

PEACHAM TOWN AUDITORS
MEETING
Wednesday, June 20, 2012
Peacham Town Offices
APPROVED

PRESENT:

Auditors: Charlie Byron (Minutes), Jan Eastman (Chair), Julie Kempton

Staff: Stan Fickes, Bruce Lafferty

Public: none

1. Eastman reviewed an audit issue that has arisen:
 - a. Dick Blair raised a question with Stan Fickes in March 2012 regarding discrepancies he saw between records of Transfer Station receipts Blair had submitted in 2011 and reported deposits of that money to Town accounts. Blair felt his records indicated about \$3,000 to \$4,000 more in receipts than was deposited.
 - b. Fickes contacted Auditor Jan Eastman in March 2012 regarding this issue.
 - c. Eastman and Fickes agreed changes to the handling of Transfer Station receipts effective March 2012 (described below). Eastman began an assessment of the discrepancies. This was delayed by various personal issues. Upon completing an initial assessment of 2011 receipts she called this Auditors meeting.
 - d. Eastman's initial assessment is that there is a discrepancy of \$3,000 to \$4,000 (out of total reported receipts of around \$23,000) between the 2011 amounts recorded by Blair on the cards he files weekly with the Town, and the amounts deposited by the Town in the bank Transfer Station accounts. There appear to be similar discrepancies in 2010 receipts, but not all deposits have been checked yet.
2. The Auditors agreed on the following approach to address this issue:
 - a. Ensure appropriate procedures are in place now. Ensure that the current procedures for Transfer Station receipts prevent such discrepancies. Make further changes asap if appropriate.
 - b. Determine the scope of the issue - amounts, duration, patterns of discrepancies, etc. Based on this make appropriate reports, disclosures, and recommendations.
 - c. Assess other Town cash handling procedures for potential problems.
 - d. Develop a better procedure for making change. (Change is required for various Town Office transactions. Current practice has been to utilize the

Transfer Station receipts, since the Petty Cash box was eliminated several years ago.)

3. Regarding 2.a (above), Ensure appropriate procedures are in place now, Eastman and Fickes informed the meeting that the following changes were put in place in March 2012:
 - a. Weekly Transfer Station receipts are reviewed jointly by Blair and Fickes, ensuring that cash counted matches Blair's card. Discrepancies are handled during this count. Prior to March Blair's cards were not reconciled to the deposits.
 - b. Fickes ensures the deposit total matches that week's card from Blair. Prior to March Transfer Station receipts were grouped and deposits made every 2-3 weeks.

In addition the meeting agreed the Town staff will implement the following further changes:

- c. Town staff should endeavor to minimize the cash kept on hand. To that end deposits should generally be made weekly (current practice has been every 2-3 weeks).
 - d. Receipts will be kept in a locked box in the Vault until being deposited. (Currently receipts are kept in an unlocked box in the Vault.)
 - e. Once counted and agreed (see 3.a. above), Transfer Station receipts will be kept in a sealed or locked envelope until being deposited.
 - f. Transfer Station receipts will not be used to make change for other transactions.
4. Regarding 2.b Determine Scope of Issue above, the Auditors agreed:
 - a. The Auditors will determine the scope of the issue before making the necessary reports and disclosures. They adopted a goal of August 10 to complete the assessment of the scope of the problem.
 - b. The Auditors will accomplish this by reviewing past Transfer Station receipt cards (from Blair) against Town bank deposit slips, going back as far as necessary (e.g., to the point where no significant (<5%) discrepancies are noted).
5. Regarding 2.c Assess other cash handling procedures for potential problems:
 - a. Other sources of cash receipts to the Town Offices include: vault copies, zoning permits, excess weight permits, recording fees, certification documents, dog and marriage licenses. In many cases these are in the form of checks, but not always.
 - b. The Town staff will include these receipts in the weekly bank deposit.

- c. Fickes will determine the total of all cash receipts for 2011, not including Transfer Station, as a means of sizing the overall exposure.
 - d. Based on this the Auditors will determine whether further review is warranted. Consideration will be given to a periodic review of deposit amounts vs. procedures in place.
- 6. Regarding 2.d above, Develop a better procedure for making change, the Town staff will set up a Petty Cash box, contents not to exceed \$50.
- 7. The meeting was recessed until 11:00 AM June 25, at Jan Eastman's house, when the Auditors will commence their review of Transfer Station receipts and deposits per 4.b above.

CONTINUATION OF MEETING

Monday, June 25, 2012

Eastman Home

APPROVED

PRESENT:

Auditors: Charlie Byron (Minutes), Jan Eastman (Chair), Julie Kempton

Staff: none

Public: none

8. As agreed (see 5.c above) Stan Fickes provided a total for all other cash receipts by the Town Office in 2011, \$737. Based on this it appears that Transfer Station receipts account for the vast majority of Town cash receipts.
9. The Auditors reviewed Transfer Station and related Town Office records for Transfer Station receipts, as described in 4.b above:
 - a. 2006 - 2008 - Spot checks. No major discrepancies or patterns noted.
 - b. 2009 - Full review. Many discrepancies, some large; in most discrepancies Transfer Station receipts exceeded corresponding Town Office deposits. Many record-keeping problems noted, e.g. deposits undated or not clearly corresponding to a Transfer Station receipt. In addition deposit dates reported by the Town Office generally do not correspond to the actual bank deposit receipts; this appears to be due to data entry errors that are known to have been corrected since then.

No systematic or major discrepancies noted. Net discrepancy appears to be that Transfer Station receipts exceed deposits by around \$500, once likely record-keeping problems are backed out. Eastman will check several outstanding questions related to this.

- c. 2010 - Full review. Many discrepancies. In most cases Transfer Station receipts exceeded corresponding Town Office deposits, sometimes by hundreds of dollars. Some record-keeping problems were noted:
 - i. Many records of Town Office deposits appear to correspond to Transfer Station receipts of different dates. Where this appears clear the Auditors have assumed clerical errors and aligned the data.
 - ii. In a few cases Town Office and Transfer Station records of specific receipts and/or deposits could not be matched. These have been included in the calculation of the overall discrepancy, but could not be used to calculate discrepancies for specific weeks.

iii. In some cases the total checks deposited by Town Office exceed those reported by Transfer Station. This could be due to:

1. Sales of dump stickers by Town Office or other Town Office dump fees. These should be excluded from the calculation of discrepancies against Transfer Station receipts; if included they would offset other discrepancies, reducing the apparent losses.
2. Checks cashed by Town Office. That is, Town Office may have replaced some Transfer Station cash with a check, utilizing the cash as petty cash. In these cases the check amounts should be included in the calculation of discrepancies against Transfer Station receipts.

Such activity would not create losses or discrepancies in overall deposits. But it could make losses more likely by increasing access to the cash.

Kempton will request bank records for deposits where Town Office checks exceeded Transfer Station's, to allow a determination of how these amounts should be treated.

- iv. Net discrepancy for 2010 appears to be that TS receipts exceed deposits by about \$1,210, although this may increase once purchases of dump stickers and fees are backed out.
- d. 2011 - Full review. Discrepancies nearly every month; in most Cases Transfer Station receipts exceeded the corresponding Town Office deposit. From April to November, most weeks had shortfalls of greater than \$100; total shortfall during this period was almost \$4,000. In total Transfer Station receipts exceeded Town Office deposits by about \$4,515 in 2011, out of total Transfer Station receipts of \$31,838. On a cash-only basis however (e.g; excluding checks) the net discrepancy was \$6,197.27.
- e. 2012 - Full review year-to-date. The pattern of regular discrepancies, where Transfer Station receipts consistently exceed Town Office deposits, continued in 2012 up to 3/24/12; since then discrepancies have been minimal. This date corresponds to procedural changes implemented in March 2012 (see 3 above). Net discrepancy for 2012, through 4/7/12, is \$593.04. On a cash-only basis, the net discrepancy was \$744.03
- f. General observation: deposits by Town Office appear to have been managed to keep at least one week's Transfer Station receipts on hand at all times, with the amount growing to several weeks' receipts (often \$2,000 or more) before deposit. Town Office reports Transfer Station cash on hand has been utilized as petty cash since abolition of the Petty Cash box.

10. The Auditors agreed the following next steps:

- a. Finish the analysis.
 - i. Eastman will check the spot analysis for 2006-2008, and will verify the discrepancy for 2009.
 - ii. Byron will identify differences in Transfer Station and Town Office reported checks, and draft minutes.
 - iii. Kempton will request bank records for deposits with significant differences, and will put an item on the agenda for the next Peacham Select Board meeting (either July 18 or 25).
- b. The Auditors will resume this meeting on Wednesday July 11, at 10 AM at Eastman's house.
- c. The Auditors will draft a summary report and associated recommendations to be presented at the Select Board meeting. Key recommendations will include:
 - i. Commission a professional audit for 2011.
 - ii. Establish improved controls on cash receipts:
 - 1. Minimize amounts on hand through timely deposits, e.g. weekly.
 - 2. Secure cash on hand, for example in a locked box in the vault.
 - 3. Reconcile each deposit with related Transfer Station receipts and resolve differences. Retain and associate all records (Transfer Station, Town Office count, bank deposit).
 - 4. Do not commingle Transfer Station receipts with other related Town Office receipts (e.g. dump stickers). Record such receipts separately in order to facilitate reconciliation of Transfer Station cash receipts.
 - 5. Do not utilize Transfer Station cash for petty cash or for any other purpose other. Establish a separate Petty Cash box if appropriate.

CONTINUATION OF MEETING

Wednesday, July 11, 2012

Eastman Home

APPROVED

PRESENT:

Auditors: Charlie Byron (Minutes), Jan Eastman (Chair), Julie Kempton

Staff: none

Public: none

11. The Auditors are on the agenda for the Select Board meeting scheduled for August 1, 2012.
12. Our review of 2009 records shows many discrepancies, but the records overall are more fragmentary than in later years, with many more instances of Transfer Station reports that cannot be matched to Town Office reports, or whose matching is ambiguous. Overall we cannot see any pattern to the discrepancies, where in later years we do. Although we can calculate an overall shortfall of \$1,052 for 2009, we do not have confidence either that this is correct or that we can verify it. Based on spot checks we feel that the true number is probably lower. Consequently the Auditors decided to focus further analysis on 2010-2012.
13. The Auditors reviewed the compilation of Transfer Station and Town Office records created in our session of June 25 to identify and correct errors and to enter data for outstanding deposits in 2012.
 - a. It is clear that discrepancies between Transfer Station reported receipts and corresponding Town Office deposits effectively ceased with the 3/24/12 deposit. Discrepancies since then (3/24 to 6/16) have netted to \$2.00, vs. a net of \$-595.03 from 1/1/12 to 3/17. This change corresponds to changes in operating procedures implemented in March 2012.
14. To examine the issues described above in point 8(c)iii, the Auditors reviewed records of selected bank deposits of Transfer Station receipts where there had been significant discrepancies in the amounts of checks reported by the Transfer Station and the Town Office.

The Auditors examined 60 bank deposits from 2010, 2011, and 2012. We identified 12 additional deposits for which bank records need to be obtained. We did not attempt to examine deposits in which the total discrepancy in checks between Transfer Station and Town Office was less than \$25. We made the following determinations:

 - a. In most cases we identified checks that appeared to have originated in the Town Office, rather than the Transfer Station, that would explain the difference in reported checks between Transfer Station and Town Office.

These generally appeared to be for items such as dump stickers or other payments. As described above (9.c.iii), these would be in addition to Transfer Station receipts and should not offset discrepancies in such receipts.

Although additional deposits have yet to be examined we estimate that the actual losses to the Town in 2011 are at least \$500 more than the losses shown in our report. It would require considerably more analysis to calculate these additional losses precisely.

- b. In a number of cases we identified checks written by the spouse of a Town employee that balanced discrepancies in cash amounts reported by the Transfer Station. This suggests that Transfer Station cash was periodically utilized for check cashing.

15. The Auditors agreed on the following next steps:

- a. Finish the analysis and draft the report.
 - i. The group will recheck year-end receipts that were deposited and/or recorded by the Town in the following year to ensure our calculation of recorded income can be compared to the Town's.
 - ii. Kempton will request additional bank records determined to be required.
 - iii. Byron will update minutes and create initial report draft.

16. Additional recommendations to be considered for the Report include:

- a. Do not allow check-cashing utilizing Transfer Station or other Town cash on hand. This increases access to cash on hand and hence potential for loss or theft.
- b. Consider whether the discrepancies documented represent violations of law that should be reported.
- c. Consider whether the current record-keeping of cash transactions by the Transfer Station (aggregate count by bill type, e.g. Change, \$1s, \$5s, etc) is appropriate to the amounts of money involved, or whether a transaction-level record (such as a register tape) is needed.

17. The Auditors will resume this meeting on Wednesday July 18, at 10 AM at Eastman's house.

Respectfully submitted by Charlie Byron

CONTINUATION OF MEETING

Wednesday, July 18, 2012

Eastman Home

APPROVED

PRESENT:

Auditors: Charlie Byron (Minutes), Jan Eastman (Chair), Julie Kempton

Staff: none

Public: none

18. The Auditors reviewed further bank records received since the last meeting and updated our analysis of deposits where check totals exceeded those reported by the Transfer Station by \$20 or more. The overall patterns were the same as noted earlier:
 - a. Checks marked "Dump Stickers" and matching the excess check amounts were often present.
 - b. Checks from the spouse of a Town employee and matching the shortfall in cash were sometimes present (suggesting use of the Transfer Station receipts as petty cash).
19. The Auditors reviewed minutes of previous sessions and made corrections.
20. The Auditors discussed possible recommendations to be included in our Report.
21. The Auditors will resume this meeting on Wednesday July 24, at 1:15 PM at Eastman's house.

CONTINUATION OF MEETING
Wednesday, July 24, 2012
Eastman Home
UNAPPROVED

PRESENT:

Auditors: Charlie Byron (Minutes), Jan Eastman (Chair), Julie Kempton

Staff: none

Public: none

22. The Auditors reviewed the Minutes of June 20, 25, July 11, and 18 and unanimously voted to approve them as amended.
23. The Auditors reviewed the Special Report of July 24 and unanimously voted to approve it as amended and forward it to the Peacham Treasurer, Ass't Treasurer, and Select Board.
24. The Auditors voted to adjourn this meeting.