

STATE OF NORTH CAROLINA

Office of the State Auditor



Beth A. Wood, CPA
State Auditor

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September 11, 2023

Town of Winfall Council
Fred Yates, Mayor, Town of Winfall

Ladies and Gentlemen:

The North Carolina Office of the State Auditor (OSA) received an allegation concerning the Town of Winfall (Town). The allegation was about the suspected misuse of sewer and garbage payments by the Town's employees. Specifically, the allegation was related to payments made in cash through the mail or drop box.

Pursuant to North Carolina General Statutes § 147-64.6(c)(16) and § 147-64.6B, we have completed an investigative audit of the allegations. This letter provides the results of our investigative audit, along with recommendations for corrective action. This letter does not constitute an audit or attestation engagement conducted in accordance with generally accepted government auditing standards.

We appreciate the cooperation received from the management and employees of the Town during our investigative audit.

Background

The Town is in Perquimans County, North Carolina, with a population of approximately 550 residents. The Town is a municipal corporation governed by an elected Mayor and an elected Council consisting of four members. The Town has three office employees¹ that process and record receipts from sewer and garbage charges.

The Town provides sewer and garbage services to town residents. Resident payments for sewer and garbage services are accepted in-person, via mail, or in a drop box. The Town accepts payments via cash, check, or credit card.

The Town utilizes a software system to track and maintain resident accounts for sewer and garbage charges. Town employees receive resident payments and post payments to residents' accounts.

For the year ended June 30, 2022, the Town received \$211,497 from Town residents for sewer and garbage charges.

¹ The Town only had two office employees during our investigation. One position was vacant.

Finding

The OSA received an allegation about suspected misuse of sewer and garbage cash utility payments by the Town's employees. Specifically, the allegation was related to payments made in cash through the mail or drop box.

Investigators were unable to determine if the cash payments received through the mail or drop box were:

- Applied to the residents' accounts.
- Deposited into the Town's bank account.

The Town had no checks and balances for cash payments received through the mail or drop box. Examples include:

- Separation of duties – The employee who opened the mail or the drop box is the same employee who then entered the amounts received into the system and posted to residents' accounts. Therefore, if more cash was received through the mail or the drop box than the resident owed, there was no way for Town management to ensure that all the cash was applied to the resident's account or was deposited in the bank.
- Documentation – Receipts were not issued for cash payments received via mail or drop box unless specifically requested by the resident. Therefore, management has no way to ensure that all the cash received was credited to the residents' accounts or was deposited into the bank.

Because there were no checks and balances over the cash collections through the mail or drop box, the Town had no assurance that cash collections from Town residents were not missing or stolen. In addition, Town residents' utility bills could have been incorrect.

There were no checks and balances for cash received through the mail or drop box because the Town did not have written policies and procedures regarding the collection of cash through the mail or drop box nor any other mitigating policies and procedures.

Investigators requested written policies and procedures in April 2023. According to the Finance Officer, the Town had no written policies and procedures. She stated that the Town Council was going to discuss the approval of written policies at the April 10, 2023, Town Council meeting.

However, Investigators reviewed the minutes from the April 10, 2023, Town Council meeting and did not note any discussion about policies. In the minutes from the May 8, 2023, Town Council meeting, the approval of policies was tabled.

A special meeting was called for June 26, 2023, where the policies, including the *Town of Winfall Internal Control in Cash Receipts* policy, were finally approved.

North Carolina Local Government Commission Memorandum 2015-15 states² that elected officials and governmental employees are accountable for resources entrusted to them and for ensuring that programs and services are administered effectively and efficiently.

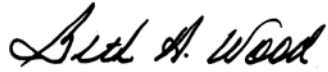
Recommendation

The Mayor and Town Council should **design** and **implement** policies and procedures for cash collected through the mail or drop box. Policies and procedures could include separation of duties

² Memorandum 2015-15, *Internal Controls for a Small Unit of Government*.

such as one person opening the drop box and mailed payments and logging the cash included and a separate person posting the payments to the residents' accounts.

Respectfully Submitted,

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

Beth A. Wood, CPA
State Auditor

This investigative audit required 288.5 hours at an approximate cost of \$33,460.



TOWN OF WINFALL

Post Office Box 275 | Winfall, North Carolina 27985

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Fredrick L. Yates, Mayor

Preston T. White, Mayor Pro-Tem

Valerie Jackson, Clerk

Council Members: Christopher Richardson | Valery T. McDonald | Cynthia White Cunningham

September 21, 2023

Beth A. Wood
CPA State Auditor
2 S. Salisbury Street
Raleigh, North Carolina 27699

Dear Ms. Wood:

On behalf of Mayor Fred Yates, and the Town Council, we would like to thank you for your findings and recommendations from the town's past audit. In response to your investigation, we have designated the following as corrective actions:

Corrective Action (s)	Responsible Person(s)	Completion Date
All cash payments for services must be paid directly at the office. Cash payment must be made in person. Residents will no longer be allowed to deposit money in the drop box or mail. A sign will be placed above the drop box regarding cash (No cash payments).	Finance Officer	October 1, 2023
All in-person cash as well as checks/money orders and on-line payments will be receipted immediately.	Office Manager Assistant Finance Officer	Current Practice
Mailed payment and drop box payments will be opened by assigned individuals based on their work schedules. These individuals will receipt ALL payments	Office Manager Assistant Finance Officer	October 1, 2023
Payments will be logged in the system after being receipted by an assigned different individuals based on their work schedules.	Deputy Clerk Finance Office	October 1, 2023
The Internal Control In-Cash Receipts Policy was approved on June 26, 2023. (See attachment). Will	Finance Officer	June 26, 2023

We assure you all corrected actions will be fully implemented. Thanks for your valuable feedback and feel free to contact us if you have additional questions/concerns.



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Respectfully submitted,

Frederick Yates, Mayor

Preston White, Mayor Pro Tem

Valerie McDonald, Councilwoman

Christopher Richardson, Councilman

Cynthia Cunningham, Councilwoman

Valerie Jackson, Town Clerk/Finance Officer



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Town of Winfall Internal Control in Cash Receipts

Proper internal control over cash receipts is essential because, if uncontrolled, cash is the easiest of all assets to misuse without detection. Access to cash must be limited; therefore, it must be controlled as soon as possible after it is received by the local government.

Critical internal control procedures for cash receipts include the following:

- a. Control of incoming cash should be established at the earliest possible point, which is normally with the delivery of the mail. A non-accounting staff person should receive the mail, open it, and list all checks received on a Daily Mail Collection Report. This report should show the date, the name of the person submitting the payment, and the amount and type of the payment. All checks should be restrictively endorsed immediately upon receipt. If there is more than one accounting position, the accounting clerk may perform these endorsements and prepare receipts. The finance officer should perform these duties position if there is only one accounting position.
- b. Cash and checks also are received from the issuance of licenses, permits, or sales of other items. Any payments received by the cashiers should be controlled at the point of collection, and appropriate receipts issued. All licenses and permits should be issued from prenumbered forms and be of such form that similar receipt books could not be easily obtained. All copies should be marked if a form is voided. All copies should be maintained on file for the proper retention period. Unused copies should be controlled by someone other than the issuer(s).
- c. Cash collection should be centralized to the maximum extent possible without hindering operations.
- d. The staff members and cashiers receiving the checks and cash should prepare receipts for all collections. The receipts should be prenumbered, and all issued numbers should be accounted for with receipt registers or lists. Voided receipts should be marked and recorded as such and should not be destroyed. Unissued receipts should be controlled by the staff members authorized to receive cash. The finance officer should perform these functions if he or she is the only accounting staff member. Otherwise, the accounting clerk should assume these responsibilities.

e. Whenever possible, cash should be tied to goods or services provided, to verify amount of revenue that should have been received. For example, licenses and permits should be controlled through use of prenumbered forms or another manner, such that unit can assure itself that all revenues were received for these services.

f. An accounting staff member should receive the checks and control listings from the person opening the mail and from the cashiers, Daily Mail and Daily Collection Reports, respectively. The deposit slip should be prepared in duplicate by this accounting staff member. The finance officer should assume this responsibility in a small unit.

g. Bank deposits should be made daily (G.S. 159-32). However, if daily cash receipts are less than \$200, the unit may elect to make deposits only on days when cumulative receipts on hand amount to at least \$05 (G.S. 159-32). The governing board must approve this election prior to its being enacted. In any case, all funds received must be deposited on the last business day of the month. Deposits should be taken to the bank by someone other than the person who prepared the deposit. All deposits should be made in official depositories. In small units, these functions should be performed by the finance officer. Daily deposits are extremely important in units of government that have decentralized operations since a number of locations will be receiving cash and the amounts may be material.

h. After the deposit is made and the duplicate has been validated by the bank, the duplicate should be compared to the Daily Collection Report(s) to verify that all cash received was deposited. Physical evidence that the verification was made, such as the staff member making the deposit actually initialing the deposit slip, should be required.

In small units, the finance officer should assume these responsibilities.

i. After the duplicate deposit slip is compared to the Daily Collection Report(s), the Daily Collection Report(s) and all duplicate deposit slips should be turned over to the accounts receivable clerk for posting to the subsidiary ledgers and the cash receipts journal. The accounts receivable clerk should reconcile postings to the deposit slips and evidence this reconciliation with his or her initials. Discrepancies should be

brought to the attention of appropriate supervisory personnel. In small units, the finance officer should assume these responsibilities. Units of government that use online banking can reconcile deposits to general ledger record of deposit on a daily basis and no less frequently than weekly.

j. Cash maintained on the premises should be kept to a minimum. All cash maintained should be in either a cashier's change fund or a petty cash fund. In either case, the staff member directly responsible for it should maintain the cash under strict sole control; no one else should have access to the cash. In other words, cashiers should never work out of each other's cash drawers. Cashiers should reconcile their change funds at the end of each day and maintain written reconciliations bearing their signatures as evidence that the reconciliations were performed. If at all possible, reconciliations should be conducted in the presence of another person for verification purposes. Periodic surprise cash counts should be conducted for both change funds and petty cash funds by staff members other than those responsible for the cash. These counts should be documented and also should include the reconciler's signature. Any discrepancies in a cash reconciliation should be reported immediately to the finance officer or to a board member if the finance officer is responsible for the cash. In a small unit, the finance officer or a board member should conduct the surprise cash counts.

k. Funds not deposited should be located in a safe location, such as a safe on the premises. Access to the safe should be controlled. A locked file cabinet is not considered a safe location. Several Units deposit cash daily for amounts less than \$250 due to lack of safe location on site.

l. Back-up keys to the cash should be maintained under dual control at all times for each cash supply so that cash can be obtained in case of emergencies or unexpected absences. These keys should be signed in and out by both staff members having control over them whenever it is necessary to use the keys. Any cash that is accessed by these staff members should be counted under dual control prior to the cash being used, and the amount of cash on hand should be reconciled to the last reconciliation

performed by the staff member normally responsible for the cash. A written record of the reconciliation should be maintained and signed by both staff members. In small units, the finance officer can be one of the two persons responsible for the back-up keys. In very small operations, it might be necessary for a board member to serve as one of the two persons necessary to access the cash.

Internal Control Over Deposits in Financial Institutions

In addition to providing a deterrent to misuse, a good internal control system over a unit's deposits held in financial institutions should detect quickly any errors made by those institutions. Units rely on their institutions to provide accurate records, yet as a part of the stewardship responsibilities over public funds, the finance officer must be prepared to ensure the accuracy of such records.

Critical internal control procedures for deposits in financial institutions include the following:

- a. All deposits should only be in institutions authorized by the governing body of the unit.
- b. All funds held by financial institutions must either be insured by the FDIC or fully collateralized in accordance with G.S. 159-31(b). Units should insure that their accounts are classified as public depositories with the bank.
- c. The financial institutions that hold the unit's funds should be instructed to notify the governing body, or their delegate, of any unusual items or transactions occurring on the account, such as insufficient funds notices or checks made payable to cash.
- d. Current signature cards and other documents required by the institution(s) should be maintained on file with the unit's financial institution(s) at all times, indicating which staff members can sign checks on which accounts. These documents should be in strict accordance with the authorizations to sign checks as approved by the governing body. Terminated employees should be removed from signature cards and other bank documents immediately.
- e. All bank statements should be reconciled promptly upon receipt by a staff member independent of the cash receipts and disbursements functions. Statements should be delivered unopened to this staff member. Units can use on-line banking to monitor

cash withdrawals daily or weekly to ensure that unauthorized transactions are not being made.

In performing the monthly reconciliations or daily monitoring, the staff member should check for the following:

1) For all deposits:

- Compare dates and amounts of daily deposits as shown on the bank statements with the cash receipts journal.
- Investigate bank transfers to see that both sides of the transaction have been recorded in the unit's financial records.

2). For all disbursements:

- Account for all check numbers, including voided checks.
- Examine cancelled checks for authorized signatures, irregular endorsements and alterations.
- Look for checks payable to cash. Investigate these items.

All discrepancies should be reported to the finance officer immediately. All reconciling items should be investigated and approved by the finance officer or reviewing board member. Upon completion, all reconciliations should be reviewed by a responsible official. In small units, a board member may perform the bank reconciliations. If an accounting clerk is available to do the reconciliations, he or she may do so, but a board member should review the reconciliations.

Adopted on this 26th day of June, 2023.

Mayor [Signature]

Clerk Valerie Jackson