash receipts) to determine if they were recorded in the cash receipts log; deposited intact into the appropriate bank account in a timely manner, included in the Village's general ledger; and remitted from the Building Department to the Treasurer in a timely manner. We found that all receipts were accurately recorded, reported and deposited intact and timely by the Treasurer upon receipt. However, a total of 66 cash receipts totaling \$12,391 were remitted by the Building Department to the Treasurer 11-20 days late, and a total of 116 cash receipts totaling \$37,431 were remitted to the Treasurer more than 20 days late.

These receipts were remitted late because Board and Village officials did not institute proper procedures to ensure that remittances were timely. When remittances are not made to the Treasurer in a timely manner, money remains undeposited for a longer period of time and there is an increased risk that amounts collected could be misappropriated.

Reports Were Not Always Prepared

The CEO and building inspector did not prepare the monthly reports for the Board until March 2017. In addition, annual reports to the Board were not performed by the CEO and building inspector as required by Village Code.

This occurred because the Board and Village officials did not institute proper procedures to ensure that the necessary reports were prepared and provided to the Board. When reports are not prepared, it increases risk that Building Department money may not be properly accounted for, and differences between the revenues and cash on hand may not be identified.

When adequate internal controls are not implemented over the cash receipt process, the Board and Village officials run the risk that all cash receipts may not be remitted. Additionally, without adequate procedures and reports, it makes it more difficult for to the Board to monitor the Building Department.

What Do We Recommend?

The Board and Village officials should:

1. Ensure that the CEO's duties are adequately segregated or implement compensating controls such as increased supervisory review of the CEO's work.
2. Develop and adopt written policies and procedures for collecting, processing, recording and depositing cash receipts.
3. Ensure that a complete and accurate record of cash receipts is recorded in the Building Department's computerized management system records as soon as practicable.
4. Ensure that the Building Department staff issue duplicate receipts for all money collected.
5. Ensure that the CEO remits all cash receipts collected to the Treasurer on a timely basis.
6. Ensure that monthly and annual reports are prepared and documented.

Appendix A: Response From Village Officials



Tim Rogers, Mayor

KT Tobin, Deputy Mayor

Trustees: Don Kerr, Dennis Young & William Murray

*Nancy Branco
Treasurer*

*Gene Bleu Terwilliger
Superintendent Public Works*

*Alberta G. Shaw
Village Clerk*

December 11, 2017

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, N.Y. 12553-4725

Dear Chief Examiner Blamah:

On behalf of the Village of New Paltz, I am writing to acknowledge receipt of the Office of the State Comptroller's Report of Examination of Internal Controls of the Village of New Paltz Building Department.

The Village of New Paltz is in agreement with your findings and recommendations that were presented. We have addressed the findings in the report and have attached a corrective action plan.

The Village would like to thank you and your staff for their professionalism and thorough audit.

Sincerely,

Timothy Rogers
Mayor

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Corrective Action Plan:

Internal Controls Over Building Department Operations:

1). Segregation of duties, not using pre-numbered receipts, money not being remitted in a timely manner.

Action Plan

Duties have been segregated between the Building Inspector and the Code Enforcement Officer.

Pre-numbered receipts are being used at all times when either cash or check is received in the office.

Deposits are currently done on a weekly basis and approved by the Building Inspector. Code Enforcement Officer delivers deposits to the Treasurer's office with the proper supporting documentation. Treasurer's office verifies that the deposit prove to the report.

Effective February 1, 2018 all collections and deposits for the Building Dept., will be done by the Treasurer's office. We are currently in the process of meeting with the Building Dept. software vendor Muncity to see if the Treasurer's office can have limited access, so all payments can be recorded at time of receipt.

2). Financial reports were not prepared and submitted to the Board.

All required reports are now being submitted to the Board.

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, we performed the following audit procedures:

- We interviewed Village officials and employees to determine if policies and procedures were in place for Building Department operations.
- We judgmentally selected one month of financial information from the Department's computerized management system during our audit period and traced each entry to the cash receipts log, deposit slip and bank deposit receipt to determine if there were discrepancies.
- We judgmentally selected seven months of Building Department financial activity. To determine if deposits were made in a timely manner, we compared the receipt date from the duplicate receipts to the deposit date in the deposit records and bank.
- We judgmentally selected seven months of deposit slips and compared the information from the deposit records to the duplicate receipts to determine if press-numbered receipts were issued for cash collected.
- We judgmentally selected a month of cash receipts and compared the information from the deposit's check images to the cash receipts log, as well as to the press-numbered cash receipts issued for the month to determine if amounts and payers corresponded to the information recorded in the cash receipts log.
- We judgmentally selected violation appearance tickets issued but not included in the violation accounts receivable list maintained by the bookkeeper and traced the ticket to either a Justice Court remittance letter to the Village, a copy of check image and bank deposit receipt or a certificate of disposition from the Court.
- We judgmentally selected a fiscal year of rental registration inspections and reviewed the reconciliation of the cash receipts log to the Department's computerized management system for reasonableness.
- We interviewed Village officials and employees to determine if the building inspector and CEO prepared reports. We confirmed when reports were prepared by collaborating observation of the accountability.

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 size of the relevant population 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's office.

Appendix C: Resources and Services

Regional Office Directory

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

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

<http://www.osc.state.ny.us/localgov/costsavings/index.htm>

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

<http://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

<http://www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm>

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

<http://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

<http://www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf>

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

<http://www.osc.state.ny.us/localgov/finreporting/index.htm>

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

<http://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

<http://www.osc.state.ny.us/localgov/training/index.htm>

Contact

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