



Byron-Bergen Central School District

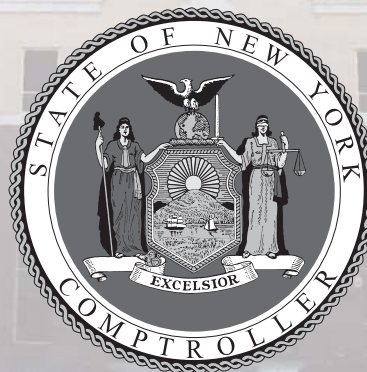
Internal Controls Over Cash Receipts and Disbursements

Report of Examination

Period Covered:

July 1, 2006 — November 30, 2007

2008M-42



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2008

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 oversees 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, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Byron-Bergen Central School District, entitled Internal Controls Over Cash Receipts and Disbursements. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use 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
and School Accountability*

Introduction

Background

The Byron-Bergen Central School District (District) is located in the Towns of Batavia, Bergen, Byron, Elba, Leroy and Stafford in Genesee County, the Town of Clarendon in Orleans County, and the Towns of Riga and Sweden in Monroe 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 two schools in operation within the District, with approximately 1,200 students and 225 employees. The District's operating expenditures; net of debt service, for the 2006-07 fiscal year were approximately \$15.4 million. District expenditures were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to evaluate internal controls over the District's financial operations to ensure that District assets were properly safeguarded. Our audit addressed the following related question:

- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

During this audit we examined internal controls of the Byron-Bergen Central School District for the period of July 1, 2006 to November 30, 2007.

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*.

Cash Receipts and Disbursements

Cash receipts and disbursement policies must contain specific guidance and information for District employees responsible for handling and accounting for cash assets. Effective policies adequately address the collection, recording and deposit of cash; the disbursement of District moneys by check; and prescribed procedures for executing wire transfers. Further, duties must be appropriately segregated so that someone, other than the person receiving and recording cash receipts and making disbursements, is responsible for reconciling bank accounts or preparing and making bank deposits. When it is not practical to segregate duties because of limited staff resources, the Board must establish compensating controls. An adequate system of internal controls provides 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 ensure that these controls are routinely monitored to determine whether they are operating properly.

Internal controls over cash receipts and disbursements were not appropriately designed or operating effectively. The Board has not adopted written policies for cash receipts and disbursements, segregated critical duties so that no individual controls all phases of a transaction, or properly safeguarded District assets.

The District Clerk receives money from various sources, including extra classroom activities. She also opens the mail and endorses any checks received. However, she does not provide a receipt to document any of the money received. The Clerk places the money in a cabinet that remains unlocked during the day. Cafeteria staff have access to this cabinet and place money from food sales in it, as District officials believe this location is more secure than leaving the cash in the cafeteria. However, since more than one person has access to the cash in this cabinet, this money is still vulnerable to misappropriation.

The Clerk subsequently returns the cafeteria money to the cafeteria manager for deposit and gives other moneys received to the School Business Official (SBO), who prepares a deposit ticket. The SBO also maintains the general ledger, is responsible for performing wire transfers, and prepares monthly bank reconciliations. The concentration of all these activities with the SBO creates an internal control weakness.

The Board hired a Treasurer, effective October 1, 2006, but the Treasurer does not perform all of the functions assigned to that office

by Board policy, such as signing checks. The Superintendent, whose signature is affixed to District checks, does not have control over his signature as the image is embedded in the accounting software system and prints automatically when checks are prepared. Checks are routinely prepared by the Clerk prior to the audit of claims.

Due to the control deficiencies noted, we tested cash receipts and disbursements. Our testing included two months of wire transfers and cash receipts, as well as 20 cash disbursements, out of a total of approximately 400 cash disbursements for the two months tested. All were transfers, cash receipts and cash disbursements that we tested were properly recorded. We also compared bank statement balances, as adjusted for deposits in transit and outstanding checks, with general ledger cash balances. No exceptions were noted.

Recommendations

1. The Board should adopt written policies for cash receipts and disbursements.
2. The Board should segregate duties currently performed by the School Business Official so that one individual does not control key phases of a transaction. Minimally, the duties of cash collection and recordkeeping should be separated.
3. The District Clerk should issue a receipt, in duplicate, for all money received and money in her custody should be properly secured prior to deposit.
4. District checks should be signed by the Treasurer in accordance with Board policy.
5. Signature images should be properly secured and affixed to checks only after audit and approval of claims by the claims auditor and under the control of the appropriate signatory.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

BYRON - BERGEN CENTRAL SCHOOL

DISTRICT OFFICE

6917 West Bergen Road

Bergen, New York 14416-9747

Superintendent - Gregory C. Geer, Ph.D.
Business Official - William E. Snyder, Jr.
Director of Learning - Loren A. Penman
Special Education Chairperson - Donna M. Moscicki

(585) 494-1220
Fax Number: (585) 494-2613

May 12, 2008

Office of the State Comptroller
Buffalo Regional Office
295 Main Street
Suite 1050
Buffalo, NY 14203

Corrective Action Plan – State Comptroller’s Audit July 2006 – November 2007

Following is the Byron-Bergen Central School District’s response to the New York State Comptroller’s Audit of the District’s financial state for the 2006-07 school year. District officials and the Board of Education were aware of many of the issues cited in the audit and were engaged in remedial efforts for the past several years. The Comptroller’s findings were consistent with the District’s external audits.

The Board of Education of the Byron-Bergen Central School District recognizes the need to safeguard district assets and has been proactive in adopting new policies and procedures to guarantee their safety. The District’s external auditors had brought the need for segregation of duties amongst the district office staff to the forefront. To alleviate the segregation problems, the Board created the District Treasurer (DT) in the 2006-07 school year budget. The Board appointed our present DT on September 22, 2006 with an effective starting date of October 2, 2006. Additionally, the Board realized that the accounting software, [REDACTED], did not provide adequate controls and made the decision to replace this accounting software with a new program, [REDACTED]. [REDACTED] was put into use January 1, 2008.

Since her appointment, the DT has been learning and trained in the routines and practices of the district office. As this individual has mastered tasks she has been assigned other new duties addressing the cited segregation of duties issue. The result is a good system of checks and balances. Examples of the District’s changes are explained in the following paragraphs.

The School Business Official (SBO) no longer collects/deposits daily cash receipts or posts cash receipts to the general ledger the DT handles all deposits. A system has been devised whereby the District Clerk (DC) receives presorted mail from the main office. The DC records and maintains a separate listing of all cash receipts, stamps all checks “For Deposit Only” and notifies the SBO. The SBO codes all cash receipts for deposit into the correct bank and general ledger account, also making an independent listing. The

DT makes out the deposit slip, posts the cash receipts to the general ledger issuing computer-generated treasurer's receipts. The Superintendent of Schools (SS) receives all bank statements, opens and verifies them. The statements are given to the SBO who reconciles them and compares the balances to the general ledger.

The school lunch program receipts are now counted and verified by the cafeteria manager and a second individual. All amounts are recorded on a spreadsheet and the funds are given to the DT for deposit and recording in the general ledger. The DT provides the SBO with copies of the deposits. The SBO accesses the spreadsheet prepared by the cafeteria manager, read only access, agreeing deposit slips with the totals posted while performing the monthly bank reconciliation.

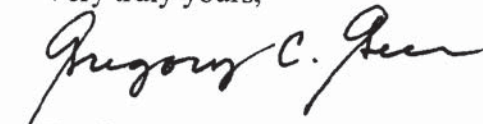
Activity treasurers receive funds and issue receipts for their extra-curricular account activities. A copy of the receipt is given to the DC. The activity treasurer gives the funds to the DT for deposit. The DT give the DC the processed deposit slips. The DC maintains cash balances for each extra-curricular activity and reconciles the monthly bank statements.

Access to storage of district funds is under lock and key. There are always two individuals present when funds are being accessed. Logs are maintained to show when and by whom when funds are accessed from storage.

The Board has authorized the SBO as signatory on district checks. The DT maintains the SBO's signature on a diskette. As of April 23, 2008 the district has been informed that updates to the [REDACTED] accounting software will result in a report, "Checks waiting to be printed", to be generated for the internal claims auditor to review. Once completed the checks can only be printed after the DT releases the signature disk through a password.

As the District moves forward in the future, the Board of Education will continue to address any future issues with the same vigor to ensure that there always will be proper checks and balances in place to protect the district's assets.

Very truly yours,



Dr. Gregory C. Geer
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: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

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 receipts and disbursements for further audit testing.

For cash receipts and disbursements, we conducted interviews with District officials to gain an understanding of the nature of internal controls and reviewed the Board-adopted job duties for the Treasurer. We obtained bank statements, deposit tickets, cash receipts and disbursements records, general ledgers, treasurer reports and related business office and cafeteria records. We tested general cash receipts by tracing bank statement activity to source documents, such as duplicate receipts, and to a summary of cash receipts prepared by the Business Official. We compared 20 daily cash sheets prepared by cafeteria staff to the bank deposit ticket and bank statement and tested 20 wire transfers from bank statements to the accounting records. For cash disbursements, we compared payroll amounts listed on the direct deposit register certified by the Superintendent to the actual disbursements in the District's bank accounts. We also compared 20 check disbursements to the corresponding warrants and claims.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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