



**Tompkins-Seneca-Tioga  
Board of Cooperative  
Educational Services  
Internal Controls Over Payroll and  
the Treasurer's Signature Disk**

**Report of Examination**

Period Covered:

July 1, 2006 — July 18, 2007

2007M-290



**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**

February 2008

Dear BOCES Officials:

A top priority of the Office of the State Comptroller is to help BOCES officials manage their BOCES efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support BOCES operations. The Comptroller oversees the fiscal affairs of BOCES statewide, as well as BOCES 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 BOCES operations and Board of Cooperative Educational Services governance. Audits also can identify strategies to reduce BOCES costs and to strengthen controls intended to safeguard BOCES assets.

Following is a report of our audit of the Tompkins-Seneca-Tioga Board of Cooperative Educational Services, entitled Internal Controls over Payroll and the Treasurer's Signature Disk. 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 BOCES 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 Tompkins-Seneca-Tioga Board of Cooperative Educational Services (BOCES) is an association of nine component school districts that serves approximately 14,000 students within a three county area and is located in Ithaca. The BOCES is governed by the Board of Education (Board) which comprises nine members elected by the boards of education of the component districts. The Board is responsible for the general management and control of the BOCES financial and educational affairs. The District Superintendent of Schools (Superintendent) is the chief executive officer of the BOCES and is responsible, along with other administrative staff, for the day-to-day management of the BOCES. By law, the Superintendent is an employee of both the appointing BOCES and the New York State Education Department. As such, the Superintendent works under the direction of both the Board and New York State Commissioner of Education.

The BOCES 2006-07 fiscal year budget of \$32.9 million was funded primarily by charges to school districts for services, Federal and State grants/aids and charges to the public for services and educational programs. The payroll and accounts payable clerks process BOCES cash disbursements and affix the Treasurer's signature to checks using a computerized signature disk. For the fiscal year ended June 30, 2007, the clerks processed cash disbursements totaling \$31.7 million,<sup>1</sup> including payroll disbursements of \$12.8 million, using the Treasurer's signature disk.

Approximately 900 BOCES professional and support staff, consultants, workshop presenters, and substitute staff received paychecks during the 2006-07 fiscal year totaling \$12.8 million or approximately 40 percent of the total budgeted expenditures. The payroll clerk has complete control over the payroll process and full user-access rights to payroll functions in the computerized financial system. She is responsible for adding new and deactivating past employees, entering payroll changes, collecting timesheets, entering hours worked and wages paid, calculating payroll withholdings, preparing payrolls, using the Treasurer's signature disk to sign checks, and at various times distributing the payroll to department secretaries. In addition, the Board has appointed the payroll clerk as the BOCES official responsible for certifying the payroll.

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<sup>1</sup> These expenditures included approximately \$2.1 million for current capital projects.

## **Objective**

The objective of our audit was to evaluate the internal controls over the payroll process and the use of the Treasurer's signature disk for the period July 1, 2006 through July 18, 2007. Our audit addressed the following related questions:

- Did BOCES officials properly segregate duties over the payroll process to ensure that payments of wages and benefits were in accordance with Board authorizations and approved employment contracts?
- Did the Treasurer adequately control the use of her signature disk to ensure that all disbursements were proper?

## **Scope and Methodology**

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard BOCES 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. 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 payroll area and with the Treasurer's signature disk; therefore, we examined internal controls over payroll and the use of the Treasurer's signature disk for the period July 1, 2006 to July 18, 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 BOCES Officials and Corrective Action**

The results of our audit and recommendations have been discussed with BOCES officials and their comments, which appear in Appendix A, have been considered in preparing this report. BOCES officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written response to the audit findings must be prepared and filed within 90 days, and to the extent practicable, implementation of the corrective action plan must begin no later than the end of the next fiscal year, pursuant to 8 NYCRR §170.12[e][4][c]. The Board should forward a copy of the plan to the Commissioner of Education and make the plan available for public review in the Tompkins-Seneca-Tioga BOCES Administration 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*.

## Payroll

BOCES officials are responsible for establishing controls that provide checks and balances. Payroll duties should be segregated and computer access should be granted based on those duties to ensure that no one employee controls all phases of the payroll cycle and the work performed by one individual is verified in the normal course of another employee's regular duties. If this is not feasible, BOCES officials should consider implementing mitigating controls such as having someone independent of the payroll process perform a review of completed payroll records. At a minimum, the review must include random checks to verify that payrolls are based on actual hours worked, verifications that the Board authorized the hourly rates or annual salaries used, a comparison of net payrolls to payroll journals, and an assessment of payrolls for reasonableness. Additionally, someone independent of the payroll process must certify completed payrolls.

There is a lack of segregation of duties within the payroll process. The payroll clerk has complete control over the payroll process and full user-access rights to payroll functions in the computerized financial system. The payroll clerk is responsible for adding new and deactivating past employees, entering payroll changes, collecting timesheets, entering hours worked and wages paid, calculating payroll withholdings, preparing payrolls, using the Treasurer's signature disk to sign checks (refer to the "Treasurer's Signature Disk" finding), and at various times distributing the payroll to department secretaries. In addition, the Board appointed her as the BOCES official responsible for certifying the payroll. The payroll clerk processed approximately \$12.8 million in payroll expenditures for the 2006-07 fiscal year with little or no oversight.

This lack of segregation of duties permitted the payroll clerk to have control over all phases of a transaction without effective independent oversight. As a result of this internal control weakness, we examined payroll earnings reports for the 2006-07 fiscal year for six employees, including the Superintendent, payroll clerk, accounts payable clerks, Director of Administrative Services, and the Treasurer to determine if the payroll clerk was accurately accounting for wages and benefits and if payments were made in accordance with Board-approved rates and employee contracts. In addition, we judgmentally selected 10 hourly employees' timecards/timesheets from various payroll periods during 2006-07 and traced them to payroll journals to ensure all payments were legitimate and calculated correctly. We also judgmentally selected 30 cancelled payroll checks and

traced them to the payroll journals and personnel files and matched payroll journals against employee rosters in the Human Resources department to determine whether employees receiving compensation were not fictitious employees. While our testing did not reveal any material discrepancies, the concentration of key duties with one individual with little or no oversight increases the risk that errors and/or irregularities might occur and go undetected and uncorrected.

## **Recommendations**

1. BOCES officials should provide for the adequate segregation of duties so that no one person controls all aspects of the payroll process, including user-access rights to payroll functions in the computerized financial system. Where it is not practicable to segregate some duties, BOCES officials should establish sufficient compensating controls such as having someone at a higher management level review the work performed by the payroll clerk. In addition, the Board should appoint someone independent of the payroll process to certify the payrolls.
2. The Treasurer should not allow the payroll clerk to sign checks using the signature disk.

## Treasurer's Signature Disk

The Treasurer is the custodian of all BOCES moneys and has the authority to sign all checks on behalf of the BOCES. When authorized by the Board, checks may be signed with a facsimile signature of the Treasurer. However, when such a facsimile signature is used by someone other than the Treasurer it should be affixed under the supervision and control of the Treasurer.

The Treasurer does not supervise and control the use of her facsimile signature, nor is she present when clerks apply her signature to checks. The payroll clerk and accounts payable clerks process BOCES cash disbursements by affixing the Treasurer's signature to checks using a computerized signature disk. The clerks then distribute the checks by mailing them out and by occasionally distributing payroll checks to department secretaries. This procedure does not allow the Treasurer to have direct supervision and control over the signature process, nor does she verify the accuracy of the printed checks prior to their distribution. For the year ended June 30, 2007, the clerks processed cash disbursements totaling \$31.7 million,<sup>2</sup> including payroll disbursements of \$12.8 million, using the Treasurer's signature disk.

Due to this control weakness, we reviewed 80 cash disbursement transactions totaling \$239,300 made to BOCES officials and vendors to ensure that cash disbursements were for legitimate BOCES purposes. We verified that the selected claims packets were complete and approved by the purchasing agent and claims auditor. We also reviewed them for compliance with applicable laws, rules and regulations. In addition, we reviewed cancelled checks and warrants noting date, payee, amount and endorsement. We also performed certain tests for payroll (refer to the "Payroll" finding above). Our examination did not disclose any material discrepancies.

The Treasurer told us that it was a common practice that the payroll and account payable clerks affixed her signature to checks using a computerized disk without her direct supervision. The failure to ensure that adequate controls are in place over the use of the Treasurer's signature disk increases the risk that BOCES' moneys may be disbursed for improper purposes.

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<sup>2</sup> These expenditures included approximately \$2.1 million for current capital projects.

## **Recommendation**

3. The Treasurer should ensure that she properly controls the use of her signature disk and reviews checks when others use the disk to apply her signature to BOCES checks.

## **APPENDIX A**

### **RESPONSE FROM BOCES OFFICIALS**

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



For Candor • Dryden • George Junior Republic • Groton • Ithaca • Lansing • Newfield • South Seneca • Trumansburg

Richard J. Weiss  
Director of Administrative Services

February 14, 2008

[Redacted]  
Binghamton Regional Office  
Office of the State Comptroller  
State Office Building, Room 1702  
44 Hawley Street  
Binghamton, NY 13901-4417

Dear [Redacted]

The TST BOCES has received your Draft Audit titled, Internal Controls Over Payroll and the Treasurer's Signature Disk. The TST BOCES looks at your Audit and others like it as a tool to help improve the internal controls of our organization.

The Draft Audit discussed two findings - one in payroll and one in the Treasurer's office. In payroll you pointed out that currently the payroll duties are not segregated and that all the work is performed by one individual. We agree that this situation needs to be rectified and we have already discussed implementing mitigating controls, including random checks of an independent source on completed payroll records and a second independent person certifying the payroll.

You also pointed out that the Treasurer's signature disk, when used by someone other than the Treasurer, should be under the supervision and control of the Treasurer. Payroll and Accounts Payable have been affixing the Treasurer's signature to checks by using a computerized signature disk that was not under the control of the Treasurer. We agree that this needs to be rectified and have already taken steps with our software company to get this resolved. We will be instituting a password system whereby only the Treasurer or the Deputy Treasurer will be able to affix their signature on a check after they have verified the accuracy of the printed checks.

Even though in both of these cases your testing did not disclose any material discrepancies, we understand that we can improve our internal controls by adjusting our procedures.

Very truly yours;

Linda Padgett  
Board President, TST BOCES

LP:cd

## 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 BOCES 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 systems.

During the initial assessment, we interviewed appropriate BOCES officials, performed limited tests of transactions and reviewed pertinent documents, such as BOCES 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 BOCES financial transactions as recorded in its databases. Further, we reviewed the BOCES 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 objective and scope by selecting for audit those areas most at risk. We selected internal controls over payroll and the use of the Treasurer's signature disk for further audit testing.

- We reviewed all pertinent policies, procedures, and records pertaining to payroll.
- We interviewed and observed appropriate BOCES officials and employees to learn about procedures used to process payroll and accounts payable.
- We reviewed and tested six employees' 2006-07 salaries to ensure all payments were legitimate and calculated correctly.
- We reviewed 10 hourly employees' timecards/timesheets and traced them to payroll journals to ensure all payments were legitimate and calculated correctly.
- We judgmentally selected and reviewed 30 cancelled checks out of 3,253 from various payroll bank statements during 2006-07 and traced them to payroll journals and to personnel files to ensure that employees who received compensation were not fictitious.
- We reviewed all collective bargaining agreements and individual employee contracts in effect during the audit period to ensure salary payments and benefits were properly authorized and paid in accordance with the agreements and contracts.

- We reviewed 80 disbursement transactions totaling \$239,300 made to BOCES officials and vendors to ensure that they were for legitimate BOCES purposes. Additionally, we reviewed claims packets related to these transactions for completeness and approval by the purchasing agent and claims auditor. We also reviewed them for compliance with applicable laws, rules and regulations, such as bidding requirements. In addition, we reviewed the related cancelled checks, matching them to warrants noting dates, payee, amounts, and endorsement.
- We interviewed and observed BOCES officials and employees to learn about user rights assignments in the computerized financial system.

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.

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