

# **Peacham Town Auditors Special Report: Shortfalls In Transfer Station Receipts**

**July 24, 2012 (Corrected)**

## Executive Summary

This report analyzes shortfalls in depositing cash from the Peacham Transfer Station, reported in March 2012 by a Town employee. In 2011 these shortfalls totaled at least \$4,500 and as much as \$6,200. They continued until March 2012, when procedural changes in the handling of Transfer Station cash were implemented. Since the March 24, 2012 receipts there have been no further shortfalls. Total shortfall for 2012 was between \$600 and \$740.

Ambiguous records have made it more difficult to confidently pin down the shortfalls in earlier years. In the years 2006-2008 there appear to have been occasional discrepancies, both shortfalls and excesses, netting out to losses of \$500 or less. In 2009 the shortfall appears to have been around \$1,000. In 2010 it was least \$1,000 and as much as \$2,400.

The Auditors identified several factors that may have contributed to the shortfalls, and have included recommendations to address them in this report. Some have already been implemented. Our most important recommendation to the Select Board is to commission a professional audit for 2011. This will benefit many areas including handling of cash.

## Chronology

In March 2012, following Town Meeting, a Transfer Station employee, Dick Blair, reported to Ass't Town Clerk Stan Fickes that the Transfer Station revenues reported in the Town Reports seemed low to him. Fickes immediately informed Auditor Jan Eastman and together they determined that a shortfall had occurred. The Town implemented changes to its handling of Transfer Station cash that month, reconciling each week's Transfer Station receipts with the bank deposit.

Auditor Eastman warned an Auditor's Meeting for June 20. (Eastman was delayed by several personal issues from calling the meeting earlier.) The Auditors met on June 20; with Town Clerk Bruce Lafferty and Ass't Clerk Stan Fickes attending. The meeting was recessed and the Auditors held further working sessions on June 25, July 11, July 18, and July 24.

## Goals and Methodology

The Auditors adopted the following goals to address the reported shortfalls:

- Ensure that current procedures for Transfer Station receipts prevent further shortfalls. Make further changes asap if appropriate.

- Determine the scope of the issue - amounts, duration, patterns of discrepancies, etc. Based on this make appropriate reports, disclosures, and recommendations.
- Assess other Town cash handling procedures for potential problems.
- 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.)

### **Methodology**

The Auditors first confirmed that no shortfalls had occurred in Transfer Station deposits since the adoption of new procedures in March 2012.

Ass't Town Clerk Fickes provided a report showing the level of cash receipts other than from the Transfer Station was \$737 for 2011. Based on this small amount, compared to reported 2011 Transfer Station receipts of over \$27,000, the Auditors decided no further attention to other cash handling procedures was needed at this time.

The Auditors recommended at their June 20 meeting that Transfer Station receipts not be utilized as petty cash; that recommendation is also included in this report. No further action was taken by the Auditors pending action by the Select Board on this issue.

To determine the scope of the shortfalls, the Auditors reviewed past Transfer Station receipt cards against Town Office receipt reports and accompanying bank deposit slips:

- Records for 2006-2008 were spot checked.
- Records for 2009 were checked at the level of each week's overall totals.
- Records for 2010-2012 were entered in full into a spreadsheet for detailed analysis.

Based on the relatively few issues noted in the spot checks of 2006-2008 records, and the many record-keeping issues identified for 2009, the Auditors decided to focus further detailed analysis on the years 2010-2012.

### **Analysis of 2010-2012 Records**

The Auditors worked with three sets of records that document the Town's handling of Transfer Station cash:

- Transfer Station creates a card for each Saturday's receipts, giving amounts of coins, \$1 bills, \$5 bills, and so on.

- Town Office creates a similar report for each receipt of cash from the Transfer Station.
- The bank deposit slip from each deposit of Transfer Station cash is retained.

The Auditors attempted to match Transfer Station receipt cards with their corresponding Town Office receipt reports and bank deposit slips, to determine as accurately as possible when discrepancies may have occurred.

In addition, when questions arose about discrepancies in check deposits (these are described below), the Auditors obtained scans of the checks deposited from Passumpsic Savings Bank.

## Findings

We found significant shortfalls in each year from 2009 -2012. The table below gives the financial shortfalls we identified in 2009-2010. As we were not able to calculate shortfalls with confidence, we have presented two approaches that we believe represent upper and lower bounds.

	2010	2011	2012 YTD
<b>Total Transfer Station Receipts</b>			
<b>Cash</b>	24,709.40	24,948.01	10,069.95
<b>Cash + Checks</b>	32,218.40	31,838.01	12,879.45
<b>Total Deposits</b>			
<b>Cash</b>	22,350.66	18,750.74	9,325.92
<b>Cash + Checks</b>	31,007.91	27,273.38	12,286.42
<b>Shortfall (based on matched weekly receipts)</b>			
<b>Cash only</b>	-2,358.74	-6,197.27	-744.03
<b>Cash + Checks</b>	-1,210.49	-4,564.63	-593.03

For each year the table calculates the shortfall based on both cash only and cash plus checks. For 2011 and 2012 we believe the cash only number represents an upper bound (and is more likely to be the true shortfall) and the cash + checks number a lower bound. (Note that 2009 numbers exclude cash only, and 2012 YTD are through 6/16/12).

We were not able to calculate shortfalls precisely for two reasons:

- Transfer Station cash was often commingled with cash or checks received at the Town Office. It appears this was often because of purchase of dump stickers or payments of fees at the town office. These are included in the Town Office reports and in the deposit itself but not in the Transfer Station reports. Calculations of

shortfalls based on cash plus checks include these amounts and therefore understate shortfalls.

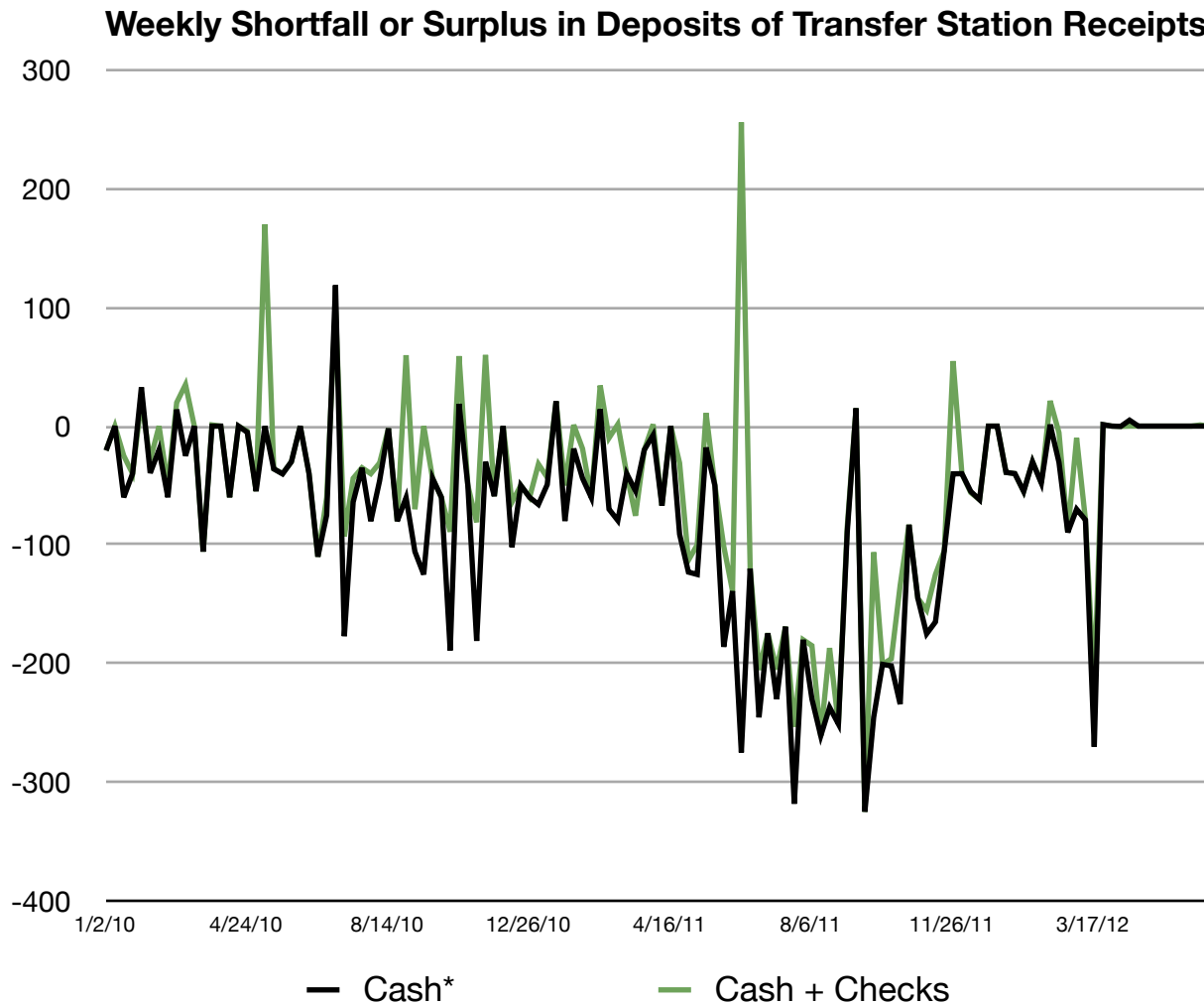
- Occasionally a shortfall in the cash (e.g. coins and bills) reported by the Transfer Station and that reported by the Town Office is balanced exactly by a check written by the spouse of one of the Town Office employees. This could have been for purposes of making change in lieu of a Petty Cash box. These transactions replace cash with checks; shortfalls calculated on a cash-only basis are somewhat overstated as a result.

### Pattern of Shortfalls

We found that in general most weekly receipt/deposit cycles had shortfalls, but amounts varied widely. The table below gives some statistics about the number and size of shortfalls.

	2010	2011	2012 YTD
<b># of Weekly Instances of Cash Shortfalls or Excesses</b>			
<b>Match</b>	7	3	10
<b>Excess (Deposit &gt;TS Report)</b>	4	3	3
<b>Shortfall (TS Report &gt; Deposit)</b>	37	47	11
<b>Total (# of TS Reports with matching deposit)</b>	48	53	24

In addition there appears to be a pattern over time, such that shortfalls were usually in the \$50 range in 2010 (with some large exceptions), but grew to be consistently over \$100 through a large part of 2011. The chart below conveys this overall pattern, although it excludes periods for which the Transfer Station reports could not be matched to corresponding Town Office reports and/or deposits.



## Recommendations

The primary recommendation of the Auditors is for the Select Board to commission a professional audit for 2011. It has been almost 10 years since the last one, and a professional audit would provide several benefits:

- Restore confidence that may be shaken by the discovery of problems in handling cash.
- Provide useful feedback and guidance on many aspects of the Town's financial practices.
- Provide a stronger basis for future audits by the elected Independent Auditors.

### Cash Handling Issues and Recommendations

In addition, we have several recommendations related to the handling of cash; they are consistent with the recommendations in the VLCT Handbook for Locally Elected

Auditors, (section V.B.2.b) published by the Vermont League of Cities and Towns in 1999. As these recommendations have arisen in part from difficulties we had in performing our analysis, we present them in a table below along with the issues they are intended to address.

Issue	Impact	Recommendation
<b>Cash on hand.</b> Practice of making deposits every 2-3 weeks, and of retaining the most recent receipts until the next deposit	Periodic on-hand balances of \$2,000 or more.	1. Minimize cash on hand. Deposit Transfer Station cash as soon as received.
<b>Security.</b> Cash kept in unsecured box in Town vault; vault not fully secured when Town Office was open.  Cash accessed periodically to make change.	Cash was vulnerable to theft while in Town Office.  Frequent access increases possibility of tampering.	2. Store cash securely in vault (e.g. locked box secured within vault).  3. Seal cash upon receipt (tamper-evident envelope); do not open until deposit.
<b>Reconciliation.</b> Transfer Station receipts not reconciled with subsequent deposits.  Related records (Transfer Station, Town Office, deposit slips) not identified as related.  Bank deposits sometimes differ from internal reports but differences are not documented or explained.	Unable to determine if cash is missing at deposit time.  Difficult to reconstruct shortfalls.	4. Count cash upon receipt in Town Office; reconcile count with Transfer Station report.  5. Retain and associate all records (Transfer Station report, Town Office report, and bank deposit slip).  6. If deposit amounts differ from internal reports, document the discrepancies.

Issue	Impact	Recommendation
<b>Segregation.</b> Cash from Transfer Station not segregated from checks received at Town Office, nor from needs for change (petty cash).	Can mask shortfalls and prevent detection.  Difficult to determine if cash is missing. Difficult to reconstruct shortfalls.	7. Do not commingle Transfer Station cash or checks with others; ensure there is a Town Office report that ties to each Transfer Station report.
<b>Petty Cash.</b> Lack of a Petty Cash box led to pressures to access other cash for legitimate needs such as making change.	Frequent access increases possibility of tampering.  Changing amounts of cash and checks makes later reconciliation more difficult.	8. Establish a Petty Cash box of limited size and account for it separately.