



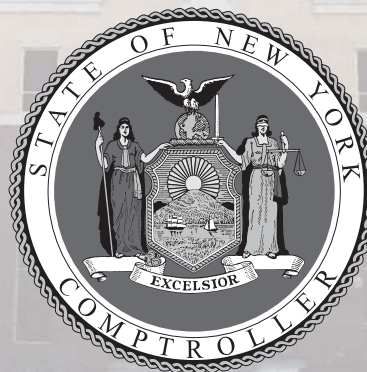
Randolph Central School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — September 27, 2007

2008M-14



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Randolph Central School District, entitled *Internal Controls Over Selected Financial Operations*. 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 Randolph Central School District (District) covers 264 square miles in the Towns of Coldspring, Conewango, Leon, Napoli, Randolph, Red House, and South Valley in Cattaraugus County, and the Towns of Ellington and Poland in Chautauqua 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 (Business Executive) is responsible for overseeing the District's financial operations and also serves as the District Treasurer.

There are two schools (a high school and an elementary school) in operation within the District, with approximately 1,000 students and 180 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$17 million, which were funded primarily with State aid, real property taxes and grants.

The District entered into an inter-municipal agreement with 17 other school districts and the Allegany-Cattaraugus Board of Cooperative Educational Services (BOCES) to provide the District's internal audit function beginning December 18, 2006.

A cafeteria manager is responsible for overseeing the daily operation of the District's two cafeterias, which offer breakfast and lunch to students and employees on school days.¹ The cafeteria manager reports to the Business Executive. Cafeteria employees also maintain four vending machines located at the high school. Cafeteria sales, including vending machine sales of \$16,000, were \$162,400 for the 2006-07 fiscal year.

Objective

The objective of our audit was to evaluate internal controls over selected financial operations. Our audit addressed the following related questions:

- Has the District appropriately contracted for the internal audit function?

¹ The cafeteria manager supervises the operations of the high school cafeteria, and a head cook supervises the operations of the elementary school cafeteria.

- Are internal controls over cafeteria cash receipts 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: 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 internal audit function and cafeteria operations and, therefore, we examined internal controls over internal audit services and cafeteria cash receipts for the period July 1, 2006 to September 27, 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 Audit Function

By law, school districts are required to have an internal audit function in operation that includes, at a minimum, the development of a risk assessment of district operations. The risk assessment should include a review of financial policies, procedures and practices; an annual review and update of such risk assessment; and annual testing and evaluation of one or more areas of the district's internal controls. The internal auditor is also required to prepare reports (at least annually, or more frequently as the Board may direct) that analyze significant risk assessment findings, recommend changes for strengthening controls and reducing identified risks, and specify timeframes for implementation of such recommendations.

A district may use its own employees, inter-municipal cooperative agreements, shared services to the extent authorized by Education Law, or independent contractors to fulfill the internal audit function. The internal auditor must have professional auditing qualifications and be independent of other district functions; must have no other responsibilities related to district business operations; and cannot be a family member of an employee, officer, or contractor providing significant or material services to the district. In addition, an individual or consultant hired for the internal audit function may not have a significant or material interest in any other contracts with the district.

The District entered into an inter-municipal cooperative agreement with 17 other school districts and the Allegany-Cattaraugus Board of Cooperative Educational Services (BOCES) to provide for the internal audit function beginning December 18, 2006. The agreement stipulates that "the jointly employed internal auditor shall be considered an employee of BOCES for purposes of payroll administration and benefits."

In the 2006-07 fiscal year, the District spent \$2.6 million on services provided by the BOCES. Based on the material nature of these payments by the District to the BOCES, the BOCES employee serving as the internal auditor is not independent in performing the District's internal audit function. This current arrangement is likely to put this individual, as a BOCES employee, in the position of evaluating significant District services or programs that are provided to the District by BOCES, the individual's employer. The individual may also be required to audit the system of documentation for District payments to the BOCES, the individual's employer.

Recommendation

1. The Board should terminate the internal audit relationship with the Cattaraugus-Allegany BOCES and replace this position with an internal auditor who meets the independence requirements in Education Law and State Education Department guidance.

Cafeteria Cash Receipts

District officials have a responsibility to establish effective internal controls over cafeteria operations to ensure that the District receives the proper amount of revenue from cafeteria sales and vending machines. An effective internal control system includes policies and procedures to provide reasonable assurance that cash transactions are properly recorded and cash is deposited in a timely manner, that financial activities are routinely monitored and reviewed, and that no single individual controls most or all phases of cash transactions.

Internal controls over cash collected by cafeteria staff are not appropriately designed and operating effectively. The District has not adopted written policies and procedures governing cafeteria cash receipts. The cafeteria manager, who supervises operations in the high school cafeteria, and the head cook, who oversees operations in the elementary school cafeteria, do not issue confirming receipts when cashiers remit the daily cash collections to them. They both have unrestricted access to the money in the cash registers and can change the entries made by the cashiers in the point-of-sale (POS) software. The oversight of cash collected from vending machines is inadequate, and cafeteria deposits are not always made on a timely basis.

Cash Registers — Five cashiers collect and record cafeteria sales using cash registers² equipped with a POS system. At the end of each business day, the cashiers remit the money collected to their respective supervisor. However, neither the cafeteria manager (high school) or the head cook (elementary school) counts the money in the presence of the cashiers, nor issues a receipt to the cashiers as evidence of the amount of money received. Both the cafeteria manager and the head cook have unrestricted access to the data recorded in the POS system by the cashiers, and also have unrestricted access to the money in the cash registers. The cafeteria manager and the head cook indicated that they count the money, compare the total to the amount recorded in the POS system, and inform the cashiers if there is a difference. However, because of the control deficiencies in the counting, verification, and recording of cash collections, they could conceivably take cash from the registers and modify transactions previously recorded in the POS system to match the cash totals, without being detected.

Vending Machines — Cafeteria staff is responsible for maintaining four vending machines located in the high school. One cashier has sole access to two of the machines. She keeps the machines stocked,

² Three cash registers are located in the elementary school cafeteria and two are located in the high school cafeteria.

empties the cash daily, and gives the money to the cafeteria manager, who counts it and posts the revenue to the POS software. However, the cafeteria manager does not issue a confirming receipt when she receives the vending machine cash. In addition, the same cafeteria manager has sole access to the other two machines. She stocks the machines and empties the cash from them weekly, with no one else counting or otherwise verifying the cash she removes. The manager also posts the revenue to the POS system and deposits the money from the vending machines together with the cash from the high school cafeteria sales for the day. However, no District official reconciles the vending machine cash collected with the items sold. When a single individual controls most or all phases of cash transactions and there are no compensating controls, errors or irregularities could occur and not be detected.

We tested cash receipts recorded in the POS system over a three-year period, using the recorded number of meals sold and approved unit prices, and found that revenues reported were reasonable. Further, cash receipts recorded in the POS system generally agreed with bank deposits, and any overages/shortages noted were minimal. However, bank deposits were not routinely made by the next business day. Over a five-month period, there were 25 instances where cash collected was deposited three or more business days after it was collected. When cash receipts are held longer than necessary and deposits are delayed, particularly in the absence of adequate controls, there is an increased risk that the District's cafeteria cash receipts could be mismanaged, lost, or stolen.

Recommendations

2. District officials should adopt written policies and procedures governing cafeteria cash receipts.
3. When cashiers remit daily cash collections to the cafeteria manager and head cook, the supervisors should count the cash in the cashier's presence and issue a duplicate receipt to the cashier.
4. District officials should institute controls to limit the cafeteria manager's and head cook's access to the data recorded in the POS system by the cashiers, and to the money in the cash registers.
5. Two cafeteria employees should be present when the vending machines are stocked with supplies and when cash is removed and counted.
6. A District official who is not responsible for vending machine activity should reconcile the vending machine cash collected with the items sold.

7. Cafeteria cash receipts should be deposited within one business day.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Randolph Central School

Main Street, Randolph, New York 14772-1188

Telephone 716/358-6161 FAX 716-358-7072

Sandra M. Craft, *Superintendent of Schools* 716/358-7005
David P. Chambers, *School Business Executive* 716/358-7006

David J. Davison, *Secondary Principal* 716/358-7007
William H. Caldwell, *Middle School Principal* 716/358-7028
Jerry L. Mottern, *Elementary Principal* 716/358-7030

March 5, 2008

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

Dear [REDACTED]

The Board of Education, Mrs. Craft, Mr. Chambers and I would like to thank you and your office for a careful and thorough review during your recent audit of the Randolph Central School District internal controls.

As of this date the Board of Education is pleased to inform you that it has or is in the process of implementing procedures to act upon your recommendations.

I will now address each finding in your audit report with additional specifications on how the Board of Education is changing our procedures.

Response to Finding - Internal Audit Function

1. Randolph Central School District has entered into a cooperative agreement with other component school districts within our BOCES to hire an internal auditor as required by Education Law. Our BOCES District Superintendent along with other BOCES Superintendents are working with our legislators on making this service a position within our local BOCES for our district to use. Our district, along with our BOCES is also looking into cross contracting for this service with another BOCES.

Response to Finding - Cafeteria Cash Receipts

2. The Board of Education is reviewing and/or adopting written policies and procedures governing cafeteria cash receipts.

3. The Board of Education has implemented new procedures on cashiers remitting daily cash collections to the cafeteria manager. Each cashier is now required to fill out a report showing their collection for the day. This is a detailed report which shows how much is collected by each cashier by monetary amount and checks. The cashier signs and gives this report to the cafeteria manager who then with the cashier, recounts the money and if necessary they rectify any discrepancies. Both individuals sign off on this form which is then copied and sent to the business office where it is verified to each deposit. .
4. The Business Manager is in contact with Erie One BOCES who supports this system for our district to see what controls can be put into place to limit the cafeteria manager's access to the system.
5. The Cafeteria Manager has been instructed that at all times two employees will be present when vending machines are stocked and/or when cash is removed and counted. At any time when money is removed from the machine the same procedure as number 3 above will then be followed. The district has also contacted the companies who supply the vending machines to see if these machines or any other machines they may have available have the capabilities to give us reports on inventory and collections.
6. The Business Manager is looking into this recommendation to see who within the district is qualified to do this requirement.
7. The Cafeteria Manager has been instructed to make every effort to deposit all cash receipts within one business day.

On behalf of the Board of Education, administration and myself, I would like to thank your office on our recent audit and if you have any further questions, please do not hesitate to contact me.

Sincerely Yours,



Mrs. Carol Luce
Board 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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected the internal audit function and cafeteria cash receipts for further audit testing.

For the internal audit function, we reviewed the inter-municipal cooperative agreement and relevant guidance provided in Education Law and by the State Education Department.

For cafeteria cash receipts, we analyzed the reasonableness of cash receipts recorded in the POS system by calculating the annual sales for three years using number of meals sold and unit prices. We compared three months of daily cash receipts recorded in the POS system with bank deposits. We also tested five months of daily cash collections to determine if bank deposits were timely.

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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