



Bedford Central School District Internal Controls Over Cash Receipts and Disbursements

Report of Examination

Period Covered:

July 1, 2005 — December 15, 2006

2007M-41



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

April 2007

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller is mandated to oversee the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits can also identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Bedford Central School District, entitled Internal Controls Over Cash Receipts and 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.

This audit's results and recommendations are resources for district officials in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

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

Introduction

Background

The Bedford Central School District (District) is located in the Towns of Bedford, Mount Kisco, New Castle, North Castle and Pound Ridge, Westchester 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.

There are seven schools in operation within the District, with approximately 4,400 students and 800 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$105 million, funded primarily with State aid, real property taxes and grants.

One of the Board's managerial responsibilities is the establishment of a system of internal controls designed to provide reasonable assurance that District assets are properly safeguarded and purchases are made in accordance with District policy. 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. A good system of internal controls should also provide for the timely identification of errors and/or irregularities which may have occurred so that corrective action can be taken. Once established, the Board has the responsibility to monitor them periodically to ensure that they are operating properly.

Objective

The objective of our audit was to review the District's controls over cash receipts and disbursements. Our audit addressed the following question:

- Are internal controls over cash receipts and 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 in most of the financial areas with the exception of cash receipts and disbursements which had a limited risk. Therefore we concentrated our audit efforts on controls over cash for the period July 1, 2005 to December 15, 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.

Internal Controls Over Cash Receipts and Disbursements

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.

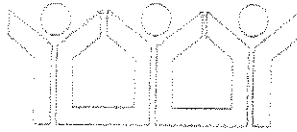
An effective internal control system includes policies and procedures intended to provide reasonable assurance that cash transactions are properly initiated, accurately recorded, deposited timely and properly approved and documented. Duties are segregated so that no single individual controls most or all phases of a cash transaction. Board approval is required to open, close and change District bank accounts. Cash receipts are received by one designated employee. Cash received is recorded and deposited intact on a timely basis. Bank account reconciliations are prepared on a timely basis and reviewed by an employee not involved in receiving or recording cash. Wire transfers are monitored and approved by an employee not involved receiving or recording cash. Checks and bank statements are secured and all voided checks defaced. All cash payments are supported by detailed documentation.

The District internal control system is appropriately designed and operating effectively. We reviewed and tested the District's cash policies and procedures for adequacy. We examined cash handling procedures and found proper segregation, proper initiation, recording, approval and documentation. We also tested a sample of bank account reconciliations for accuracy, completeness and timeliness. Our testing included \$6,613,062 of wire transfers all of which were properly authorized. We examined \$554,326 of daily cash receipts to determine if they were properly recorded and deposited in a timely basis. We also reviewed \$3,372,808 of payments to verify that checks issued were properly recorded and to verify check log and check sequence integrity. We found no discrepancies or inconsistencies. The Board's policies and procedures are operating effectively to protect District assets.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



BEDFORD CENTRAL SCHOOL DISTRICT

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914-241-6010

March 19, 2007

State of New York
Office of the State Comptroller
Newburgh Regional Office
33 Airport Center Road
Suite 103
New Windsor, New York 12553

Attention: [REDACTED]

Dear [REDACTED]

On March 6, 2007 members of the Bedford Central School District's central administrative staff and board of education audit committee attended a briefing to review your office's draft findings in regards to your financial audit of our district.

I am clearly aware of the efforts our district has made to ensure the safe keeping of public funds and to protect the interest of our taxpayers through effective and efficient internal controls. I am additionally pleased that your audit of our district has substantiated our efforts and confirmed that, "the District's internal controls over cash receipts and disbursements are appropriately designed and operating effectively to protect District assets." I am equally pleased that you, "found no discrepancies or inconsistencies."

While we understand any audit is a snapshot in time, rest assured that the Bedford Central School District has always and will continue to take very seriously its responsibilities in the management and safekeeping of its financial matters. At this time, we concur with your findings in your draft letter of February 26, 2007.

I would personally like to thank your auditors for their thorough review of our district and the efforts they made to perform their duties while not disrupting our ability to manage the everyday operation of our district.

Sincerely,

Mark L. Betz
Assistant Superintendent
Business & Administrative Services

cc: Dr. Jackson
Audit Committee

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 but limited risk existed with cash. Therefore, we decided upon the reported objectives and scope by selecting cash receipts and disbursements for further audit testing.

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

- We obtained copies of District's policies and procedures and evaluated the adequacy of these policies.
- We reviewed pertinent documents including cancelled checks, bank statements and various other accounting records to determine if District personnel were properly initiating, supporting, approving, and recording cash transactions.
- 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.

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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