



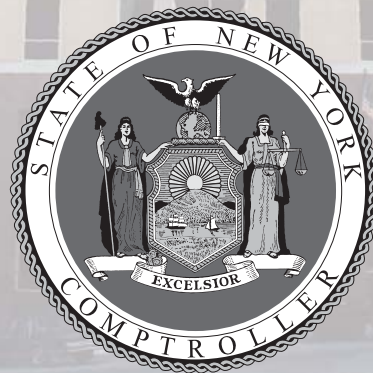
**Walton
Central School District
Internal Controls Over
Selected Financial Activities**

Report of Examination

Period Covered:

July 1, 2006 — April 15, 2008

2008M-217



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Walton Central School District, entitled Internal Controls Over Selected Financial Activities. This audit was conducted pursuant to the State Comptroller's authority as set forth in 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Walton Central School District (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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The Board has adopted a code of ethics policy for Board Members and District employees. The Board designated the Business Manager to serve as the purchasing agent, who is responsible for managing purchasing activities in compliance with the adopted purchasing policy and procedures. The Board entered into a contract with Delaware-Chenango-Madison-Otsego Board of Corporative Educational Services (DCMO BOCES) to provide cafeteria management services. Annually, the Board appoints a Treasurer who is responsible for recording and reporting financial activities and disbursing District funds. The Board also appointed a Deputy Treasurer who records financial activities and disburses District funds in the Treasurer's absence. The District, as a public employer, enrolls its eligible employees in the New York State and Local Employees' Retirement System (ERS).

Scope and Objective

The objective of our audit was to examine the internal controls over selected financial activities for the period July 1, 2006, through April 15, 2008. We expanded our scope to include the period July 1, 2006, through April 30, 2008 for our audit of purchasing and cafeteria receipts. Our audit addressed the following related questions:

- Did the Board ensure that its members publicly disclosed the nature and extent of any direct or indirect financial interest in accordance with the Board's adopted ethics policy?
- Did District officials and employees provide adequate controls over purchasing in order to safeguard District assets?
- Did District officials provide adequate controls over cafeteria receipts?
- Did District officials provide adequate segregation of duties over non-payroll cash disbursements?
- Did the District's process for classifying workers ensure that the persons the District enrolled in ERS are entitled to membership in ERS?

Audit Results

We identified several control weaknesses in the District's operations because of the lack of policies and procedures for certain areas. When policies existed, they were not adequate or were not completely followed. As a result, a Board member had a prohibited interest in a contract with the District, assets were subject to errors and/or irregularities, and an independent contractor was improperly classified as an employee and given the benefits of public employees.

The Board did not ensure that its members publicly disclosed the nature and extent of any direct or indirect financial interest in accordance with the Board's adopted ethics policy. Additionally, the Board did not establish internal control procedures to detect when potential conflicts of interest may exist and did not effectively monitor compliance with its code of ethics disclosure provisions. As a result, the Board's Vice President had interests in contracts with the District that she did not publicly disclose and that the Board failed to identify.

District officials and employees did not provide adequate controls over purchasing to safeguard District assets. District officials paid 10 claims totaling approximately \$583,160 for the repair of flood-related damages to District property without advertising for bids. The purchases included in these 10 claims were made more than 40 days after the property damage and disaster recovery firm¹ left District grounds, which gave officials a reasonable time frame to competitively bid these purchases. District officials also failed to seek competition and maintain proper supporting documentation for \$7,700² purchased from a corporation co-owned and operated by the spouse of the Vice President of the Board during our audit period. Our review of the District's fuel credit card purchases disclosed no material discrepancies. However, the transportation supervisor's failure to ensure that District employees submitted charge receipts to the Business Office, combined with the lack of adequate review of the fuel usage log, or the periodic assessment of the fuel card purchasing process, increases the risk that District employees could use fuel credit cards to purchase fuel inappropriately without District officials' knowledge.

District officials did not provide adequate controls over cafeteria receipts. The cafeteria manager did not implement policies and procedures over cafeteria operations to ensure that all cafeteria moneys were recorded and accounted for properly. Neither the cafeteria manager nor the Business Manager provided sufficient oversight of cafeteria cash collections or adequately segregated cafeteria staff duties to ensure that no one cashier controlled all aspects of a cash receipt transaction. In addition, employees who operated cash registers did not have unique logins to establish and account for individual cash register responsibility.

Further, District officials did not provide adequate segregation of duties over non-payroll cash disbursements. The accounts payable clerk's duties were not properly segregated, and there were no mitigating controls in place. However, our review did not disclose any material errors or irregularities.

Lastly, we identified weaknesses in the District's controls over the classification of workers. The District's process for classifying workers did not ensure that the persons the District enrolled in the

¹ District officials hired this firm on July 4, 2006, to perform a disaster clean-up and recovery at the Townsend Elementary School building.

² For purchases of auto parts from D&D of Walton, Inc., totaling \$4,400 for the 2006-07 fiscal year, and \$3,300 for the period July 1, 2007, through April 15, 2008

ERS were valid public employees. As a result, District officials improperly classified an attorney as a District employee. District officials generally agreed with our recommendations and indicated that they planned to take corrective action.

Comments of District Officials

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 planned to take corrective action.

Introduction

Background

The Walton Central School District (District) is located in the Towns of Franklin, Hamden, Masonville, Sidney, Tompkins, and Walton in Delaware 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 District's chief executive officer 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 three schools in operation within the District, with approximately 1,060 students and 340 employees. The District's budgeted expenditures for the 2007-08 fiscal year were approximately \$17.7 million which were funded primarily by State aid, real property taxes, and grants. The District's facilities were severely effected by two separate flooding incidents³ that resulted in damages totaling approximately \$2.6 million. The Federal Emergency Management Agency (FEMA) declared certain counties within New York State as major disaster areas on July 1, 2006, and on December 12, 2006.⁴ The Board adopted resolutions declaring an emergency on July 25, 2006,⁵ and on February 6, 2007.⁶

The Board has adopted a code of ethics policy for Board members and District employees. The Board designated the Business Manager to serve as the purchasing agent, who is responsible for managing purchasing activities in compliance with Board-adopted purchasing policies and procedures under the supervision of the Superintendent.

There are two cafeterias in operation at the District. The Board entered into a contract with Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services (DCMO BOCES) to provide cafeteria management services. During the 2007-08 fiscal year, District officials paid DCMO BOCES approximately \$34,889 for cafeteria management services performed by a BOCES employee.

Annually, the Board appoints a Treasurer, who, under the Superintendent's supervision, is responsible for recording and reporting financial activities and disbursing District funds. The Board

³ Flooding occurred in June 2006 and in November 2006.

⁴ Delaware County was included in both FEMA declarations.

⁵ Approximately three weeks after the first flood occurred

⁶ Approximately eight weeks after the second flood occurred

also appointed a Deputy Treasurer to record financial activities and disburse District funds in the Treasurer's absence. The District, as a public employer, enrolls its eligible employees in the New York State and Local Employees' Retirement System (ERS).

Objective

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

- Did the Board ensure that its members disclosed publicly the nature and extent of any direct or indirect financial interest in accordance with the Board's adopted ethics policy?
- Did District officials and employees provide adequate controls over purchasing in order to safeguard District assets?
- Did District officials provide adequate controls over cafeteria receipts?
- Did District official provide adequate segregation of duties over non-payroll cash disbursements?
- Did the District's process for classifying workers ensure that the persons the District enrolled in ERS are entitled to membership in ERS?

Scope and Methodology

We examined the internal controls over selected financial activities of the District for the period July 1, 2006, through April 15, 2008. We expanded our scope to include the period July 1, 2006 through April 30, 2008, for our audit of purchasing and cafeteria receipts. 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 planned to take 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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent

practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Conflict of Interest

Article 18 of the General Municipal Law (GML) limits the ability of district officials to enter into contracts in which both their personal financial interests and their public powers and duties conflict. Unless a statutory exception applies, district officers are prohibited from having an “interest” in a contract when they also have the power or duty, either individually, or as a member of a Board, to negotiate, prepare, authorize or approve the contract; authorize or approve payment under the contract; audit bills or claims under the contract; or appoint an officer or employee who has such powers or duties. An official has an “interest” in a contract when, among other circumstances, he or she receives a direct or indirect monetary or material benefit. District officers also have an interest in the contracts of their spouse (except employment contracts); a firm partnership or association of which they are a member or employee; and a corporation of which they are an officer, director or employee, or directly or indirectly own or control any stock. As a rule, any interest in an actual or proposed contract on the part of a district officer, or their spouse, must be publicly disclosed in writing to the officer’s or employee’s immediate supervisor and to the Board. The written disclosure to the Board must be made part of and be set forth in the official record of the proceedings of the Board. Contracts that are willfully entered into by or with a district in which there is a prohibited interest are null, void and wholly unenforceable.

The GML also mandates that the governing body of every school district in the State adopt a local code of ethics to guide the district’s officers and employees in the standards of conduct reasonably expected of them. A code of ethics that complements and reinforces applicable statutes helps to enhance the control environment of an organization by clearly defining the standard of conduct expected of officers and employees. The Board adopted such a code which was last revised in February 2006. The code requires all members of the Board to “... publicly disclose on the official record the nature and extent of any direct and indirect financial or other private interest he/she has in the adoption of...” resolutions submitted for consideration of the Board. The Board is responsible for establishing internal control procedures to detect potential conflicts of interest and preventing District officials from entering into prohibited contracts.

During our audit, the Board’s Vice President disclosed to us that she served as the Vice President of D&D of Walton, Inc. (D&D), a privately held corporation co-owned and operated by her spouse that did business with the District. As a member of the Board, she had a

number of powers and duties that resulted in a prohibited interest in D&D's contracts with the District. Such powers included the ability to appoint the District's claims auditor, whose function was to audit all claims, including those of D&D. Additionally, she did not publicly disclose her interest as required by GML and the Board's code of ethics.

Board members did not ensure that they publicly disclosed the nature and extent of any direct or indirect financial interest in accordance with the Board-adopted ethics policy. Although the Board's code of ethics prohibited conflicts of interest, the Board did not establish internal control procedures to detect when potential conflicts of interest may exist and effectively monitor compliance with the code's disclosure provisions. Therefore, the Board's Vice President had interests in contracts with the District totaling \$7,700⁷ that the Board failed to identify.

When District officials conduct business with the District that they serve, the public may question the propriety of related transactions. Furthermore, the existence of such transactions and the Board's failure to monitor compliance with GML and its own code of ethics may create a perception of, or actual, impropriety. District officials are accountable to the public at all times, especially when the expenditure of taxpayers' money is involved.

Recommendations

1. The Board should establish and implement controls to help ensure that District officials or employees do not enter into any contract in which they have a prohibited interest.
2. Board members should disclose publicly the nature and extent of any direct or indirect financial interests in contracts to which the District is a party.
3. The Board should take immediate action to eliminate the interest in contracts for its purchase of auto parts from D&D of Walton, Inc. by purchasing auto parts elsewhere, as long as the Vice President serves on the Board.

⁷ For purchases of auto parts from D&D, totaling \$4,400 for the 2006-07 fiscal year, and \$3,300 for the period July 1, 2007, through April 30, 2008

Purchasing

An effective procurement process enables school districts to obtain services, supplies, and equipment of suitable quality and quantity, from the best-qualified and lowest-priced source in compliance with Board and legal requirements. The use of competition in the procurement process helps districts expend taxpayer dollars efficiently and guards against favoritism, extravagance, and fraud. The General Municipal Law (GML) and the Board-adopted purchasing policy and procedures provide the requirements and expectations for purchases. The District's purchasing policy also provides for exceptions from competitive bidding in the case of a declared public emergency⁸ and the required documentation⁹ for non-bid procurements. District officials are also responsible for implementing credit card procedures to ensure that all fuel credit card purchases are sufficiently documented so that the quality and quantity of items (or services) purchased can be readily determined. The business purpose of the credit card purchase should also be obvious from the documentation provided. These documentation requirements are particularly important for purchases of consumable items such as gasoline or diesel fuel. Consumable items are used in a short period of time, so that no evidence of the purchase remains other than the documentation.

District officials and employees did not provide adequate controls over purchasing in order to safeguard District assets. District officials invoked the emergency exception and did not seek competitive bids for purchases, totaling approximately \$583,160, to repair flood-related damages to District property. Additionally, officials failed to seek competition and maintain proper supporting documentation for \$7,700 purchased from a prohibited conflict of interest vendor during our audit period. Finally, the transportation supervisor did not ensure that District employees submitted credit card charge receipts to the Business Office, that the fuel usage log was adequately reviewed, and that the fuel card purchasing process was periodically assessed to ensure that fuel was not purchased inappropriately.

⁸ GML defines a public emergency as a case arising out of an accident or other unforeseen occurrence or condition whereby circumstances affecting public buildings, public property or the life, health, safety or property of the inhabitants of a political subdivision or district therein, require immediate action which cannot await competitive bidding for public work or the purchase of supplies, materials, or equipment.

⁹ This documentation includes the number of written and verbal quotes to be obtained and documented for purchases that are not subject to the competitive bidding requirements.

Emergency Purchases

The GML and the Board-adopted purchasing policy require District employees to solicit competitive bids for purchase contracts that exceed \$10,000, and public works contracts that exceed \$20,000, annually. Competitive bidding requirements may be set aside in the case of a public emergency arising out of an accident or other unforeseen occurrence. Specifically, if a public emergency affecting public buildings, public property or the life, health, safety or property of the residents of a district requires immediate action, and cannot await competitive bidding, the contracts for public works or the purchase of supplies, material or equipment can be made without seeking competition.

District officials entered into a contract with DCMO BOCES for cooperative purchasing. As part of this cooperative purchasing process, we noted that BOCES typically took an average of 40 days to properly subject planned purchases to the competitive bidding requirements. Allowing District officials at least 40 days to seek competitive bids for planned purchases should give them a reasonable amount of time for competitively bidding such purchases.

We reviewed 36 claims totaling approximately \$2.1 million for flood-related damage repair that District officials paid during our audit period. We found that officials paid 10 of these 36 claims, totaling approximately \$583,160, without seeking competition. Each purchase exceeded the threshold required for competitive bidding. Further, the purchases included in these 10 claims were made more than 40 days after the property damage and disaster recovery firm¹⁰ left District grounds, which gave officials a reasonable time frame to competitively bid these purchases. Some of the items that were not competitively bid included insulating pipes at the Townsend Elementary school (\$79,600), purchase of new ventilation units (\$29,250), installation of heating and ventilation units (\$21,375), storm damage restoration (\$33,316), radon mitigation system restoration(\$85,446), painting interior and exterior of bus garage (\$35,000), replacing electrical wiring (\$119,921), repairing the creek-wall at the bus garage (\$75,315), replacing electrical wiring (\$64,037), and creek wall and blacktop repair (\$39,900). Each of these purchases was initiated between 41 days and as long as 369 days after the property damage and disaster recovery firm left District grounds, which gave the District's purchasing agent more than a reasonable time frame to competitively bid these purchases. The remaining 26 claims totaling \$1,540,529 were purchased either from a firm that had a contract with the New York State Office of General Services or were not bid because of the emergency.¹¹ Our review of these 26 claims disclosed no discrepancies.

¹⁰ District officials hired this firm on July 4, 2006, to perform a disaster clean-up and recovery at the Townsend Elementary School Building.

¹¹ These purchases were made less than 40 days before the property damage or disaster recovery firm left District grounds.

District officials told us that they did not seek competition for the 10 claims because they believed that they were emergency purchases as defined in GML. The Business Manager further stated that she had consulted New York State Department of Education (NYSED) personnel and was directed to treat any project resulting from the flood as an emergency. However, the Business Manager could not provide us with documentation to support her assertion. The Business Manager also informed us that she approved these purchases because she believed they were flood-related and, therefore, were emergency purchases regardless of how much time had elapsed. She further stated that the vendors' applications for payment were submitted to the District's architect, who reviewed those claims for reasonableness, which the purchasing agent believed provided the District with some assurance that the vendor was not price-gouging the District for these purchases. However, seeking immediate competition is a vital step in the purchasing process, more so in times of regional emergencies when competent vendors and quality equipment and materials may be in greater demand.

Compliance With Purchasing Policy

District officials are responsible for ensuring that purchases are made competitively, without prejudice and favoritism, in compliance with the District's purchasing policy. However, District officials had a blanket purchase order¹² with D&D,¹³ and purchases from this vendor lacked supporting documentation to verify that verbal quotes were obtained as required by the District's purchasing policy.

Certain District employees purchased items totaling \$7,700 from D&D during our audit period. Department heads and District officials told us that D&D was the only local auto parts vendor that consistently had parts readily available when needed for District vehicle repairs. However, we found there were two other local auto parts stores located within the District.

Failure to seek competition and maintain proper supporting documentation promotes favoritism and increases the risk that District officials may expend taxpayer dollars inefficiently.

Fuel Card Purchases

The Board's adopted credit card policy¹⁴ requires District employees to deliver any original receipt for each fuel card expense to the Business Office within 30 calendar days of incurring such expense.

¹² Blanket purchase orders are used for efficiency and take the place of multiple purchase orders to the same vendor. For example, if District officials select a vendor to provide general cleaning and janitorial supplies, and plan to order on a biweekly or monthly basis, using a single blanket purchase order would be more efficient than issuing a separate purchase order for each period.

¹³ Refer to the Conflict of Interest section for further information.

¹⁴ Adopted on May 2, 2006

Furthermore, the transportation supervisor should review fuel credit card charge receipts to determine whether charges are necessary and proper and review fuel usage logs to ensure that employees are documenting all required information.

District officials spent a total of \$54,528 for diesel fuel and \$4,635 for gasoline purchases during the 2006-07 fiscal year. During the period July 1, 2007, through April 30, 2008, officials spent a total of \$5,341 for gasoline and \$59,752 for diesel fuel. The District was issued 68 fuel credit cards from three different vendors.¹⁵ District employees used these cards to purchase diesel fuel for school buses, and gasoline for maintenance vehicles, certain equipment, and certain District-owned vehicles used for business travel. These cards were entrusted to the transportation supervisor and the superintendent of buildings and grounds. The transportation supervisor informed us that the 42 cards (all one vendor) are no longer used, but are being kept in case of a District emergency. The transportation supervisor further stated that the District's procedures require employees to document the vehicle's odometer reading, date, and gallons purchased at the time of purchase, on the fuel usage log.

District employees did not submit fuel credit card charge receipts to either the Business Office or the transportation supervisor. Further, the transportation supervisor did not review the fuel usage log to ensure that employees documented all the required information. As a result, we reviewed the District fuel usage log from July 2007 through April 2008 to ensure that employees were documenting all required information. We then compared the transactions on the fuel credit card vendor monthly statements with those on the District's vehicle fuel log to ensure that all transactions listed on the monthly statements were also recorded in the log. We also calculated average miles per gallon for certain District vehicles to ensure that employees were documenting usage and that such usage was reasonable.

Our review of the District's fuel credit card purchases disclosed no material discrepancies. However, the transportation supervisor's failure to ensure that District employees submitted charge receipts to the Business Office, and the fact that the fuel usage log was not adequately reviewed, increases the risk that District employees could use fuel credit cards to purchase fuel inappropriately without District officials' knowledge.

Recommendations

4. District officials should implement procedures to ensure that when the Board identifies an emergency that they seek competitive bids for purchases that fall outside of a reasonable time frame, such as in excess of 40 days of the emergency's occurrence.

¹⁵ There were 68 fuel cards from three separate vendors: 42 cards from one vendor, four cards from a second vendor, and 22 cards from a third vendor.

5. The Business Manager should ensure that department supervisors and staff who are authorized to initiate purchases are aware of the specific requirements pursuant to GML and the District's purchasing policy that require them to seek competition and document any quotes obtained.
6. The transportation supervisor should ensure that District employees comply with the District's adopted fuel credit card policy.
7. The transportation supervisor should review fuel credit card charge receipts and the fuel usage logs to ensure that all fuel charges are necessary and proper and that District employees are using fuel credit cards for only authorized purchases.
8. The Business Manager should ensure that District employees deliver all original fuel card receipts to the Business Office within 30 calendar days of incurring such expense.

Cafeteria Receipts

A good system of internal controls provides reasonable assurance that all moneys received are recorded and accounted for properly. The Business Manager and the cafeteria manager are responsible for establishing controls to ensure that the District receives the proper amount of revenue from its cafeteria operations. Effective policies and procedures ensure that all moneys received are entered into the cafeteria's computerized cash register system, placed in a cash register drawer, and recorded at the time of sale. Such a system requires that cashiers declare an ending cash balance¹⁶ at the end of each day's meal service to ensure that all moneys received are accounted for properly. The system also requires that the cafeteria manager reconcile all moneys received, as indicated in the computerized cash register system, with the actual cash collected and resolve any variances between the two. It is essential that the Business Manager and the cafeteria manager also monitor the financial activities of cafeteria operations to ensure the segregation of key duties or institute compensating controls, such as having individuals independent of cafeteria operations count the daily cash receipts, reconcile the declared cash counts to recorded sales, and investigate and resolve any variances. Lastly, unique logins for every employee who operates a cash register helps to establish and account for individual responsibility.

District officials did not provide adequate controls over cafeteria receipts. The cafeteria manager did not implement policies and procedures over cafeteria operations to ensure that all cafeteria moneys were recorded and accounted for properly. The cafeteria manager also did not ensure that all cafeteria sales were recorded in the cash registers, and that all moneys received agreed with the amounts that were deposited in the bank. Further, neither the cafeteria manager nor the Business Manager provided sufficient oversight of cafeteria cash collections or adequately segregated cafeteria staff duties to ensure that no one cashier controlled all aspects of a cash receipt transaction. Finally, employees who operated cash registers did not have unique logins to establish and account for individual cash register responsibility.

¹⁶ Typically, each cash register drawer includes a specific starting cash balance used to issue change to students for meals purchased during the meal service. The cashier should count and declare the starting cash balance prior to opening the register for the meal service. The cashier should also count and declare this same cash balance as ending cash at the end of the meal service. The starting cash plus the cash collected during the meal service, less ending cash, should equal recorded cafeteria sales for the day.

Cash Collection, Recording, and Depositing

District officials operated two cafeterias, one at the elementary school and one at the middle/high school. During the period July 1, 2007, through April 30, 2008, the cafeterias generated \$181,973 in sales and account deposits. Cafeteria staff used three computerized cash registers, each run by a different cashier.¹⁷ At the end of the day, cashiers generated a daily cash summary report¹⁸ that included the daily cash overages or shortages.¹⁹

The elementary school cafeteria cashier was not required to declare ending cash in her cash register at the end of the day. As a result, the daily cash summary reports showed inaccurate daily shortages for each day during our audit period. At the middle/high school cafeteria we found that operations lacked sufficient documentation to enable the cafeteria manager to follow up on variances between total recorded sales and declared cash collections for days on which the cash registers were over or short during our audit period. Additionally, the Business Manager did not verify that the daily bank deposits agreed with the daily total sales because the cafeteria cashiers failed to provide her with sufficient documentation to support the cash collected, which would have allowed her to reconcile any differences. Finally, the cafeteria manager did not ensure that all cafeteria transactions were recorded promptly and accurately in the registers because the cashiers entered certain transactions, such as account deposits, at the cafeteria system host computer²⁰ instead of at the cash registers at the time of occurrence. Making account deposits at the host computer increases the risks of theft or misappropriation, because changes to the accounts can be made after each of the daily reports is printed, without detection.

Because of these weaknesses, we reviewed 140 middle/high school cafeteria daily summary reports covering the period September 5, 2007, through April 30, 2008. We found that the total declared ending

¹⁷ One cashier used the cash register located at the elementary school cafeteria, while the other two cashiers used the two registers located at the middle/high school cafeteria.

¹⁸ On a daily basis, the cashiers print a cafeteria summary (grand total) report from the computerized cash register system. This report shows each cash register's recorded sales for the day and the ending cash reported as collected (counted).

¹⁹ A cash overage occurs when declared ending cash exceeds recorded sales, while a cash shortage occurs when declared ending cash was less than recorded sales.

²⁰ The host computer is located in the cafeteria manager's office. It contains the District's food service accountability system and is networked to the two cash registers at the serving lines. Before a cash register can be operated by a cashier, the host computer must be operating and the correct meal service type (breakfast or lunch) must be selected within the food service accountability system. The host computer is generally used to make certain changes to cafeteria accounts, such as name changes, account balance changes, and eligible meal type changes.

cash “counted” at the middle/high school cafeteria for 106 days was “over” recorded sales by an aggregate of \$7,247. For the remaining 34 days, cash declared was “less” than recorded sales by \$3,183. Because the elementary school cashier did not declare cash at the end of each meal period, we reviewed 140 elementary school cafeteria daily summary reports (for the same period) and compared the total cash deposited to total recorded sales. We found that the total cash deposited for 92 days was “over” recorded sales by approximately \$344. For the remaining 48 days, cash deposited was “less” than recorded sales by approximately \$1,795.

We reviewed and compared the total free, reduced, and regular meals served, as included on the daily summary reports, with the total free, reduced, and regular meals served according to electronic data obtained from the cafeteria system. We found that these totals did not agree for the months of September 2007 and April 2008. The totals obtained from the electronic data exceeded the amounts from the printed daily summary reports by a combined total of 1,470 meals. The cafeteria manager could not explain what caused the difference, nor could the cafeteria system’s technical support staff provide us with an explanation for differences found in the data. We also compared the 2007-08 school year daily attendance (through April 30, 2008) reports to 10 days of daily transactions to verify if there were account activities on days the students were absent. Our comparison disclosed 10 student cafeteria accounts that had activities totaling approximately \$34 dollars on days when the students were absent from school. The cafeteria manager told us that there should not have been any activity on student accounts on days they were absent.

These deficiencies occurred because the cafeteria manager did not oversee the work performed by the cashiers. The cafeteria manager told us that she did not focus on the declared cash, but instead paid closer attention to the actual cash deposited, because the cashiers frequently made errors when counting and declaring ending cash. Many of the errors may not have occurred if policies and procedures were in place to provide guidance for the proper handling of cash receipts. As a result, errors and irregularities occurred and went undetected and uncorrected.

Segregation of Cashiers’ Duties

Duties must be segregated to ensure the same individual does not perform all of the key cash management duties: collecting, recording, and counting cash received; preparing the deposit slip; and maintaining custody of the cash without any independent oversight. If this is not feasible, the cafeteria manager should, at a minimum, implement compensating controls, such as appointing someone independent of the process to review the cash collection process to ensure that cafeteria cash receipts are accounted for properly.

The cafeteria manager did not segregate the cashiers' duties or implement compensating controls. The cashiers were responsible for performing all of the following key cash management duties: collecting, recording, and counting the cash; preparing the deposit slip; and maintaining custody of the cash without any independent oversight. During our limited observation of the cashier cash-out process, we noted that one cashier counted and declared ending cash in her register before the total cash collected for the day was verified by another cafeteria employee.

Concentrating key duties with one individual with little or no compensating controls significantly increases the risk that errors or irregularities might occur and not be detected and corrected in a timely manner.

User Accountability

Sound internal controls over computerized data include policies and procedures to limit employees' access to only those areas of the computer system needed for their particular job duties. To control electronic access, a system or application must identify and differentiate among users. User accounts identify users and establish relationships between a user and a network, computer, or application. Typically, the District's information technology system administrator creates these accounts, which contain information about the users such as their passwords, and access rights to the applications and other computer resources.

The cashiers did not sign on to their cash registers with unique user names and passwords; instead, they all used the same user login. Further, the cafeteria manager also used the same user login as the cashiers. Accordingly, user reports from the cash register system did not distinguish among users, and District officials could not determine individual responsibility on supporting documentation for transactions listed in the reports. Additionally, the user name and password used by the cashiers allowed them unlimited security access to the cafeteria system. The cafeteria manager told us that she did not assign user access based on the cashiers' job functions because she was not aware that the system had that capability. She also told us that she believed that the cashiers needed this access to make changes to the system when she was off site.

Our review of the system's user event log from July 2007 through April 30, 2008, disclosed several instances where changes were made to cafeteria accounts. These included changes to meal eligibility status, names, account numbers and account balances. The cafeteria manager informed us that she and the cashiers made these changes. However, we could not determine who made the changes, because each user of the cafeteria system used the same user name and password to gain access

to the system. Additionally, because the changes made to the student cafeteria accounts lacked sufficient supporting documentation, we could not determine if the changes made were legitimate.

Because of these control weaknesses, District officials lost individual accountability over the cafeteria's financial transactions, which increased the risk that errors and irregularities could occur and go undetected and uncorrected.

Recommendations

9. The cafeteria manager, in conjunction with the Business Manager, should implement policies and procedures over cafeteria operations to ensure that all cafeteria moneys are recorded and accounted for properly.
10. The cafeteria manager should ensure that after the cashiers count ending cash, someone independent of cafeteria cash collections verifies the declared cash collected and reconciles this amount to the recorded sales, as shown on the daily summary report. Any variances should be investigated and resolved immediately.
11. The Business Manager should ensure that the actual cash deposited and entered into the District's financial software is based on total sales (collections).
12. The Business Manager and the cafeteria manager should monitor the financial activities of cafeteria operations to ensure the segregation of key duties, or institute compensating controls.
13. The cafeteria manager should ensure that all users of cash registers and the cafeteria system (including her) are assigned unique user names and passwords to help identify users and determine individual responsibility for cafeteria account transactions.

Segregation of Duties

District officials are responsible for establishing internal controls to provide checks and balances to ensure that no individual exercises control over most or all aspects of the cash disbursement process. Concentrating key financial activities with one individual – for example, preparing purchase orders, preparing and signing checks, recording disbursements in the accounting records, preparing journal entries and making vendor name changes – weakens internal controls and significantly increases the risk that errors or irregularities may occur and go undetected. If complete segregation of duties is not feasible, District officials should implement compensating controls, such as having someone independent of the cash disbursement process perform periodic independent reviews of the accounting records and monthly reconciliations or ensure that the work of one employee is independently verified in the course of another employee’s regular duties.

District officials did not provide adequate segregation of duties over non-payroll cash disbursements. We found that the accounts payable clerk’s duties were not properly segregated, and there were no mitigating controls in place. The accounts payable clerk performed all aspects of the cash disbursement process and had unlimited user access rights to the District’s financial accounting system. Her duties included preparing purchase orders, preparing checks, recording disbursements in the accounting system, preparing journal entries, and signing disbursement checks with the Treasurer’s facsimile signature. The accounts payable clerk also performed vendor name changes and had the authority to sign all District checks as the Deputy Treasurer.

Due to this weakness, we reviewed 136 cancelled check images totaling over \$624,525, their related claims, and user reports from the District’s financial accounting system. Our review did not disclose material errors or irregularities. However, concentrating key duties with one individual with little or no compensating controls significantly increases the risk that errors or irregularities might occur and not be detected and corrected in a timely manner.

Recommendation

14. The Business Manager should ensure that the accounts payable clerk’s duties are adequately segregated so that she does not control all aspects of the cash disbursements process. If this is not feasible, the Business Manager should institute sufficient compensating controls.

Classification of Employees

Local governments and school districts obtain services from both public employees and independent contractors and consultants. It is important that public employers enroll only public employees, elected officials and public officers in ERS to ensure that only persons entitled to ERS membership receive ERS service credit. The Office of the State Comptroller's (OSC's) *Financial Management Guide for Local Governments*²¹ (Guide) provides information to help distinguish between independent contractors and employees. The New York State and Local Employees' Retirement System (ERS) provides its own checklist of indicators²² that can help localities and school districts make this determination correctly. In addition, as of April 3, 2008, OSC made enhanced regulations available that more clearly define how local governments and school districts can determine whether providers of professional services are employees or independent contractors. These regulations are posted on the OSC website.²³

For the period July 1, 2006, through March 31, 2008, we audited the status of persons that the District enrolled in ERS to determine whether these individuals met the criteria for employee classification as established by the Guide and ERS indicators. The District had no formal procedures for staff to follow in distinguishing employees from independent contractors (for example, checking criteria related to the worker's supervision, reporting structure, work hours, and benefits). District officials based such classification on general knowledge of the individual worker. As a result, District officials improperly classified an attorney as a District employee. Inadequate internal controls over the District's classification process increase the risk that the District could improperly enroll non-employees in ERS.

The District's process for classifying workers did not ensure that the persons the District enrolled in ERS were valid public employees. The District paid and reported an attorney with the title School District Attorney as an employee of the District from July 1, 2002, through March 1, 2008, the day her resignation became effective. During the 2006-07 fiscal year, she received a gross salary of \$852, and \$279 for the 2007-08 fiscal year. The Treasurer reported 24 days of service

²¹ *Financial Management Guide for Local Governments*, Subsection 8.4020, page 1, issued December 1992

²² The ERS checklist, entitled *Distinguishing Between an Employee and an Independent Contractor*, is available from ERS.

²³ www.osc.state.ny.us

credit during the 2006-07 fiscal year and 14 days of service credit during the 2007-08 fiscal year to ERS for the attorney, although she did not submit a time sheet or otherwise substantiate her time worked. The Treasurer informed us that she always reported two days of service credit to the ERS system for the attorney, although she might not have worked the hours that constituted two days. District officials did not set the attorney's work schedule or prepare any type of performance evaluation of her work. She did not maintain an office on the District's premises or work set hours. Instead, she worked at an office in her law firm and visited the District when needed at Board meetings or for conducting other District business. Finally, although the attorney was not covered by a union or employment contract, she received health benefits under the District's health and dental insurance plans totaling over \$19,500²⁴ during our audit period. Unless District officials correct these control weaknesses, there is an increased risk that the District could again improperly enroll non-employees (independent contractors) in ERS and incur costs that are not appropriate for the District to pay or the taxpayers to bear.

Recommendation

15. District officials should strengthen controls over worker classification processes to help ensure that they correctly determine the status of individuals who work for the District in compliance with the Guide and the enhanced regulations posted on the OSC website.

²⁴ The District's costs for her insurance coverage was \$12,163 (\$11,716 health and \$447 dental) for the 2006-07 fiscal year, and \$7,380 for the 2007-08 fiscal year (\$7,119 health and \$261 dental).

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Walton Central School District

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Thomas P. Austin, Superintendent of Schools



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December 3, 2008

Patrick Carbone, Chief Examiner
Office of the State Comptroller
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Binghamton, NY 13901-4417

To the Office of the State Comptroller:

We have received and reviewed the Report of Examination of the Walton Central School District for the period of July 1, 2006 – April 15, 2008.

While we feel that, overall, the District does a good job of maintaining adequate internal controls over operations, we recognize that there are always areas that can be improved upon. We welcome the recommendations made by your office, and have already put many of them into place.

Following is a list of your office's recommendations and the District's response:

Interest in Contracts

1. Conflict of Interest – The Board will evaluate the options listed, and will act upon the option that best fits the needs of the District.

Purchasing

1. The District will work to ensure that purchases outside of a necessary emergency timeframe are properly bid. The emergency timeframe will be evaluated and adjusted based on the specifics of each occurrence.
2. The District's fuel card policy and procedures have been reviewed and adjusted accordingly.

Cafeteria Receipts

1. Procedures have already been implemented to provide better segregation of duties and compensating controls.
2. The District believes that it does maintain accurate records of students eligible to receive free and reduced lunches. New York State recently conducted a CRE review of the District's lunch program and found the accountability system to yield accurate claims.

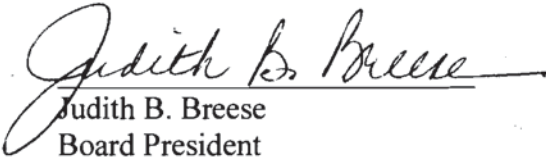
Segregation of Duties

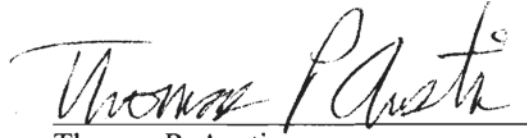
1. While the District believes that the Claims Auditor provides a substantial measure of compensating controls, it is evaluating the current procedures to identify areas that can be logically and efficiently segregated to other staff members.

Classification of Employees

1. The District had removed the School Attorney from payroll in March 2008, before the audit was initiated. Also, the District will follow the recommendations listed to ensure that future employees are properly classified.

Thank you for offering this constructive feedback, which can only help us to improve upon what we already consider to be a financially safe and solid School District.


Judith B. Breese
Board President


Thomas P. Austin
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, payroll and personal services, classification of employees, and information technology.

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 on the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing, cafeteria cash receipts, cash disbursements, and employee classification for further audit testing.

In order to accomplish the objective of this audit and obtain valid audit evidences, we interviewed pertinent District officials and performed the following procedures:

Interest in Contracts and Purchasing

- We provided conflict of interest disclosure forms to District officials to obtain documentation of their private employment, business interests or transactions to which the District was a party.
- We obtained correspondence from our legal department to assist us in determining if a Board member had a prohibited interest in the District's contract with vendor D&D of Walton, Inc.
- We reviewed a sample of claims packages to ensure that purchases were made in compliance with GML requirements and the District's purchasing policy.
- We reviewed documentation pertaining to items that were bid during the 2006-07 and 2007-08 fiscal years. We examined the District's cooperatively bid purchases and determined the number of days between the bid publication date and the bid award date for items subject to competitive bidding to determine the average amount of time the District typically took to competitively bid planned purchases.
- We made inquires to the Superintendent, Business Manager and Board members to gain an understanding of the emergency situation faced by the District during the June and November 2006 floods.

- We traced certain transactions from the fuel credit card vendor monthly statement to the District's fuel usage log, to ensure that all transactions listed on the monthly statements were also recorded in the District's fuel usage log.
- We reviewed the District's fuel card vendor's monthly bills from July 2007 through April 2008, and selected certain fuel card transactions, and calculated the average miles per gallon for each vehicle to which the cards were assigned to determine if employees were documenting usage and that their usage was reasonable.

Cafeteria Receipts

- We made inquiries of Broome Delaware Tioga BOCES personnel to gain an understanding of the technical support services provided to the District, and the design and functions of the District's cafeteria cash register system.
- We made inquiries of cafeteria cashiers and performed limited observation to gain an understanding of their daily procedures.
- We compared the District's total number of students who were eligible for free and reduced meals for the 2006-07 and 2007-08 school years with the total free and reduced meals served on a daily basis to ensure that District cafeteria staff did not serve more free and reduced meals than there were eligible students for those meals.
- We obtained a list of students and staff with negative cafeteria account balances to determine if accounts with negative balances were significant.
- We traced the cafeteria cash receipts from the daily summary reports to the bank deposit tickets and then to the District's bank account to ensure that all moneys were deposited intact and in a timely manner or the 2007-08 fiscal year.
- We compared the total free, reduced and regular meals served from the printed daily summary reports to the total meals served based on the electronic data obtained from the District's food service accountability system.
- We reviewed the user event log from the cafeteria system for suspicious activities.
- We reviewed cafeteria daily summary reports for 140 days to identify and document the cash registers' cash overages and shortages.
- We compared students' daily attendance reports with daily cafeteria transactions during our audit period to determine if student cafeteria accounts had activities when the students were absent.

Segregation of Duties

- We traced 136 cancelled check images from the District's bank statement to the warrants to determine if vendor names and amounts were consistent.

- We reviewed the check sequence integrity for all funds for the audit period to verify that the checks, both used and unused, were accounted for properly.
- We reviewed journal entries for appropriateness.
- We reviewed two months of user reports from the District's financial accounting system to ensure that the accounts payable clerk did not make any inappropriate changes.

Classification of Employees

- We reviewed the District's process for classifying workers to ensure that the persons the District enrolled in ERS were valid public employees, rather than independent contractors.
- We compared a sample of names of employees on the District's payrolls to those that were reported on the retirement system reports to verify that reported ERS members were on the District's payrolls.
- We asked District personnel about when and/or why certain individuals are not reported to the retirement system.
- We also asked District personnel about the method used by District staff to determine the number of days worked and the subsequent reporting of such to ERS.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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Steven J. Hancox, Deputy Comptroller
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