



Spencer-Van Etten Central School District Internal Controls Over Financial Operations

Report of Examination

Period Covered:

July 1, 2004 - August 16, 2005

2006M-115



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

December 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 Spencer-Van Etten Central School District — Internal Controls Over Financial Operations.

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*

Introduction

Background

The Spencer-Van Etten Central School District (District) is located in 10 towns in Chemung, Tioga, Schuyler, and Tompkins counties. The District is governed by the Board of Education (Board) which comprises seven elected members. 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 financial management functions are largely those of the Superintendent.

The District has three school buildings in operation, with an estimated student enrollment of 1,200 pupils. As of October 2005, the District had a workforce of about 170 employees, and its 2005-06 budgeted general fund expenditures totaled \$13.99 million.

Annually, the Board appoints a Treasurer. The Board also contracts with the Greater Southern Tier Board of Cooperative Educational Services (BOCES) to provide various financial services for the District through its Central Business Office (CBO). Under the general supervision of the Superintendent, the Treasurer is responsible for the custody, receipt and disbursement of District moneys. Cash disbursements were either computer processed by BOCES or prepared manually by the Treasurer's staff. Manual checks were entered into the District's computer accounting system via journal entries. District officials issued about 2,500 non-payroll checks totaling more than \$13.2 million during the 2004-05 fiscal year. The District's annually appointed Claims Auditor assumes the powers and duties of the Board with regard to approving claims against the District. The appointed Claims Auditor is a BOCES CBO employee 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.

Objectives

The objective of our audit was to determine if controls over non-payroll-related cash disbursements are appropriately designed and operating effectively. Our audit addressed the following questions for the period July 1, 2004 to August 16, 2005:

- Have District officials established adequate internal controls over non-payroll-related cash disbursements to safeguard District assets and are those controls operating effectively?

- Have District officials established adequate internal controls over the audit and payment of claims to safeguard District assets and are those controls 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 internal controls over non-payroll-related cash disbursements and the audit and payment claims and, therefore, we examined cash disbursements and claims processing for the period July 1, 2004 to August 16, 2005.

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, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Segregation of Duties

One of the Board's financial responsibilities is the establishment of a good system of internal controls. The Board should design internal controls to provide reasonable assurance that District officials and personnel properly safeguard assets; authorize, record, and report accounting transactions; comply with pertinent laws and regulations; and routinely monitor and review work products.

An effective system of internal controls requires segregating duties so that no single individual controls most or all phases of a transaction. Concentrating key duties (i.e., authorization, recordkeeping, and custody) with one individual weakens internal controls and significantly increases the risk that errors or irregularities might occur and go undetected.

The Treasurer performs many financial functions including receiving and investing cash; recording cash transactions in the accounting records; making inter-fund and inter-bank cash transfers; approving cash journal adjustments; approving bank changes, such as opening and closing accounts; preparing manual District checks; and signing District checks. Because one person performs all of these duties without compensating controls designed to serve as a system of checks and balances, we found this situation to be a significant control weakness. The District does not have any compensating controls over the Treasurer's ability to prepare manual checks to pay claims. However, we reviewed 210 checks (143 manual, and 67 computer-processed at BOCES) and found no discrepancies or inconsistencies with the individual checks.

Recommendation

1. The Board should evaluate the Treasurer's duties and responsibilities and, where practicable, assign them to other business office staff to better segregate duties. Where it is not practicable to segregate some duties, the Board should establish sufficient compensating controls. For example, someone appointed by the Board could be responsible for reviewing checks, or the Board could require two signatures on all checks.

Internal Controls Over Claims Processing

Conducting a proper audit of claims before the District pays them is an integral part of any internal control system. The claims auditor, or the Board if it has not appointed a claims auditor, should conduct a deliberate and thorough review to determine that proposed payments are proper and valid charges against the District, and that they are incurred by authorized officials. In addition, the claims auditor or Board should determine that the District, or its representatives, actually received the goods and/or services described in the claims by viewing detailed receipts with written statements from District officials to that effect. In essence, the claims auditor or Board is responsible for ensuring all claims are legitimate District charges before the claims are paid. It is the responsibility of the Board to establish policies and/or procedures relating to the business functions of the administrative offices, including the auditing of claims, to reduce the possibility of fraud, waste, or abuse of assets. It is important for the Board to adopt written policies and procedures that provide clear guidance on claims auditing responsibilities.

Audit of Claims

The Board's established policy guidance over claims auditing covers the duties and responsibilities of the Claims Auditor, and describes the required supporting documentation and authorization procedures. However, we found that the Claims Auditor, other District officials, and District personnel did not always follow the policy. We reviewed 210 claims for the 2004-05 fiscal year and found that the Claims Auditor and other District officials did not properly authorize 69 claims totaling \$972,684. Also, we found that District personnel did not adequately support 58 claims totaling \$64,800. The 210 claims reviewed represented about 8 percent of all claims processed by the Treasurer's office. Of the 210 claims that we reviewed, we found that:

- Fifty-eight claims totaling about \$64,800 were not properly supported. Of the 58 claims reviewed, 35 claims totaling about \$29,400 did not have at least one form of supporting documentation, such as purchase orders, expense vouchers, or approved conference request forms. Eleven other claims for credit card charges, and travel and meal expenditures totaling \$17,169 did not have any supporting documentation. This lack of supporting documentation did not allow us, and it would not have allowed the Claims Auditor, to determine whether the charges were for proper District purposes.

- Twenty-seven claims totaling more than \$915,000 were not approved by the Purchasing Agent or other District official, and the Claims Auditor did not audit them. Of these 27 claims, six claims totaling more than \$807,000 were payments to BOCES for services that it provided to the District.
- Thirty-four claims totaling \$51,612 were approved by the Purchasing Agent or other District official, but were not audited and approved for payment by the Claims Auditor. These 34 claims included three claims for new roof/energy and parking lot improvements at the high school totaling \$28,020, 24 claims for various cafeteria purchases totaling \$14,079, and two claims for other capital improvements totaling \$4,810.
- Eight claims totaling \$5,658 were audited and approved for payment by the Claims Auditor, but were not approved by the Purchasing Agent or other District official. These eight claims included one claim for instructional materials totaling \$2,519, one claim for the Van Etten Library account totaling \$1,390, and one claim for the after-school program totaling \$1,197.

These deficiencies occurred because the Claims Auditor did not evaluate whether the claims' voucher packets were complete and in accordance with District policies. Deficiencies in claims processing increases the risk that District funds could be subject to fraud, abuse, or professional misconduct, and that errors and irregularities could occur and not be detected or corrected in a timely manner.

Appointment of the Claims Auditor

State Education Department (SED) regulations¹ prohibit school district officials from appointing a BOCES employee as their district's Claims Auditor.

In July 2005, the Board appointed an employee of the Greater Southern Tier BOCES CBO to serve as its Claims Auditor for the 2005-06 fiscal year. Although the District used BOCES services before SED adopted these regulations, this arrangement currently results in an incompatibility issue and is prohibited by SED regulations. Therefore, it is not appropriate for the Board to appoint a BOCES employee to serve as the District's Claims Auditor.

¹ Amendment of the Regulations of the Commissioner of Education (http://www.emsc.nysed.gov/mgtserv/accountability_regs06.htm).

Recommendations

2. The Board should ensure that the Claims Auditor audits all District claims in compliance with its established policy guidelines.
3. The Board should ensure that the Purchasing Agent and other District officials approve all District claims in compliance with its established policy guidelines.
4. The Board should ensure that District officials and staff provide appropriate supporting documentation for all claims.
5. The Board should ensure that its appointment of the District's Claims Auditor is in accordance with SED regulations.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Steven D. Schoonmaker
Superintendent of Schools

November 14, 2006

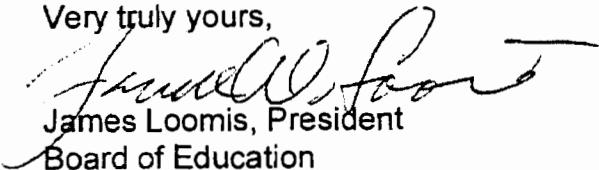
[REDACTED]
Office of the State Comptroller
Division of Local Government Services
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Dear [REDACTED]

The Spencer - Van Etten Board of Education, met with your representative, [REDACTED], on the morning of November 8, 2006, to receive and review the Draft Report of Examination of the Spencer - Van Etten Central School District internal controls over financial operations, for the period July 1, 2004, through August 16, 2005 (2006M-115).

Following a thorough presentation and discussion of the procedures, findings, and draft recommendations, we feel confident that we understand the report sufficiently to assure responsible compliance. We have no remaining concerns, questions, or disagreements with the substance of the report and appreciate the guidance it provides as we continue our efforts to improve our fiscal accountability.

Very truly yours,


James Loomis, President
Board of Education

cc: Steven Schoonmaker, Superintendent of Schools
[REDACTED]
Eugene Cvik, Director, GST BOCES CBO

JL:jwl

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 cash disbursements and claims processing 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, purchase orders and claims, warrants, cash disbursement journals, and various other accounting records and financial reports to determine if District personnel were properly initiating, supporting, approving, and recording cash disbursement transactions.
- Within claims processing, we focused our attention on the approval of purchases and the approval for payment of various types of goods and services acquired. We also evaluated the propriety of such claims. We paid special attention to claims for reimbursement of expenses for District officials and employees by reviewing documentation submitted with various claims to determine if the District officers and employees adequately itemized their expenses to permit a proper audit by the Claims Auditor. We also focused on whether certain claims processing duties were segregated from other financial activities. We interviewed officials, observed transactions, and examined the following financial records to determine the effectiveness of internal controls pertaining to these functions, and any associated effects of deficiencies in those controls:

- o Vendor history reports
 - o Requisitions
 - o Conference request forms
 - o Employee reimbursement forms
 - o Purchase orders
 - o Claims
 - o Cancelled checks
- 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 also verified that information included on cancelled checks agreed with related supporting documentation and we reviewed this information for any unusual, improper, or suspicious payees.

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.

APPENDIX C

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