



# Pine Bush Central School District Internal Controls Over Tax Receipts

## Report of Examination

Period Covered:

July 1, 2006 — June 30, 2007

2007M-283



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

January 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 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 Pine Bush Central School District, entitled Internal Controls Over Tax Receipts. 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 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 Pine Bush Central School District (District) covers 107 square miles in the Towns of Crawford, Gardiner, Mamakating, Montgomery, Mount Hope, Shawangunk and Wallkill, in Orange, Sullivan and Ulster Counties. 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 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 6,200 students and 1,300 employees. The District's budgeted expenditures for the fiscal year 2006-07 were \$86 million, which were funded primarily with State aid, real property taxes, and grants.

The District has an appointed tax collector who is responsible for mailing tax bills and collecting, receipting, recording and depositing tax payments. The voter approved tax levy for the 2006-07 fiscal year was \$40 million less \$5.3 million in STAR revenues leaving \$34.7 million in taxes receivable. The tax collector processed 10,413 bills totaling \$31.9 million of the \$34.7 million billed with minimal support in the payment receipting process from the Treasurer. The tax payments were due in full and had to be postmarked by October 5, 2006. Late payments were accepted if postmarked by November 3, 2006 and had to include the full payment with penalty.

## Objective

The objective of our audit was to review the internal controls over the tax receipts for the period July 1, 2006 – June 30, 2007. Our audit addressed the following related question:

- Are tax receipts processed, deposited and invested on a timely basis?

## 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 receipts area and, therefore, we examined internal controls over tax receipts for the period July 1, 2006 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 the District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

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*.

## Tax Receipts

The District's tax collector is a part-time, appointed position. The current Tax Collector also holds a full-time position with the District in the Human Resource Department where she receives assistance during the three months she collects taxes. During the last week of August 2006, the Tax Collector mailed out 11,890 property tax bills which were due by October 5, 2006. No installments or partial payments were accepted by the Tax Collector and payments were considered on time as long as they were postmarked by the due date. The Tax Collector was ultimately responsible for collecting, receipting, recording and depositing over 10,400 tax payments by November 3, 2006. Once the tax receipts were deposited into the tax account the Treasurer was responsible for transferring the funds into higher yield investment accounts.

Basic controls over the collection of taxes were adequate; however, the District potentially lost approximately \$36,000 in interest revenues as a result of infrequent transfers from the tax account to a higher yielding District account. In addition, the District's Tax Collector could improve the timeliness of deposits, which could also lead to increased interest revenue for the District.

### More Timely Transfers

The District has an opportunity to improve the timeliness of deposits. It also has a fiduciary responsibility to make the most prudent use of its funds. Financial accountability includes maximizing earnings whenever feasible without subjecting them to unnecessary risk or cost. The District Treasurer is authorized and directed to make timely investments of all available District monies, in such form and manner authorized by existing statutes or regulations, as a means of maximizing the capital capability of the District.

The Tax Collector made 89 deposits from September 6, 2006 until November 21, 2006. The amount of interest revenue realized by the District on the tax account was \$10,580 for the five month period is illustrated below.

Month	Number of Deposits	Amount Deposited	Average Balance	Interest Earned	Yield
September	32	\$10,300,000	\$1,500,000	\$1,207.87	0.97%
October	48	\$20,700,000	\$9,200,000	\$7,586.22	1.01%
November	9	\$1,100,000	\$1,400,000	\$1,176.60	1.01%
December	0	\$0	\$700,000	\$608.63	1.01%
January	0	\$0	\$1,500	\$0.31	0.25%
<b>Total</b>	<b>89</b>	<b>\$32,100,000</b>		<b>\$10,579.63</b>	

The District Treasurer made only six transfers from the tax account to the District's general fund money market account from September 1, 2006 through January 25, 2007 accounting for over \$32 million. Two transfers were made in September (\$6.4 million) and October 2006 (\$24 million). No transfers were made in November, and only one transfer per month in December (\$1.6 million) and January (\$600).

If the District Treasurer had transferred the available funds into the higher yielding account more frequently the District could have earned as much as \$46,550. The District Treasurer missed the opportunity to earn potential interest revenue of \$35,970<sup>1</sup> because she did not transfer the available funds to the higher yielding account in a timely manner.

### **More Timely Deposits**

Good business practices require cash and checks to be deposited daily or as quickly as possible to prevent loss or misuse of funds. Delays in depositing cash receipts reduces the District's interest income, makes checks more susceptible to theft or loss and misrepresents the actual flow of cash in the District's financial records.

Approximately 440 payments were made in person directly to the Tax Collector and processed upon receipt. Approximately 96 percent of the 10,400 tax payments were mailed to the Tax Collector, including the bulk payments from tax servicing companies.

The District maintains a separate post office box for tax collection. Taxes mailed to the post office box are picked up daily by the bonded District courier and delivered to the District office. The District receptionist opens the mail, stamps the envelope received, removes the payment with any enclosures and stamps all checks "For Deposit Only". She then verifies the billed amount to the actual check and notes any differences. For the current tax collection period, the receptionist maintained a log of all payments received by her based on the postmark date.

Tax receipts are posted in batches in the order received except for the bulk tax service payments. A batch report is generated and a calculator tape is attached verifying the deposit amount for each batch. Deposits are prepared after the payments are posted and receipted by the tax collector. A receipt stamped paid is mailed to every property owner regardless of who paid the bill. The Assistant Superintendent for Business or the Treasurer reviews and approves each deposit. The courier delivers the deposits to the bank daily. Any deposits being held overnight, completed or unfinished are locked

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<sup>1</sup> See Appendix B for calculation of lost interest revenue.

up in the Treasurer's safe. All cash and money orders received are secured if not immediately processed and deposited.

To determine if the deposits were made timely, we reviewed the \$31.9 million in tax deposits made from September 6, 2006 to November 21, 2006. Approximately \$20 million of the \$31.9 million of total tax receipts were postmarked on or prior to October 5, 2006, however, \$14.6 million, or 73 percent, of the \$20 million was not deposited within four days of receipt. It took the tax collector between 4 and 19 days, to prepare these deposits. For example, a mortgage company remitted payment of 432 tax payments totaling \$1.3 million on diskette. The District received the payment on October 3, 2006; however, it was not deposited until October 17, 2006 or 14 days later. While this resulted in lost interest revenue, we found no evidence of errors and/or irregularities due to the untimely deposits.

During the audit period the District received an average interest rate of 1 percent on the tax account. Applying the 1 percent interest rate on the \$14.6 million that was not deposited timely, the District lost \$3,100 of interest revenue. If the District had negotiated a higher yield (the interest rate on the District's money market account was 4.4 percent) on their tax account the potential interest revenue could have been as much as \$14,000.

Alternate systems are available that could improve the timeliness of receipting and depositing tax payments such as a Lock Box or Remote Electronic Deposit systems. While a lock box system was not available through the District's current bank, the District has been researching the feasibility of implementing, a Fast Remote Electronic Deposit system (FRED) offered by their bank. By utilizing the FRED scanner, the District could scan all checks received and make a same-day digital deposit. The scanner creates an image of both the front and back of the check and captures the Magnetic Ink Character Recognition (MICR) information. FRED "reads" the check automatically, and eliminates the need to key in data and the element of human error. Preparation and copying of checks as well as trips to the bank would also be eliminated.

According to District officials, the untimely receipting and depositing of the District tax payments was due to the large number of tax payments received and the limited staffing of the tax department. In addition, District officials stated they were unaware of the low adjustable rate applied to the tax collector's account. We found that District officials did not have procedures in place to ensure that lower interest yielding accounts maintained minimal balances. Furthermore,

the Treasurer did not electronically check the funds availability and transfer these funds daily which could have been accomplished at no risk or cost to the District.

## **Recommendations**

1. The District Treasurer should transfer available funds from lower to higher interest yielding accounts more frequently to maximize the District's interest earnings.
2. District officials should investigate whether higher interest rates can be achieved on their accounts, specifically the tax account.
3. District officials should adopt and implement a cash receipts policy that establishes procedures that ensure that tax receipts are deposited in a timely manner.
4. District officials should explore alternative systems to improve the timeliness of receipting and depositing tax revenues.
5. District officials should analyze staffing levels and determine additional staffing is needed by the tax collector during peak collection periods.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



## **PINE BUSH CENTRAL SCHOOL DISTRICT**

**RoseMarie Stark, Superintendent of Schools**

Deborha Brush, Assistant Superintendent for Administrative Services

Joan M. Carbone, Assistant Superintendent for Instruction

December 27, 2007

[REDACTED]  
State of New York  
Office of the State Comptroller  
Newburgh Regional Office  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

RE: Pine Bush Central School District Response to Preliminary Draft Findings – 2007M-283

Dear [REDACTED]:

On December 20, 2007, you and [REDACTED] shared the preliminary draft audit findings of your office's review of the internal controls for the Pine Bush Central School District tax receipts processing, deposits, and investments for the school year 2006-2007.

As a result of the review, the district has taken the following actions:

- For recommendations 1, 2, 3:
  - On October 9, 2007, the Board of Education approved that the balances of the accounts for cafeteria fund, general fund, trust & agency fund, tax collection, and payroll be merged monthly for purposes of investment. This allows a higher interest rate to be earned, with interest prorated to each account, which remains separate for accounting purposes.
- For recommendations 4, 5:
  - For the final week of the penalty free tax collection period and one week beyond, the district hired additional staffing to receive and deposit tax revenues with 60 hours of substitute clerical assistance.

While the audit indicates a possible loss of approximately \$36,000 in interest revenues if there are infrequent transfers from the tax account, it should be noted the district earned more than \$318,000 in interest revenue from the certificate of deposit investments as a result of investing the tax revenues. For the future, the district anticipates maximizing interest earnings throughout all district accounts due to the actions that have been taken and noted above.

Sincerely,

RoseMarie Stark  
Superintendent of Schools

John Anthony, Jr.  
Board of Education President

## 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 Internal Controls over Tax Receipts for further audit testing.

To review the timeliness of deposits we traced the deposit batch to the bank statement for the period September 2006 to November 2006.

To review the timeliness of transfers we traced the transfers to the bank statement for the period September 2006 to January 2007.

We computed the number of days the tax receipts were not deposited by subtracting the receipted date from the date the deposit was credited to the District's account.

To determine the interest rate we used the District's rate of interest for the period September 2006 to January 2007.

To determine the potential amount of interest earnings lost we calculated the interest earned for the period of \$10,580 and multiplied it by 3.4 (the difference between the interest rates on the two District accounts of 4.4 percent and 1 percent).

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.

## APPENDIX C

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Steven J. Hancox, Deputy Comptroller  
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