



Forestville Central School District Internal Controls Over Cash Disbursements

Report of Examination

Period Covered:

July 1, 2006 — July 26, 2007

2008M-7



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
INTERNAL CONTROLS OVER CASH DISBURSEMENTS	7
Recommendations	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	12
APPENDIX C How to Obtain Additional Copies of the Report	13
APPENDIX D Local Regional Office Listing	14

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 Forestville Central School District, entitled *Internal Controls Over Cash 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 Forestville Central School District (District) is located in the Towns of Arkwright, Hanover, Sheridan and Villenova in Chautauqua County and the Town of Perrysburg in Cattaraugus 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.

The School Business Executive plays a key role in the daily administration of the Business Office and has two full-time employees to assist her. The Board has appointed the Business Executive as District Treasurer, so she performs Treasury functions along with her regular job duties. The Board appointed a claims auditor to review all claims for payment.

There are two school buildings in operation within the District with 612 students and 130 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$8.5 million, which were funded primarily with State aid, real property taxes and grants.

Objective

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

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

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: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services. 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 cash disbursements area, including electronic fund transfers. Therefore, we examined internal controls over cash disbursements for the period July 1, 2006 to July 26, 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*.

Internal Controls Over Cash Disbursements

The Board is responsible for establishing a system of internal controls to provide reasonable assurance that cash and other resources are safeguarded and financial transactions are authorized and properly recorded. An effective system of internal controls consists of written policies and procedures that specifically address responsibilities for District cash disbursements, including authorizing, executing and confirming the electronic transfer of funds (wire transfers) and auditing claims before they are paid. The Board must ensure that financial duties are segregated so that no one person controls all phases of a transaction. Further, a Board-appointed claims auditor must be eligible to serve in that position, and must perform a thorough review of claims to ensure the District pays for only legitimate District expenses.

Wire Transfers — The District has no written wire transfer policies and procedures. The Treasurer executes wire transfers without the approval of another individual, and the bank does not provide paper confirmation of wire transfer transactions to another District official or employee. Although Board members and the Superintendent receive monthly cash reports from the Treasurer, they do not receive any independent accounting/reporting that would provide them with a reliable means of monitoring the Treasurer's wire transfer activity. The Treasurer also maintains the accounting records and performs monthly reconciliations of the bank statement balances to the accounting records. Concentrating these key duties with one individual with little or no oversight results in a weakness in internal controls and significantly increases the risk that errors and/or irregularities could occur and go undetected. We tested 22 wire transfers recorded on the District's bank statements, totaling \$3.4 million. All were properly recorded without exception. However, District officials should provide for more effective controls over wire transfers to prevent the occurrence of errors or irregularities in the future.

Claims Audit — According to Education Law, the Board must appoint a claims auditor who is independent of other District business operations. The Board must also ensure that the claims auditor understands how to perform the duties of this position. These duties require the claims auditor to review all claims against the District to ensure billed amounts are supported, legitimate expenses before approving the claims for payment.

In July 2006, the Board appointed a District administrator who had the authority to initiate and approve purchases to serve simultaneously as the claims auditor. This resulted in an inadequate segregation of duties and an increased risk of inappropriate payment. In September 2007, the Board appointed a school cafeteria employee to serve as the claims auditor, but did not provide this employee with a written job description of the job's responsibilities and the Board's expectations for this position. Therefore, the new claims auditor is independent of other District business functions, but may not understand the duties of the position. Our review determined that the claims auditor does not sign any of the claims to indicate that they were approved for payment. Without an indication of the claims auditor's review, the District has less assurance that claims have been audited, and that the claims approved for payment represent valid District expenses. We compared 56 cancelled checks to the corresponding entry on the claims warrant, and compared four claim warrants to the amounts posted to the general ledger cash account. While we did not find any exceptions, the District should correct the control weaknesses we identified to strengthen controls over cash disbursements.

Recommendations

1. The Board should develop written wire transfer policies and procedures, and separate the recordkeeping and wire transfer functions. The adopted procedures should also include the receipt of written confirmations and/or callbacks from the bank to an individual not authorized to initiate a wire transfer.
2. The Board should reassign some of the Treasurer's current duties to other appropriate District personnel or implement a compensating control, such as increased Board oversight, to reduce risk.
3. The Board should provide a written job description to the claims auditor detailing the responsibilities and the Board's expectations for that position.
4. The claims auditor should sign each claim to evidence audit and approval for payment.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

FORESTVILLE CENTRAL SCHOOL DISTRICT

ADMINISTRATION

JOHN O'CONNOR, Superintendent
CHARLES LEICHNER, Secondary Principal
DANIEL GRANDE, Elementary Principal
CYNTHIA MACKOWIAK, Business Administrator/Treasurer

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March 31, 2008

Office of the State Comptroller
295 Main Street
Room 1050
Buffalo, New York 14203

To Whom It May Concern:

On behalf of the Board of Education of the Forestville Central School District, we are most appreciative of the State Auditor's recommendations and evaluations. The individual who conducted our audit performed at a highly professional level and was helpful in improving our internal controls. The Forestville Central School District is in agreement with your findings and we already began taking corrective action to address the concerns. As it relates to the specific findings of the Comptroller's audit, the District offers the following responses:

Recommendation No.1

A recommendation was made that we develop written policies and procedures concerning wire transfers.

District Response No.1

A policy will be adopted that outlines the specific procedures to ensure that proper controls are in place for wire transfers. The policy shall include clearly delineated responsibilities as well as formal confirmations of transfers from the bank. An individual other than the District Treasurer will be responsible for reconciling the account.

Recommendation No. 2

A recommendation was made that we reassign some of the Treasurer's current duties to other appropriate District Personnel.

District Response No.2

In order to address internal controls within the business office, the District is currently addressing segregation of duties. An employee outside the business office function is responsible for some duties originally completed in the business office. Some of these duties include receipt of cash and checks.

Recommendation No. 3

A recommendation was made that we provide a written job description to the claims auditor detailing the responsibilities and the Board's expectations for that position.

District Response No.3

A written job description, approved by the board of Education, will be provided to the claims auditor detailing the responsibilities of the position. In addition, the claims auditor received training through NYSSBA to gain additional knowledge relevant to the position.

Recommendation No. 4

A recommendation was made that the claims auditor signs each claim to evidence audit approval for payment.

District Response No.4

A process is in place that requires that the claims auditor sign each claim as a prerequisite to final approval for payment.

We appreciate the efforts made by the auditor to assist us in finding ways to strengthen our already sound and financially responsible school district. The information that you have provided to our District is helpful in enhancing our business operations and assuring taxpayers that the Forestville Central School District is operating in a fiscally responsible manner.

Sincerely,


John A. O'Connor
Superintendent

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, and payroll and personal services.

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, including electronic fund transfers, for further audit testing.

For cash disbursements and electronic fund transfers, we reviewed pertinent Business Office procedures. We traced 22 wire transfers to the accounting records and bank statements. For a 12 month test period, we judgmentally selected 56 disbursements and examined documents supporting the payments.

We conducted this 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.

APPENDIX C

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