



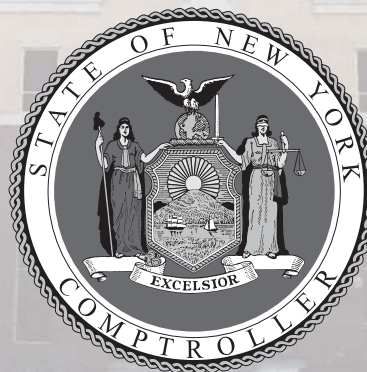
Newcomb Central School District Internal Controls Over Cash Receipts and Disbursements

Report of Examination

Period Covered:

July 1, 2005 — June 30, 2007

2007M-281



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	5
CASH RECEIPTS AND DISBURSEMENTS	7
Recommendation	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	11
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

February 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 Newcomb 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 Newcomb Central School District (District) is located in the Town of Newcomb, Essex County. The District is governed by the Board of Education (Board) which comprises five 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 is one school in operation within the District, with approximately 70 students and 40 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$3.9 million, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to evaluate the District's internal controls over cash receipts and disbursements. Specifically, 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

We examined the internal controls related to cash receipts and disbursements of the Newcomb Central School District for the period July 1, 2005 to June 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 that they had initiated 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

One of the Board's managerial responsibilities is the establishment of a system of internal controls including policies and procedures, managerial oversight and proper segregation of duties. A good system of internal controls over cash receipts and disbursements consists of written policies and procedures that provide reasonable assurance that cash transactions are properly initiated, accurately recorded, deposited timely and properly approved and documented. Another key aspect of internal controls is that duties are segregated so that no single individual controls most or all phases of a cash transaction.

The District had no written policies and procedures documenting the process to be used for processing receipts and disbursements. However, the District has an informal system in place that provides an adequate system of internal controls. This includes an adequate segregation of duties which ensures that the work of one individual is checked by the work of another. For example, in processing cash disbursements, the School Business Official records disbursements to the accounting software, the District Treasurer signs all checks and the Secretary to the Superintendent reconciles the bank statements. Additional oversight is accomplished by the Board of Education auditing claims and approving the warrants and the Superintendent providing prior approval for all purchases in his role as purchasing agent. Cash receipts are handled similarly with the District's three office employees performing separate duties that verify each others work, ensuring that receipts are collected, deposited and recorded properly with sufficient oversight. We determined that, except for cafeteria receipts' not being deposited timely, the District had adequate internal controls over cash receipts and disbursements.

Our audit of cash disbursements included reviewing approved warrants, paid vouchers and cancelled checks. We tested 10 payments from the Board-approved warrants totaling approximately \$77,000 to determine whether the checks that were written agreed with the information listed on the warrants. We also traced 10 cancelled checks totaling approximately \$42,000 from the bank statements to the warrant and supporting vouchers and found no discrepancies. We determined that, except for minor deficiencies that we discussed with District officials, internal controls over cash disbursements were adequate.

Our audit of cash receipts included reviews of press-numbered receipts, cash receipt journals, bank deposits and bank statements.

We reviewed 10 receipts totaling approximately \$3,600 to determine whether receipts were deposited in the correct amounts and in the proper accounts. No significant discrepancies were noted. We also tested 10 deposits totaling approximately \$4,700 and traced these back to the supporting receipts to determine if deposits were being made timely and intact. We noted one deposit for cafeteria receipts during June 2006 totaling \$1,500 which represented approximately eight weeks of receipts. The cafeteria generated \$5,118 of cash receipts during the 2005-06 fiscal year with deposits only being made on a monthly basis. Further review revealed that the District had not established procedures to ensure that cafeteria receipts were deposited timely. Failure to deposit cash receipts in a timely manner increases the risk that these moneys could be misappropriated, misused, lost or stolen.

Recommendation

1. District officials should establish formal written procedures for handling cash receipts and disbursements and ensure that receipts from the cafeteria are deposited on a timely basis.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Newcomb Central School District

Clark "Skip" Hults, Superintendent of Schools

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Pamela Bush

Business Manager
Nancy O'Brien

School District Clerk
Melissa Yandon

School District Treasurer
Tina Helms

January 29, 2008

████████████████████
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801

Dear ██████████

I am writing in response to our state audit and our exit meeting of Monday, January 14th. Before addressing the report itself, I would like to say we have found the audit experience a positive one. As educators we constantly share with our students the importance of reflection, but all too often we do not make the time to do it ourselves. The audit experience allowed us to fully examine and review the methodologies of the business office. We have found the audit experience helpful and meaningful. We especially appreciated our auditor, ██████████. ██████████ was unobtrusive, always sensitive to the activities of the school. We appreciated his professionalism in dealing with both staff and issues.

The school board has reviewed the audit and recommendations. We are in agreement with all areas of the audit. The business office has already instituted the changes requested.

If you have any questions, please don't hesitate to contact me at the school.

Sincerely,

Clark "Skip" Hults, Superintendent
Newcomb Central School

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 receipts and disbursements for further audit testing.

To accomplish the objective of the audit, we performed the following procedures:

- We reviewed board minutes for our audit period and the District's policy manual for all applicable polices and procedures.
- We interviewed pertinent District Officials and employees.
- We performed a cash count of the petty cash box and lunch cash drawer.
- We reviewed duplicate receipt books, daily tally sheets, deposit slips, bank statements and cash receipts journals.
- We reviewed vouchers, warrants, cancelled checks and supporting documentation for cash disbursements.
- We reviewed, on a test basis, a judgmental sample of 20 cash receipts to determine that the receipts were properly recorded in the accounting records and deposited in the bank in a timely manner and intact.
- We examined supporting documentation for a judgmental sample of 20 cash disbursements to verify that the payments were necessary and authorized, verified and supported.

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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