



Town of Schroon Internal Controls Over Transfer Station Operations

Report of Examination

Period Covered:

January 1, 2011 — July 31, 2012

2013M-24



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2013

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 Schroon, entitled Internal Controls Over Transfer Station Operations. 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 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 Schroon (Town) is located in Essex County and has a population of approximately 1,650. During the 2012 fiscal year, the Town had approximately 40 full- and part-time employees. The Town Board (Board) is comprised of four elected council members and an elected Town Supervisor (Supervisor). The Board is responsible for overseeing the Town's operations, finances, and overall management. The Supervisor, who serves as the Town's chief fiscal officer, is responsible for overseeing the financial management of the Town's moneys. The Board is responsible for general oversight of operations of the transfer station.

The Town provides general governmental services to its residents including the operation of a transfer station in cooperation with Essex County. The County owns all the equipment and contracts for hauling solid waste from the transfer station to the Franklin County Solid Waste Authority landfill (landfill). The Town provides the personnel to operate the transfer station and keeps all funds collected for disposing of trash at the transfer station. The Town accepts solid waste from all residents of Essex County and charges \$0.10 per pound for trash disposed of at the transfer station. Customers can pay for the disposal of trash by using a pre-paid punch card, purchasing a punch card at the transfer station, or paying the attendant with cash or a check without purchasing a punch card. Besides accepting solid waste directly from County residents, the solid waste collected in the neighboring towns of Minerva, Newcomb, and North Hudson is also brought to the Town of Schroon transfer station prior to being transported to the landfill. Annual revenues from the transfer station operations averaged \$77,956 for the five year period ending in December 2011.

Objective

The objective of our audit was to determine if internal controls over transfer station operations were adequate. Our audit addressed the following related question:

- Are internal controls over transfer station operations appropriately designed and operating effectively to safeguard Town assets?

Scope and Methodology

Our overall goal was to address the adequacy of the internal controls put in place by officials to safeguard Town assets. We determined that risk existed in the area of transfer station collections and, therefore, we assessed the controls over transfer station operations for the period January 1, 2011 to July 31, 2012. We extended the scope to January 1, 2009 to include transfer station revenues.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
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 initiate corrective action.

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

Transfer Station Operations

The Board is responsible for establishing adequate internal controls to properly safeguard the Town's assets including those at the transfer station, especially cash. Procedures should be established that provide reasonable assurance that cash transactions are properly executed, accurately recorded and deposited, and appropriately reviewed and documented. The Board also must provide sufficient oversight of those officers and employees who receive cash and operate the transfer station.

The Town does not reconcile the amount of money collected with the amount of trash disposed at the transfer station. We found that over a three-month period in 2012, the weight of the solid waste the Town paid to dispose of at the Franklin County landfill exceeded the amount of trash accounted for as being received at the Town's transfer station, resulting in approximately \$10,000 in missing revenues.

We found weak internal controls over cash receipts and poor monitoring of solid waste received at the transfer station. One individual is responsible for weighing the solid waste to determine the amount owed from the customers, collecting fees, issuing receipts, and recording the collections.¹ Additionally, duplicate receipts were not prepared for moneys received at the transfer station and no weigh slips were retained. The absence of the weigh slips and cash receipt records makes it impossible to determine if the proper amount of disposal fees were charged to customers and if all moneys collected were subsequently turned over to the bookkeeper in the Supervisor's office. We did note, however, that total revenues from the transfer station decreased from \$92,745 in 2009 to \$62,668 in 2011, more than \$30,000 (32 percent) in two years.

In February 2012, the Town implemented new procedures for tracking both cash receipts and accounting for solid waste disposed at the transfer station. However, there is still no reconciliation being performed between receipts issued to the amount of cash receipts.

Missing Revenue

Good oversight of transfer station operations includes having a system to reconcile payments for the amount of solid waste received at the transfer station to the amount of solid waste transferred to the landfill in Franklin County. This is important because the Board should be able to determine if sufficient fees are being charged for solid waste received at the transfer station to cover the cost of disposal

¹ The attendant used a cash register during 2011 and duplicate receipt books in 2012 to record collections at the transfer station.

at the landfill, and to ensure the records for amounts collected at the transfer station agree with the amount transferred to the landfill. A discrepancy between these amounts could indicate that all trash being disposed of at the transfer station is not being accounted for or fees from customers are being misappropriated. At the time of our audit, there was no process in place to account for the total number of tons of solid waste accepted at the transfer station. We found that the Town is paying for more tons of solid waste to be transferred to the Franklin County landfill than what can be accounted for as being received and charged for at the transfer station.

In order to compare the amount of solid waste received at the transfer station to the amount transferred to the landfill, we calculated the amount of solid waste that was received and charged for using the receipts and weigh slips recorded during the period April 3, 2012 through June 25, 2012. Based on this information, the Town collected 104.45 tons of solid waste at the transfer station. We then determined the amount of solid waste that the Town paid to transfer to the landfill by reviewing all invoices provided by Essex County for solid waste transferred to the landfill and the Town's spreadsheets that coincided with the same trailers of garbage. The Town paid to transfer a total of 154.54 tons of solid waste to the Franklin County landfill for the same period that only 104.45 tons were recorded as being collected at the transfer station. Based on a charge of \$0.10 a pound, we estimate the Town has missing revenues totaling \$10,018 during just this three month period.

Further, we found that revenues from the transfer station decreased approximately \$30,000 from \$92,745 in 2009 to \$62,668 in 2011. Subsequent to our audit, local officials indicated that revenues increased by approximately \$20,000 during 2012 after updated controls were implemented. This matter has been referred to law enforcement officials.

Cash Receipts Process

A well designed system of internal controls over cash receipts consists of procedures that provide for timely supervision of those charged with handling moneys, and the issuance of duplicate, press-numbered receipts in sequence for all cash collections. It is essential that a comparison of the amounts collected to those deposited be performed, including a verification of the numbered receipt sequence.

The Board has not adopted cash collection procedures for transfer station operations. As a result, Town employees have developed informal procedures. To pay for solid waste disposal, customers can use a number of different methods, including using prepaid punch tickets in denominations of \$2, \$5, \$10, and \$20, or pay by cash or check based on the weight of solid waste at \$0.10 per pound. Pre-

paid punch tickets are sold by both the Town Clerk and the landfill attendants. Each week the Town bookkeeper (bookkeeper) issues a series of punch tickets and weigh slips to the transfer station attendant in a locked bank bag. Moneys collected at the transfer station, weigh slips and duplicate receipts are submitted to the bookkeeper in the bank bag once a week. Deposits for the transfer station remittances are prepared weekly by the bookkeeper; however, the bookkeeper does not perform a reconciliation of the cash remitted to the punch tickets sold, and weigh slips and duplicate receipts remitted to her from the transfer station attendant. The lack of adequate procedures for handling collections makes it difficult to ensure that all solid waste disposed of at the transfer station is being paid for by the customers and accounted for by the Town employees. Furthermore, having one employee weigh the solid waste, determine the amount owed, and collect cash without any oversight creates the opportunity for errors or theft to occur and go undetected. We also found the Board does not request or receive monthly reports showing the amount of money and solid waste collected at the transfer station or the amount of solid waste transported from the Town to the landfill in Franklin County.

During 2011, the transfer station attendant used a cash register to record cash collections, charges based on weigh slips, and prepaid punch tickets, which could all be identified separately based on classifications assigned on the register.² However, the transfer station attendant did not retain any weigh slips or prepaid punch tickets for the period of January 1, 2011 through January 31, 2012. As a result, we were limited in our attempt to ensure all collections at the transfer station were accounted for, remitted to the bookkeeper, and deposited into the Town's bank account. We compared a judgmental sample³ of cash register tapes totaling \$21,275 to bank deposits and identified small discrepancies between the amounts of collections per the tapes and the amounts of the related deposits. The failure to retain weigh slips and prepaid punch tickets given to the attendant makes it impossible to determine if all moneys collected at the transfer station were turned over to the bookkeeper for deposit. The deficiency is more concerning given that the transfer station attendant prepared the register tapes and handled all the cash without any oversight.

In February 2012, the Supervisor implemented internal controls over receipts from the transfer station. The transfer station attendant is now required to issue a duplicate press-numbered receipt for all moneys

² Weigh slips are used when vehicles containing loads of waste are weighed on the large scale as compared to punch tickets and other cash transactions using the smaller scale where individual bags are weighed. Each type of transaction is a separate classification or "department" recorded on the cash register.

³ The sample was developed by choosing 20 deposit tickets, tracing every third landfill deposit from all 66 landfill deposits for 2011 totaling \$65,099, and tracing these to the cash register tapes.

received for punch cards and for cash payments from customers not using punch cards. The attendant is also required to remit duplicates of all weigh slips issued at the transfer station to the bookkeeper when turning over collections. This information is then entered into a spreadsheet by the bookkeeper to allow for a record of date, amount received, type of payment, receipt or weigh slip number and number of pounds of trash collected. However, there continues to be no reconciliation performed by the bookkeeper between receipts issued at the transfer station to the amount of cash received. To determine that collections remitted from the transfer station to the bookkeeper were being deposited timely and intact, we traced a judgmental sample of 20 receipts⁴ to validated deposit tickets and bank statements and found that all receipts traced to bank deposits without exception. To determine that weigh slips were being accounted for, we traced a judgmental sample of 20 weigh slips from a total of 780 weigh slips used over a 25-week period to the spreadsheet and all traced without exception.

Weak internal controls over receipts at the transfer station, as well as a lack of reconciliation between the receipts and the money collected, increases the likelihood that errors, omissions, and theft could occur and remain undetected.

Recommendations

1. Town officials should implement a better system of internal controls at the transfer station, such as having one individual record the amount of trash brought in and record the amount of money received, and a second person receive the cash for these receipts.
2. The bookkeeper should reconcile the money received to the supporting documents to ensure the proper amount of cash is turned over to her for transfer station operations.
3. The Board should receive monthly reports showing the amount of funds collected, the amount of solid waste collected, and the amount of solid waste transferred to the landfill.
4. The Board should implement procedures to reconcile the amounts of solid waste received at the transfer station to the amounts that it pays to have transferred to the landfill.

⁴ This sample was developed by choosing 20 receipts totaling \$301 from a total of 1,169 duplicate receipts in seven receipt books by tracing the tenth, fiftieth, and one-hundredth receipt from each receipt book, except the last book from which we traced the first and the tenth receipts to validated deposit slips and bank statements.

5. The Board should design procedures for cash receipts at the transfer station to ensure all moneys received are accounted for and deposited in the bank.
6. The Board should ensure that all documents related to revenue collection at the transfer station are retained in a secure location.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.

TOWN OF SCHROON

PO Box 578, 15 Leland Avenue
Schroon Lake, New York 12870

"A Town of Recreational Beauty"



E-mail - Supervisor Marnell - marnell@schroon.net

Office - (518) 532-7737

Fax - (518) 532-9474

Michael R. Marnell
Supervisor

Patricia J. Savarie
Town Clerk

Dana W. Shaughnessy
Supt. of Highways

Town Council

Roger M. Friedman

Clara M. Phibbs

Donald C. Sage

Margaret C. Wood

March 19, 2013

Office of the State Comptroller
Division of Local Government
And School Accountability

████████████████████
One Broad Street Plaza
Glens Falls, New York 12801

Dear ██████████

In response to the audit report of the Town of Schroon, entitled Internal Controls over Transfer Station Operations, myself and the town board members have examined the report and agree that there was an issue with the revenues being collected compared to the amount of solid waste being transported from the facility.

The decrease in revenues from 2009 to 2011 was obvious and partially due to the issuance of a free bulky item punch card that was mailed to all tax payers in the Town of Schroon. The card allowed people to discard large items at no cost and this was eventually abused to include regular household garbage. There were no measures in place to account for tonnage that was generated from this card. The Town has discontinued the issuance of card in 2013 and currently all bulky items are treated like regular trash and are charged \$.10/lb.

I assumed the duties of the Town Supervisor in January of 2012 and immediately implemented measure to correct the shortfall at the Transfer Station. These measures included stricter supervision, tracking of all pre- numbered large scale tickets and tracking of pre- numbered cash receipts which resulted in an increase of revenues of \$20,458.00 in 2012.

The Town Board continues to improve the accountability at the Transfer Station and has approved the purchase of a new digital weight scale that is capable of generating a daily print out of the poundage collected. This will provide the bookkeeper with a poundage figure to reconcile the receipts. Other measures are also being considered such as a secure

drop box for the receipts, employment of a third person as a cashier, installation of security cameras, discontinuance of the prepaid tickets and the implementation of a monthly report for the board members to review.

On behalf of the Town Board of Schroon Lake, we thank you for your professionalism throughout the audit and appreciate your help in rectifying this issue.

Sincerely,

A handwritten signature in black ink that reads "Michael Marnell". The signature is written in a cursive, flowing style.

Michael Marnell
Supervisor

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

In order to gather appropriate audit evidence and gain an understanding of the internal controls in place at the transfer station, we interviewed local officials including the Supervisor, the transfer station attendant, and the Town bookkeeper. We then reviewed those records available for cash receipts from the transfer station as well as the cash disbursements used to pay for the solid waste transferred to the landfill. We used these records to calculate the amount of solid waste received and transferred from the Town of Schroon transfer station.

- To determine if weigh slips are accounted for and properly recorded, we traced 20 weigh slips to the spreadsheet used to record weigh slips since February 1, 2012. We judgmentally selected the fifth ticket from each week starting with February 22, 2012 for 20 weeks.
- To determine that receipts from the transfer station were being deposited, we traced a sample of 20 receipts from the receipt books to validated deposit tickets and bank statements. This sample of 20 receipts totaling \$301 was selected from all 1,169 duplicate receipts in seven books, and was traced from the duplicate receipt to the tape run by the Town bookkeeper for the week's receipts. This total was then traced to the validated deposit ticket and the bank statement. This sample was selected by tracing the tenth, fiftieth and one-hundredth receipt from each receipt book, except the last book for which we traced the first and tenth receipts, for a total of 20 receipts. There are no duplicate receipts to trace prior to January 31, 2012.
- To determine that cash receipts from the transfer station agree to the amounts deposited, we traced a sample of 20 deposits to the cash register tapes for 2011 since weigh slips were unavailable to review and receipts were not being used at the landfill until February 2012. This sample was developed by selecting every third landfill deposit from all 66 landfill deposits for 2011, totaling \$65,099.
- To calculate the number of pounds of trash collected at the transfer station during a sample period of one complete calendar quarter, we used the spreadsheets, weigh slips and receipts for the Town of Schroon transfer station for the period April 1, 2012 to June 30, 2012. During the second quarter of 2012, the Town collected a total of 549,450 pounds of trash. This equates to 274.73 tons, of which the Town of Schroon was responsible for 104.45 tons.
- We determined if invoices from Essex County for tipping fees traced to vouchers and Board approved abstracts. Using a judgmental sample of five invoices totaling \$16,411, consisting of the fourth, eighth, twelfth, sixteenth, and nineteenth invoices for the period January 1, 2011 through July 31, 2011 from a total of 19 vouchers totaling \$62,661, were traced from the invoices to vouchers on approved abstracts.
- To determine the amount the Town paid to transfer solid waste for one quarter to the landfill, we traced invoices from Essex County for solid waste dumped at the Franklin County Solid Waste Authority landfill for the period April 1, 2012 through June 30, 2012, and the Town of Schroon transfer station spreadsheet for the period April 1, 2012 through June 30, 2012.

We then compared weigh slips from Town of Schroon Landfill Tickets to the landfill tickets attached to the Essex County Invoices to deduct the amount of solid waste transferred on behalf of the neighboring towns. The Town has transferred a total of 321.68 tons of solid waste to the Franklin County Solid Waste Authority landfill. We determined the Town was responsible for 154.54 tons of this amount.

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.

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