



# Broadalbin-Perth Central School District Internal Controls Over Online Banking Transactions and Purchasing Report of Examination

Period Covered:

July 1, 2004 - January 31, 2006

2006M-120



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# State of New York Office of the State Comptroller

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## Division of Local Government Services and Economic Development

November 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Broadalbin-Perth Central School District — Internal Controls Over Online Banking Transactions and Purchasing.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school district officials.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government Services  
and Economic Development*

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# Introduction

## Background

The Broadalbin-Perth Central School District (District) is located primarily in the Towns of Perth and Broadalbin, Fulton County. The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Responsibilities relating to the District's finances, accounting records and reports are largely those of the District Treasurer. All financial transactions are processed by the District Business Office using the software package Finance Manager. The District's financial statements undergo an annual audit by an independent public accounting firm.

The District's two schools have a combined enrollment of approximately 1,890 students. The District's expenditures for the 2004-05 fiscal year were \$19.3 million, funded primarily with State aid, real property taxes and grants.

## Objective

The objective of this audit was to determine if the District has properly safeguarded District resources. Our audit addressed the following related question:

- Are internal controls over online banking transactions and purchasing appropriately designed and operating effectively?

## Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the areas of purchasing and online banking, and therefore we examined the internal controls over the District's purchasing practices and online banking transactions for the period July 1, 2004 to January 31, 2006.

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 District  
Officials and Corrective  
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing the plan of action, the Board may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District Clerk's office.

## Internal Controls Over Online Banking Transactions

The District uses online banking services to transfer funds between various District accounts, and to transfer funds from District accounts to non-District accounts for various purposes, such as remitting employee payroll tax withholdings and paying the District's debt obligations. The District should have policies and procedures in place sufficient to properly monitor and control its online banking transactions. A comprehensive online banking policy clearly describes what online banking activities the District will engage in, and which District employees will have the authority to process online banking transactions. The policy should also establish a detailed approval process designed to verify the accuracy and legitimacy of online transfer requests, set a dollar limit on amounts that can be transferred from District to non-District accounts, and require a monthly report listing all of the online banking transactions that have occurred during the period. Related control procedures should provide for the review and reconciliation of this report with the monthly bank statement by someone independent of the process to verify that all transactions were properly approved and appropriate.

We found the Board has not established written policies and procedures for online banking transactions. The District Treasurer can make transfers between District accounts within the same bank and make transfers between District and non-District accounts without any approval process. The Board has not established a limit on amounts that can be transferred to non-District accounts. Although the District maintains a record of all online transfers it makes, it does not require a monthly report of all online banking transactions, and a reconciliation of such a report with the monthly bank statement to properly account for transfers of District funds. As a result, there is significant risk that fraud, abuse, or misuse of District funds could occur and not be detected. As noted below, we identified two areas of concern that highlight the need for increased oversight.

We reviewed 93 transfers made between July 1, 2005 and January 31, 2006 to determine whether they were properly recorded and appropriate in nature. Of the 93 transactions, 51 transfers, totaling \$24,046,415, were between District accounts; the other 42 transfers, totaling \$14,142,828, were made from District to non-District accounts. We noted the following exceptions:

- In August 2005, a transfer of \$4,433.67 from a District to a non-District bank account was listed on the District's bank statement but was not on the listing of transactions provided us by the District Treasurer. We were subsequently able to verify that this transfer was for legitimate District purposes.
- The District was not able to provide us with a record of transfers between District accounts for two periods: July 1 to July 14, 2005 and December 6 to December 31, 2005. Without the record of transfers we were unable to readily verify, for the noted time periods, whether the bank's records of online activity reconciled with the District's records.

The lack of adequate internal controls over online banking transactions creates an environment which increases the likelihood that errors or irregularities could occur and go undetected.

## **Recommendations**

1. The Board should establish a comprehensive online banking policy that adequately addresses the duties, records, and procedures required to implement effective controls over the District's online banking transactions. The policy should include a detailed approval process that must be completed in order for an employee to process an online banking transaction.
2. District officials should establish appropriate online banking limits specifically addressing the District Treasurer's ability to transfer money from District to non-District bank accounts.
3. District officials should require a monthly report that lists all online banking transactions for the period. Someone independent of the online banking process should reconcile this report with the monthly bank statement to verify that all transactions are accounted for, properly approved and appropriate.

## Internal Controls Over Purchasing

An appropriate system of controls over purchasing consists of policies and procedures intended to provide reasonable assurance that, among other things, the District is using its monies in the most prudent and economical manner when procuring goods and services. We found that the District's internal controls over purchasing were appropriately designed and operating effectively to ensure that resources were being used in an efficient and appropriate manner.

While reviewing the internal controls over purchasing, we determined the process in place is as described below.

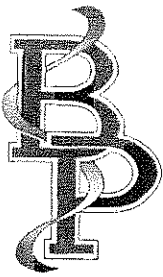
- Employees of the District submit a requisition form to their supervisor for an item to be purchased, and the supervisor approves the requisition form if the purchase is viewed as appropriate. Using an approved requisition form, the accounts payable clerk prepares a purchase order, which must be approved by the Superintendent before the purchase is made.
- The employee who receives purchased goods or services initials the itemized receipt/invoice to verify that purchases were received in the proper quantity, quality and condition, and then sends the itemized receipt/invoice to the accounts payable clerk.
- The clerk then prepares the claims and the warrants for the month, which the Assistant Superintendent and internal claims auditor review and approve.
- The clerk then processes the checks for payment and traces the printed checks to the warrant to verify that the checks were printed with the correct amount and payee. The checks are then mailed out and the purchasing process is finalized.
- As an additional control, the Assistant Superintendent reviews a sample of printed checks and traces them to the warrant.

We examined 200 claims to determine if purchase orders are initiated by the submission of a requisition form; purchase orders are approved before purchases are made; claims are properly audited by the District before payment is made; and purchases are verified as appropriate District purchases. Based on the findings from our sample, we found no significant deficiencies in the claims we examined.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



## Broadalbin-Perth Central School District

14 School Street  
Broadalbin, New York 12025  
Phone: (518) 954-2500  
Fax: (518) 954-2509  
Website: [bpcsd.org](http://bpcsd.org)

**Sally Rojek, Superintendent**  
Email: [rojeks@bpcsd.org](mailto:rojeks@bpcsd.org)



Office of the State Comptroller  
110 State Street, 15<sup>th</sup> Floor  
Albany, New York 12236

October 17, 2006

On October 5, 2006, the Office of the State Comptroller conducted an exit interview with the Broadalbin-Perth Central School District. During the exit interview, auditors summarized the results of their audit that was conducted in accordance with generally accepted government auditing standards. During the audit, the state auditors determined that risk existed in the areas of purchasing and online banking and therefore, examined the internal controls over the District's purchasing practices and online banking transactions for the period July 1, 2004 to January 31, 2006.

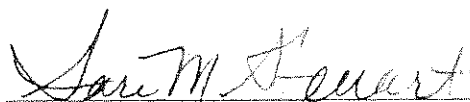
Pursuant to Section 35 of the General Municipal Law, the Broadalbin-Perth Central School District has the responsibility to initiate corrective action to address auditor recommendations. The state auditors found the following:

- The District's internal controls over purchasing were appropriately designed and operating effectively to ensure that resources were being used in an efficient and appropriate manner. Based on the findings, there were no significant deficiencies and as a result, no recommendations for improvement.
- The District's online banking transactions lacked adequate internal controls that could potentially increase the likelihood of errors or irregularities. Based on the findings, recommendations were offered by the state auditors.

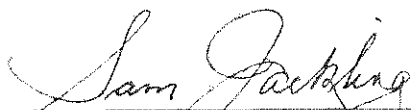
The Broadalbin-Perth Central School District Board of Education has prepared a plan of action that addresses the state auditors' online banking recommendations. The Board of Education has established and will adopt a comprehensive online banking policy that adequately addresses the duties, records, and procedures required to implement effective controls over the District's online banking transactions (see attached). In addition, to verify the accuracy and legitimacy of online transfer requests, the District will establish an approval process. Prior to the transfer of funds from District accounts, the treasurer will indicate in writing the line item code, the amount of monies and the purpose for the transferring of funds. The Superintendent, or Superintendent's designee, will approve, in writing, all transfers of funds. And once the transfer of funds has been approved by the Superintendent, or the Superintendent's designee, and the funds have been transferred, the treasurer will be responsible for a monthly report that includes all online banking transactions. The monthly report will include a reconciliation with the

monthly bank statement to properly account for the transfers of District funds. The business office administrative assistant will be responsible for the monthly reconciliation.

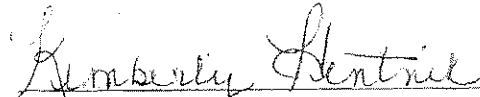
The above stated action plan is approved by the Board of Education to ensure that all transactions are accounted for, properly verified and appropriate.




Sari Stewart, Board of Education President



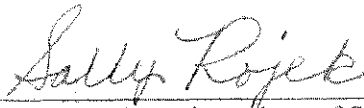
Sam Jackling, Board of Education Vice-President  
Audit Committee Chairperson



Kimberly Hentrich, Board of Education Member  
Audit Committee Member



Jeanne Johnson, Treasurer



Sally Rojek, Superintendent of Schools

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing and online banking for further audit testing.

We reviewed the purchasing function at the District to verify that:

- Requisitions were utilized to initiate purchase orders;
- Purchase orders were processed and approved prior to the purchase being made;
- All claims were approved by the internal claims auditor prior to payment; and
- Purchases were for appropriate District business.

In order to achieve these objectives, we reviewed a sample of 200 claims to determine if the District had implemented adequate procedures and safeguards over these particular areas of the purchasing function.

We reviewed the procedures related to online banking transactions to determine if the District had implemented adequate controls over the process. The District has the capability to make transfers between District and non-District bank accounts. The District provided a record of all transfers made from District to non-District accounts on a "Cash Management Posting List." The District also provided a record of all transfers between District accounts on an "Internet Transfer List." During our review we traced all the transfers for the period of July 1, 2005 through January 31, 2006, from the "Cash Management Posting List" to the bank statements, and from the bank statements to the "Cash

Management Posting List.” We also traced all of the transfers between District accounts for the period of July 1, 2005 through January 31, 2006, from the “Internet Transfer List” to the bank statements, and then from the bank statements to the “Internet Transfer List.”

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those district operations within our audit scope. Further, those standards require that we understand the district’s management controls and those laws, rules and regulations that are relevant to the district’s operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

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