



# Deposit Central School District Cash Disbursements

Report of Examination

Period Covered:

July 1, 2004 - January 4, 2006

2006M-61



# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	3
<b>INTRODUCTION</b>	5
Background	5
Objective	5
Scope and Methodology	6
Comments of District Officials	6
<b>INTERNAL CONTROLS OVER NON-PAYROLL DISBURSEMENTS</b>	7
<b>APPENDIX A</b> Audit Methodology and Standards	9
<b>APPENDIX B</b> How to Obtain Additional Copies of the Report	11
<b>APPENDIX C</b> Local Regional Office Listing	12

# State of New York Office of the State Comptroller

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## Division of Local Government Services and Economic Development

July 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 Deposit Central School District — Cash Disbursements.

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.

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*

# Introduction

## Background

The Deposit Central School District (District) is located in the Towns of Deposit, Masonville, and Tompkins in Delaware County and the Town of Sanford in Broome County. The District is governed by the Board of Education (Board) which is comprised of 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.

The District operates two schools, with approximately 683 students and 201 employees. The District's budgeted expenditures for the 2004-05 fiscal year were \$12,884,524, funded primarily with State aid, real property taxes and grants.

The District contracts with the Broome-Tioga Board of Cooperative Educational Services to provide various financial services for the District through its Central Business Office (BOCES CBO). The District Board has appointed BOCES CBO employees to serve as accounts payable clerk, payroll clerk, accountant, and capital assets accountant for the District. In addition, the Board appointed a BOCES CBO employee as its Internal Claims Auditor who has the responsibility to audit and approve or disapprove District claims for payment. The District's financial statements are audited each year by independent auditors.

The District's cash disbursements transactions can be processed either by the BOCES CBO staff or manually if necessary by the District's own business office staff.<sup>1</sup> BOCES CBO and District staff processed 3,759 cash disbursement transactions totaling approximately \$9.2 million during our audit period.<sup>2</sup>

## Objective

The objective of our audit was to review internal controls over non-payroll related cash disbursements. Our audit addressed the following related question:

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<sup>1</sup> Payroll transactions can be processed only through the BOCES CBO and by their nature are processed differently than that for claims for goods and non-employee goods and services, and thus, have been excluded from our cash disbursements testing.

<sup>2</sup> These are disbursements for non-payroll related purchase of goods and services. With the inclusion of payroll related disbursements, BOCES CBO and District staff processed 8,811 transactions totaling approximately \$11.4 million.

- Were internal controls over non-payroll related cash disbursements 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 decided to concentrate our audit efforts in the area of non-payroll related cash disbursements and therefore, we examined internal controls in such area for the period July 1, 2004 to January 4, 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 A of this report.

**Comments of  
District Officials**

The results of our audit have been discussed with District officials and their comments have been considered in preparing this report. District officials generally agreed with the information included in this report. However, since no recommendations are included in this report, a written response by District officials was not required.

## Internal Controls Over Non-Payroll Disbursements

An internal control system is the integration of the activities, plans, attitudes, policies and efforts of the District staff to provide reasonable assurance that the District will achieve its objectives. An appropriate internal control system includes policies and procedures intended to provide reasonable assurance that, among other things, there is a proper segregation of duties and all cash disbursements are properly initiated, supported, and approved as well as recorded timely and accurately. The Board is primarily responsible for establishing the internal control system, and the administrative staff for implementing it.

We found that the District's internal controls over non-payroll cash disbursements were appropriately designed and operating effectively. We also noted that there was adequate segregation of duties over cash disbursements at the District and BOCES CBO.

While reviewing the internal controls over non-payroll related cash disbursements, we determined the process in place is as follows: Each duty is separated by function and no two duties overlap access or authority. For instance, once the goods and/or services are received at the District, the employee checks them off and initials the gold copy of the purchase order as approval to pay and forwards it to the BOCES CBO for payment processing. The accounts payable clerk then matches the invoice to the gold copy of the purchase order and completes the claims package<sup>3</sup> for the internal claims auditor. The internal claims auditor then reviews the claims package for accuracy and legitimacy and authorizes payment. The accounts payable clerk pays the bills by entering the matched purchase order and invoice (or claim form) into MUNIS.<sup>4</sup> The MUNIS system creates a warrant for payments in the batch and a cash disbursements journal. The District has its own sequential check order number for each fund. The accounts payable clerk records the check file in a notebook and on an Excel spreadsheet with the warrant name, check numbers

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<sup>3</sup> The initial claims package consists of: the BOCES CBO purchase order copy, the District approved for payment gold purchase order copy and the invoice or approved claim reimbursement form; Claim forms for staff reimbursements are approved at the District in paper format and handled through the same accounts payable process; however they do not wait for a matching purchase order to be sent to the internal claims auditor for review and approval.

<sup>4</sup> The MUNIS system is the BT BOCES supported accounting software package used by the BOCES CBO support staff as well as authorized District employees.

run, and total dollar amount. Once the check file is created, a check releaser must approve the 'release' of checks to actually be created. There are designated check releasers at BOCES CBO who are authorized to run checks. The accounts payable clerk notifies the check releaser via e-mail of the check file. The check releaser then signs on to MUNIS and releases the checks. The checks are printed on a check signing machine and automatically sealed upon printing. Signatures are automatically printed and there are no signature stamps on the BOCES CBO premises. A duplicate copy of each check is printed at the same time to a separate printer. The internal claims auditor then reviews the completed claims packages<sup>5</sup> again to ensure everything matches and approves the warrant for release of the cash disbursements. The accounts payable clerk then prepares a summary of all amounts paid on the warrants for the accountant. At the end of each month, the accountant receives the monthly bank statements and cancelled checks and reconciles the District's bank accounts to cash disbursements. Manual checks drawn at the District must still go through the accounts payable process described above in place at the BOCES CBO; however they are processed after the fact. The District's account clerk/typist is required to immediately notify the BOCES CBO accounts payable clerk when she has written a manual check. She then sends the manual check stub and supporting transaction documentation to the BOCES CBO for processing. The accounts payable clerk reviews the claim package for accuracy and legitimacy, enters the transaction amount into MUNIS and prints the paid warrant report and cash disbursements journal for the internal claims auditor to review.

We examined 184 cash disbursement transactions to determine whether the purchases were properly initiated, appropriate supporting documentation was provided, they were properly authorized for payment, the claims were paid for the appropriate amount and the checks were properly endorsed in accordance with the internal control process described above. The cash disbursement transactions reviewed represent about five percent of all claims processed for or by the District. In addition, we scanned the accounting records for the audit period for unusual, improper or suspicious transactions. We found the system of internal controls was working effectively.

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<sup>5</sup> A completed claims package consists of: the BOCES CBO purchase order copy, District gold purchase order copy, invoice, check copy, sealed check, associated warrant and cash disbursements journal.

## APPENDIX A

### 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 of Education minutes and financial records and reports. In addition, with the help of District personnel, 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 database(s). 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 objective and scope by selecting for audit that area most at risk. We selected non-payroll related cash disbursements for further audit testing.

To accomplish the objectives of this audit, our procedures included the following:

- We reviewed pertinent documents including: cancelled checks, bank statements, purchases orders and claims, warrants, cash disbursement journals and various other accounting records and financial reports to determine if cash disbursement transactions were properly initiated, supported, approved and recorded.
- We verified information included on cancelled checks agreed with related supporting documentation and reviewed for any unusual, improper or suspicious payees.
- We tested various claims to determine if they were adequately itemized to permit proper audit by the internal claims auditor by reviewing the documents attached to the claims.
- We reviewed bank reconciliations for accuracy, completeness and timeliness.
- We reviewed wire and/or cash transfers for legitimacy, approval and accuracy.
- We verified the check number sequences used for each fund and ensured continuity and integrity.

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 and conclusions contained in this report.

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