



Wheatland-Chili Central School District Treasury and Accounting Duties

Report of Examination

Period Covered:

July 1, 2004 - December 31, 2005

2006M-125



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

October 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 Wheatland-Chili Central School District — Treasury and Accounting Duties.

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 Wheatland-Chili Central School District (District) is located in the Towns of Wheatland, Chili and Brighton, Monroe County and in the Town of Caledonia, Livingston 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. On an annual basis, the Board appoints an Internal Claims Auditor who assumes the Board's powers and duties in regard to approving or denying claims against the District.

There are three schools occupying two buildings in operation within the District, with approximately 860 students and 185 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$15 million, funded primarily with State aid, sales tax, real property taxes and grants.

Responsibilities relating to the District's finances, accounting records and reports are largely those of the Business Manager, who also serves as District Treasurer and Purchasing Agent. A Deputy Treasurer, who is also the Junior Accountant, and a Payroll Clerk, assist the Business Manager in her duties. The District uses a computer software package known as Info-Matic to process its financial transactions. The District's financial statements undergo an annual audit by an independent CPA firm.

Objective

The objective of our audit was to examine the District's internal controls relating to treasury and accounting duties. Our audit addressed the following related question:

- Did the Board implement and monitor internal controls relating to the District's treasury and accounting duties?

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 area of treasury and accounting duties and therefore, we examined internal controls over treasury and accounting duties for the period July 1, 2004 to December 31, 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 will make improvements that address our findings and recommendations.

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.

Treasury and Accounting Duties

One of the Board's managerial responsibilities is the establishment of a system of internal controls. A good system of internal controls should be designed to provide reasonable assurance that District assets are properly safeguarded; accounting transactions are authorized, recorded and reported properly; pertinent laws and regulations are complied with; work performed is monitored and reviewed routinely; and operations are efficient and effective. Furthermore, an effective system of internal controls provides for the segregation of duties so that no single individual controls all phases of a transaction. When it is not practical to segregate duties because of limited staff resources, the Board should establish compensating controls. Such compensating controls would include the Board or other administrative staff periodically reviewing the work in question, rotation of duties and mandatory vacations. Additionally, the District's accounting software should contain built-in controls that prevent individuals from performing incompatible duties, and it should produce reports necessary for proper monitoring of financial activity.

Segregation of Duties - We identified the following areas where the Board has not effectively addressed the Business Manager's duties and responsibilities to ensure that they are properly segregated; neither has it established sufficient compensating controls.

- As Treasurer, the Business Manager either maintained, or was authorized to maintain the books of original entry (general journals and records of cash receipts and disbursements), and general and subsidiary ledgers. Additionally, the Business Manager had the ability to sign checks. She also initiated bank wire transfer requests without independent verification and reconciled bank accounts.¹
- As Purchasing Agent, the Business Manager had the ability to create purchase requisitions, approve them and sign for receipt. She also reviewed and approved purchase orders.

¹ The District Clerk indicated that she reviewed, initialed and dated the bank reconciliations prepared by the Business Manager; such reviews did not include an examination of cancelled checks, or verification of deposits in transit and outstanding checks. Accordingly, the District Clerk's review of bank reconciliations did not constitute an adequate compensating control.

This lack of segregation of duties permitted the Business Manager to have control over all phases of a transaction without effective independent oversight.

Accounting Software - We found accounting software deficiencies and District officials' under-utilization of controls built into the software. The accounting software deficiencies and the under-utilization of built-in controls combined with the lack of segregation of duties without sufficient compensating controls does result in an internal control weakness.

- **Software Deficiencies** The Info-Matic accounting software will not generate reports needed to properly monitor financial activity. Specifically, the software will not generate change reports showing, for example, vendor or payroll changes, or the addition or deletion of general and subsidiary ledger accounts. Also, while the software has the ability to generate a payroll exception report for each payroll, showing a comparison between current and prior payroll gross pay amounts for each individual, the software does not generate other exception reports showing detailed exceptions to ordinary transactions. The software also does not have the ability to generate reports showing user IDs of those who entered transactions into the system. The software module used to prepare payrolls (Info-Pay) is an older (DOS based) version, and is not equipped with built-in controls, such as audit logs or access controls, that promote the ability to monitor and segregation of duties, respectively. Accordingly, the Business Manager and Payroll Clerk both had full access to Info-Pay allowing them to individually prepare payrolls and change employee information (e.g., add and delete employees and change pay rates) without identification as to who was responsible for the changes. There were no reports generated that would allow an independent review of the payroll functions on a periodic basis.
- **Under-Utilization of Built-In Controls** A representative of the District's accounting software vendor informed us that the current Windows based version of the module used for accounts receivable and payable transactions (Info-Fund), has built-in controls that promote the segregation of duties. Access to certain functions within Info-Fund may be restricted based on an individual's need for processing information. In order for such built-in controls to be in place, District officials must either enable the necessary settings on the computer, or request assistance from the software vendor. However, in the case of Info-Fund, District officials did not utilize the built-in

controls by enabling the proper settings on the computer, nor did they request assistance from the software vendor for this purpose. As a result, the Business Manager, Deputy Treasurer and Payroll Clerk all had full access to Info-Fund, allowing each of them individually to add and delete vendors, or change vendor information, add and delete general and subsidiary ledger accounts, record receipts and disbursements and print checks.

Due to the lack of segregation of duties plus the software deficiencies noted, we verified bank reconciliations prepared for all five of the District's checking accounts for the month of December 2005, and we reviewed and performed selected tests of the general and school lunch fund checking accounts for five additional test months. We scanned August and December 2005 warrants of all funds for unusual payments. We examined December 2005 bank charges to determine if they were supported by cancelled checks and other appropriate documentation (examined 454 bank charges for cancelled checks and 23 of approximately 400 direct deposit bank charges against the payroll bank account). We examined a total of five wire transfers made from and to various bank accounts during December 2005. We traced a total of 50 duplicate cash receipt documents issued during December 2005 to the cash receipts journals; and compared recorded receipts with bank deposits – a total of 132 deposits — made in December 2005.

Although our tests did not disclose fraud or other exceptions, the access individuals have to the accounting system combined with the lack of segregation of duties and reports for independent review can result in errors or irregularities occurring and not being detected and corrected in a timely manner.

Recommendations

1. The Board should ensure that financial related duties are assigned so that the work of one individual independently verifies another's in the course of their regular duties. At a minimum, the duties of recordkeeping, check preparation and reconciling bank accounts should be separated.
2. The Board should require District officials to utilize built-in controls within the accounting software to promote the segregation of duties. If the accounting software does not have built-in controls, or generate reports necessary for oversight, the Board and other District officials should consider purchasing replacement software that has such controls or implement other compensating controls.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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September 26, 2006

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Rochester Regional Office
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RE: Response to State Audit

Dear ██████████:

The Wheatland-Chili Central School District prides itself on maintaining the highest ethical standards in its operations supported by internal controls.

Our success in this area is the result of reviewing how we do business. We believe that continuous improvement makes us stronger as an organization in safeguarding public funds.

Your recent audit assists us by suggesting two areas for us to consider:

- Segregation of duties
- To fully use all internal control mechanisms

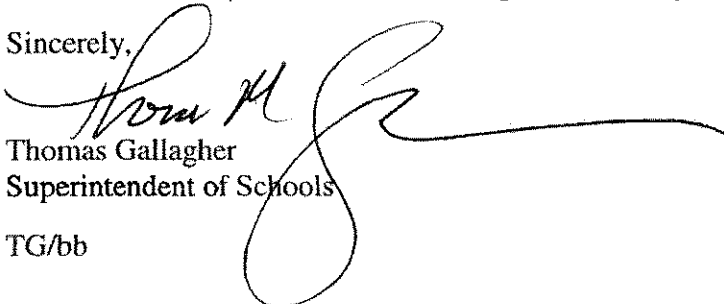
We will continue on our path of continuous improvement by:

- Defining the uses of our internal auditor function
- Using our Audit Committee as a conduit for regular checks and balances
- Review current software and implement functions to assist with internal controls and security

We appreciate this opportunity by your office as a way of verifying that our practices are sound and protect our taxpayers.

I look forward to completing the customer satisfaction survey that will come from your office. Your office is entering the educational financial system. I hope we can offer feedback to you on continuous improvement of your practices as well.

Sincerely,



Thomas Gallagher
Superintendent of Schools

TG/bb

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 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 then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We then selected controls over the Treasury and Accounting Duties for further audit testing because of the lack of segregation of duties and related computer control weaknesses.

Our audit procedures included:

- Reviewing key control activities of the Business office including the manner in which bank accounts are reconciled, duties are assigned, and checks are signed.
- Reviewing District financial records, bank statements, and cancelled checks to verify that bank reconciliations were properly performed for the general, school lunch, federal aid, capital projects and trust and agency fund checking accounts for the month of December 2005. We also reviewed and performed selected procedures to determine the accuracy of the general and school lunch fund checking account reconciliations for the months of July through September and November 2005, and January 2006.
- Scanning warrants of all funds for unusual payments for the months of August and December 2005.
- Examining bank charges to determine if they were supported by cancelled checks, audited claims, payrolls, contracts or other appropriate documentation for all checking accounts for the month of December 2005.
- Examining 2005-2006 purchase requisitions of all funds for requisitions issued by the Treasurer to determine if the related purchases were proper, and that such purchases were supported by properly approved and itemized claims.
- Examining purchase orders and any related purchase requisitions and claims of all funds for the month of December 2005 to determine if the related purchases were proper, and that such purchases were supported by properly approved and itemized claims.

- Examining bank wire transfers made from and to general, debt service and capital projects fund bank accounts in December 2005 to determine if the transfers were proper.
- Comparing duplicate receipts with cash receipts journals of all funds, and comparing recorded receipts with bank deposits for the month of December 2005.

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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