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Dear Chief Financial Officer:

The enclosed Technical Assistance Bulletin is the second of a planned series of publications prepared by the Office of the State Comptroller designed to provide guidance related to recurring issues found in our audits of local governments. Technical Assistance Bulletins include recommendations for improving local government operations and preventing the operational and internal control problems identified in our audits.

The enclosed bulletin discusses the importance of conducting internal audits of cash collection activities and provides guidance for their successful completion. This bulletin is intended primarily for towns and villages, but could be utilized by other local governments. We do not know whether the issues identified in this bulletin apply to your specific situation. Therefore, we encourage you to review the information and determine whether there are opportunities for you to improve operations.

Very truly yours,

Steven J. Hancox
Assistant Comptroller
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Enclosure

CONDUCTING INTERNAL AUDITS OF CASH COLLECTION ACTIVITIES

One of the most critical duties of town and village boards is auditing the records and documents of their chief fiscal officers and other officers and employees who received or disbursed moneys in the previous fiscal year. Our audits of the past two years have found that approximately 50 percent of the boards in towns and villages examined either did not perform these audits or did not perform them correctly, because the boards did not know who or when to audit, didn't know how to perform an audit, tried to perform the audit function without a consistent approach, or did not document what they did.

This technical assistance bulletin is provided to stress the importance of the audit function as a good business practice, as well as a legal requirement. For those towns and villages that choose to do their audits internally, this bulletin provides information on identifying reasonable objectives and procedures as well as guidance on how to accomplish the objectives and perform the procedures.

Why is an internal audit of cash collections important?

The audit function can and should be a useful tool for your government's management and oversight efforts. If performed well, the audit function would:

1. Provide assurance that public moneys are handled properly and are accounted for;
2. Help identify conditions that need improvement;
3. Provide an opportunity for board members and other authorized personnel to learn more about the financial operations of their various governmental activities; and
4. Provide an opportunity for the applicable officers and employees to express concerns about their financial operations to the board or other authorized personnel.

However, an audit is not a replacement for the duties and responsibilities required of the applicable officers and employees. Those performing the audit function do not assume the financial responsibilities of the applicable officers and employees by reviewing their financial records. Also, a financial audit is not intended to be an evaluation of the individual's performance in their applicable office other than for financial purposes. For example, an audit of justice court records should address the financial record keeping and reporting process and not be concerned with judicial decisions made by the justice.

What does an audit entail?

The term "audit" is not defined in any of the statutes relating to internal audits of cash collection activities. Consequently, the depth and involvement of an audit can vary depending on the objectives and who is performing the audit: the governing board, a separate officer appointed by the board or an independent public accountant.

If the governing board hires an independent public accountant to audit their financial statements, this type of engagement would generally require the accountant to perform the audit in accordance with professional standards issued by the American Institute of Certified Public Accountants. If governing board members or designated officials perform the audit function internally, they generally would not be expected to comply with the same professional standards or perform the same type of

audit services as an independent public accountant. Consequently, the audit function performed internally could be less than a detailed, in-depth audit that would be conducted in accordance with professional standards.

Who should be audited?

In villages, the chief fiscal officer and the justices should be audited. In towns, each town officer or employee who received or disbursed any moneys in the previous fiscal year, including the chief fiscal officer and those individuals serving in separate offices such as justices, clerks and tax collecting officers, should be audited.

The transactions processed by building inspectors, recreation directors, water superintendents, parking lot directors, utility service superintendents and other authorized individuals who may be required to receive and disburse moneys or supervise such operations are also subject to audit requirements. While the applicable transactions may ultimately end up in the main accounting records, the initial processing of those transactions needs to be handled and accounted for properly and the moneys distributed to the appropriate parties. However, if the governing board has hired an independent public accountant to audit the main financial statements, then transactions processed by these departments probably will be included in that audit. If you have questions about the audit requirements for these other governmental departments, contact our Division of Legal Services at 110 State Street, Albany, New York 12236.

When should the financial activities of local officials be audited?

Certain activities may not encompass a complete fiscal year. Consequently, the audit function may not need to be performed after the fiscal year is over, but can be performed after the applicable activities are completed. If the audit function for different activities could be spread out over the year, it could help to alleviate time concerns after the fiscal year is completed. Here are a few suggestions for the types of reports to be prepared and the time period to conduct the audit:

Tax Collecting Officers

Tax collecting officers in towns generally must complete a written settlement with their county treasurers at the time unpaid taxes are returned to the counties for enforcement. If the settlement document provides sufficient information about the amount of taxes collected, paid to the appropriate parties, returned for enforcement and other applicable information, a copy of the settlement document could be used as the report. The audit could be conducted shortly after the settlement was completed, which could be six months into the fiscal year.

Town Clerks

Town clerks sell a variety of licenses, permits and other items, and collect fees for certain services. The clerks should prepare and submit monthly reports and remit collections to their chief fiscal officers and various governmental agencies. Their annual reports could be summaries of the monthly reports identifying the total number and amount of various licenses, permits and other items collected and distributed. The audit could be conducted after completion of the fiscal year.

Parks and Recreation Facilities

Many towns and villages maintain parks and provide various recreation activities for their residents. Some seasonal activities are financed in part by user fees. The reports for these activities could identify the events held, the number of participants, the amounts received and any other important information. For example, an audit of golf course operations could be conducted shortly after the golf season is completed and the report could include the number of rounds of golf played, tournaments held, concession sales, golf shop sales and any other type of revenue generating service, as well as the total amounts for each category. The same approach could be used for other seasonal type park and recreation operations.

How should the audit be conducted?

As a general rule, the reviewer should first gain an understanding of how the applicable officer or department operates, what the general rules and requirements for financial accountability and reporting are and what types of financial records should be maintained to meet these responsibilities. Some board members, particularly those who are newly elected members, may not have sufficient knowledge to perform these audits. The Office of the State Comptroller and other organizations issue publications that provide guidance on a variety of topics that will provide useful information. For example, the Comptroller's Justice Court Fund issues *Handbook for Town and Village Justices and Court Clerks* that provides guidance as well as requirements for Justice Court transactions. The Association of Towns issues *Tax Collection in Towns* and *Office of the Town Clerk*. You could also review the pertinent sections of Town and Village Law that identify the powers and duties of most officials and review your own policies on internal controls for fiscal operations.

If the governing board retains responsibility for conducting the reviews, it may not be feasible for all the members to actively participate in each review. It may be more appropriate to assign certain departments and officers to specific board members, with each such member reporting back to the board. The entire board, however, is still responsible for the overall audit function, and should thoroughly understand the results of the review and take action to approve it.

Every officer or employee required to receive and disburse moneys should maintain the following records:

1. Cash receipt records and supporting documents;
2. Cash disbursement records and supporting documents;
3. Bank statements, if authorized, and supporting documents;
4. Determinations of accountability and reconciliation of bank balances, and
5. Reports to the chief fiscal officer and applicable governmental agencies.

For your chief fiscal officer, you should also expect to find general ledgers, general journals, user charge billings, payroll information, budgetary reports, interim financial reports, and many other necessary financial records and reports.

Generally, the statutes requiring the audits indicate that the applicable officers and employees must submit their records and reports to the governing board for review. We do not believe that this requires each applicable officer to bring all the records to a board meeting. It's much easier for the reviewer to perform the review in the office where the records are located. Consequently, access to the records is equally important as submission of the records.

Once you have gained an understanding of the applicable operations and familiarized yourself with the types of records that should be maintained, your audit efforts should address the following concerns:

1. Are financial records complete and up-to-date?
2. Are transactions recorded properly?
3. Are bank reconciliations performed at least monthly?
4. Is accountability determined monthly, or when required?
5. Are required reports prepared on time and accurately?

To help town and village officials perform the audit function, we've developed several checklists for reviewing some of the common municipal activities: justice courts, tax collectors and town clerks. We have also developed checklists for reviewing the records of your chief fiscal officer and other departments within your government. These checklists are included in Chapter 13 ("Fiscal Oversight Responsibilities") of our *Local Government Management Guide*. The checklists serve as questionnaires designed to elicit certain information about the condition and accuracy of the records being reviewed, determinations of accountability and the applicable official's responsibilities to report to various other governmental agencies. The questionnaires are also designed to record certain information that can only be obtained by inspection of the actual records.

Once completed, the checklists with the comments and conclusions should be filed in the appropriate offices. If the governing board conducts the review, the results should be filed with the clerk of the board. If a town comptroller or a designated village official conducts the review, the results should be filed in their appropriate office. If the results are satisfactory, no additional action may be warranted. If the results are not satisfactory, the governing board should then decide on the appropriate course of action to take.

For additional guidance, please contact the staff at our [regional office](#) for your community.