



Westfield Academy and Central School District

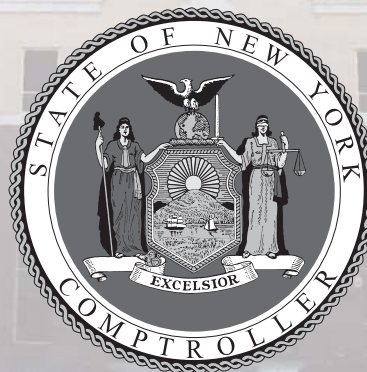
Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2005 — October 18, 2007

2008M-36



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 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 Westfield Academy and Central School District, entitled Internal Controls Over Selected Financial Activities. 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Westfield Academy and Central School District (District) is located in the Towns of Westfield, Portland and Ripley in Chautauqua County. The District is governed by the Board of Education (Board) which comprises nine 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 Board has overall responsibility for District operations. The Superintendent and administrative staff are responsible for managing and overseeing the daily operations of the District. The Business Manager, who also serves as the District's Clerk and purchasing agent, is responsible for the District's finances and accounting records. The District uses a combination of manual records and a computerized system to record financial activity.

Scope and Objective

The objective of our audit was to examine the District's internal controls over selected financial activities for the period July 1, 2005 through October 18, 2007. However, we expanded our scope for certain budgetary practices to July 1, 2001 through October 18, 2007. Our audit addressed the following related questions:

- Has the District taken adequate action to address the excessive unappropriated, unreserved fund balance in the general fund and to monitor revenues and expenditures?
- Are internal controls over cash disbursements appropriately designed and operating effectively?
- Are internal controls over the trust and agency fund appropriately designed and operating effectively?
- Are internal controls over payroll and the maintenance of leave time records, for other than teachers, appropriately designed and operating effectively?

Audit Results

The District has not taken adequate action to address the excessive fund balance in the general fund or to monitor revenues and expenditures. As of June 30, 2007, the unreserved general fund balance

totaled \$2.4 million.¹ However, District officials did not appropriate any fund balance to reduce the tax levy. As a result, the fund balance was approximately five times more than the amount allowed by law.²

Further, the Board created a workers compensation reserve fund to which it transferred \$845,000. Since the District does not self-insure for workers compensation, there was no authority to create this reserve and the Business Manager indicated that there was no basis for the amount reserved. Instead, it was created to reduce unreserved fund balance as suggested by the District's independent public accountant. Due to these deficiencies, taxpayers have had to pay more than necessary to sustain operations.

Internal controls over cash disbursements are not adequate. District officials are not following important aspects of the procurement policy approval process, the Superintendent and Interim-Superintendent inappropriately served as claims auditors and disbursements totaling \$2.1 million were not audited. We also identified serious control weaknesses involving the check signing/disbursement function. As a result, there is an increased risk that purchases will be made at a cost that is higher than necessary and that errors or irregularities could occur and not be detected and corrected in a timely manner.

The Treasurer is responsible for disbursing trust and agency fund moneys. However, the Business Manager does not monitor fund activity, nor does he possess any detailed information for the fund. It is apparent that these significant control deficiencies have existed for several years. As a result, unidentified moneys have accumulated in the trust and agency fund, which could likely be used to reduce the tax levy, and there is a substantial risk that moneys could be disbursed contrary to their intended purpose.

The Board has not adopted policies and procedures for payroll and leave time. In addition, the payroll clerk is solely responsible for the payroll process, from entering data to affixing the Treasurer's signature to payroll checks. Although the Superintendent certifies payroll reports, the reports are not sufficient to make this control effective. Although we did not identify any discrepancies, these control weaknesses increase the potential for wrongdoing and put District assets at risk. We also found that Business Office staff and administrators maintain their own leave time records, the records are not always dated, and some lack an indication of review or approval. Further, there is no documented approval process and attendance records and time sheets are not used. As a result, there is an increased risk that employees may use, be paid for or receive benefits based on leave time to which they are not entitled.

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 initiate corrective action.

¹ Per the District's accounting records for the fiscal year ended June 30, 2007

² Representing 17 percent of the \$13.9 million budgeted for 2007-08

Introduction

Background

The Westfield Academy and Central School District (District) is located in the Towns of Westfield, Portland and Ripley in Chautauqua County. The District is governed by the Board of Education (Board) which comprises nine 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 Board has overall responsibility for the District's operations. The Superintendent and administrative staff are responsible for managing and overseeing the daily operations of the District. The Board appointed the Superintendent to certify payrolls and to be the claims auditor. The Business Manager, who also serves as the District's Clerk and purchasing agent, is responsible for the District's finances and accounting records. The District uses a combination of manual records and a computerized system to record financial activity.

There is one school in operation within the District, with approximately 825 students and 150 full time employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$13.4 million, which were funded primarily with State aid, real property taxes and grants.

Objective

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

- Has the District taken adequate action to address the excessive unappropriated, unreserved fund balance in the general fund and to monitor revenues and expenditures?
- Are internal controls over cash disbursements appropriately designed and operating effectively?
- Are internal controls over the trust and agency fund appropriately designed and operating effectively?
- Are internal controls over payroll and the maintenance of leave time records, for other than teachers, appropriately designed and operating effectively?

**Scope and
Methodology**

We examined the District's internal controls over financial condition, cash disbursements, the trust and agency fund, and payroll for the period July 1, 2005 to October 18, 2007. However, we expanded our scope for certain budgetary practices to July 1, 2001 through October 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 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 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*.

Financial Condition

A school district's financial condition determines its ability to provide educational services to the students within the district. The Board, Superintendent and Business Manager are responsible for the effective financial planning and management of the District. The Board and Superintendent are also responsible for ensuring that budgets are prepared, adopted, and amended based on reasonable estimates of appropriations and the resources available.

An important aspect of budget preparation includes the reasonable estimate of fund balance to be appropriated at the end of the fiscal year to reduce real property taxes. Unreserved fund balance is uncommitted and therefore may be appropriated. Real Property Tax Law limits the amount of unreserved and unappropriated fund balance to no more than 3 percent³ of the ensuing year's budget.

The District has failed to follow proper budgeting practices. As of June 30, 2006, the unreserved and unappropriated general fund balance totaled \$2.1 million, which represented 16 percent of the \$13.4 million budgeted for 2006-07. This was approximately eight times more than the amount allowed by law. Further, the 2006-07 fiscal year ended with an operating surplus of about \$980,000.⁴ After transferring \$701,000 into reserve, the unreserved and unappropriated fund balance increased to \$2.4 million, representing more than 17 percent of the 2007-08 budget.

The Superintendent prepared the budgets and the Board approved them. The Superintendent and Board caused the excessive fund balances by routinely overestimating appropriations and failing to estimate and include a portion of unreserved fund balance to reduce the tax levy. For example, appropriations exceeded actual expenditures by \$2.4 million over the past three fiscal years,⁵ with \$1.9 million of that due to the overestimation of employee benefits and general instruction costs. Further, the 2006-07 and 2007-08 budgets did not appropriate any fund balance to reduce taxes even though the Business Manager provided Board members and Superintendent with revenue and appropriation status reports and other financial data on a monthly basis, which indicated there was sufficient unreserved fund balance to fund a substantial portion of the proposed appropriations.

³ Previously, unreserved fund balance could not exceed 2 percent. For the 2007-08 fiscal year it is 3 percent of the current school year budget and increases to 4 percent for 2008-09 and years thereafter.

⁴ Per the District's accounting records for the fiscal year ended June 30, 2007

⁵ Fiscal years 2004-05, 2005-06 and 2006-07

Further, this excessive fund balance does not include two reserve funds. As of June 30, 2007, the reserve funds have had no expenditures and accumulated to approximately \$961,000.

- Workers' Compensation Reserve – This reserve was established by resolution in October 2005 in the amount of \$144,000 to pay related costs. General Municipal Law authorizes the District to establish a reserve fund to pay for workers' compensation benefits, medical, hospital or other expenses, and the expenses to administer a self-insurance program. However, the District does not self-insure for these expenses. Instead, the District annually budgets for these expenses, including the purchase of insurance, in the general fund. In January 2007, the Board passed a resolution to increase this reserve by \$701,000 to \$845,000. However, the Business Manager indicated that they had no intention of self-insuring worker's compensation expenses, there was no basis for the amount reserved and the reserve was created to reduce unreserved fund balance as suggested by the District's independent public accountant. The District is not, nor does it claim to be, self-insured.⁶ Therefore, since District officials had no authority to establish this reserve, these moneys should be returned to the general fund's unreserved, unappropriated fund balance, to be appropriated for any general fund purpose.
- Tax Certiorari Reserve – This reserve was established by Board resolution in October 2005, in the amount of \$116,000 to pay judgments and claims. Although the Business Manager told us that the amount reserved was based on pending litigation, and therefore, the District may be required, at some point, to use these moneys, none of these funds have been used to date.

While fund balance has been increasing at a dramatic pace over the past several years, the Board has increased the tax levy by 2 percent in 2007-08⁷ and a total of 30 percent or \$1.32 million over the past six years. Enrollment, during this same period, has decreased by approximately 15 percent. The failure to follow proper budgeting practices has resulted in the accumulation of fund balance in excess of the amounts allowed by law and in taxpayers paying more than necessary to sustain operations.

⁶ In 2006-07, the District paid \$86,078 for workers' compensation insurance and seven individual claims totaling \$1,547 from the general fund.

⁷ The tax rate per thousand decreased in 2007-08 a direct result of an increase in total assessed valuation of properties within the District.

Recommendations

1. District officials should prepare a realistic estimate of the unreserved fund balance at the end of the fiscal year for consideration by the Board in developing the ensuing year's budget.
2. The Board should ensure an appropriate level of fund balance is appropriated to reduce the property tax levy and comply with statutory requirements regarding the amount of fund balance that can remain at year-end.
3. The Board and District officials should develop revenue and appropriation estimates for the annual budget that are more realistic and monitor financial activity to ensure that operations closely mirror the budget.
4. District officials should consult with their legal counsel to determine what action must be taken to address the improperly established reserve fund.
5. The Board should review the tax certiorari reserve and determine if the amount reserved is necessary to pay for current claims and claims that are likely to be filed against the District.

Cash Disbursements

An effective system of internal controls provides that cash is disbursed only upon proper authorization, when supported by appropriate documentation, for valid business purposes, and is properly recorded. A good system of internal controls can help to prevent errors or irregularities, or to identify them in a timely manner so they may be addressed and corrected.

District management has established important internal controls related to cash disbursements. However, these controls are not always operating effectively. District officials are not complying with key aspects of the purchase approval process as set forth in the procurement policy, the Superintendent and Interim-Superintendent inappropriately served as claims auditors, disbursements are not undergoing an adequate claims audit and there are serious control weaknesses in the check signing/disbursement function. As a result, there is an increased risk that purchases will be made at cost that are higher than necessary, and that errors or irregularities could occur and not be detected and corrected in a timely manner.

Purchase Approval Process

The Board has designated the Business Manager to be the purchasing agent. The procurement policy requires the Business Manager/purchasing agent to approve purchase requisitions and purchase orders before purchases are initiated. The policy also requires District personnel to obtain quotes, which must be adequately documented, for purchases that exceed \$250 except where the purchase is subject to competitive bidding requirements or State or County bids are used. Competitive bidding is required for purchases and public works contracts that, in aggregate, exceed \$10,000 and \$20,000 respectively.

These internal controls are appropriately designed. However, they are not operating effectively. District personnel are not consistently using requisition forms to obtain approvals for purchases prior to initiating transactions. Instead, in most cases, purchase orders are created after the invoices are received from the vendors or receipts are submitted by the purchasers. The Business Manager/purchasing agent informed us that requisitions are most frequently used when District personnel are placing orders for supplies and equipment at the beginning of the fiscal year and that most purchases during the year are not initiated with requisitions.

Due to these internal control weaknesses, we judgmentally selected⁸ and reviewed 29 purchases made during 2006-07 totaling \$155,107. The Business Manager/purchasing agent's signature was on all purchase orders to indicate his approval. However, in most cases, he did not have sufficient information to determine if the purchases were made in accordance with the procurement policy. We noted the following:

- Twelve purchases subject to quotation requirements totaling \$38,952 lacked documentation to indicate that District officials received quotes and compared prices.
- Six purchases totaling \$14,550 lacked evidence to indicate they were purchased under State contract, although the Business Manager/purchasing agent told us they were.
- Three purchases totaling \$91,116 included documentation to indicate that the items were purchased under State contract. However, the Business Manager/purchasing agent did not verify that the pricing agreed with the contract before approving the purchases.

When we asked the Business Manager/purchasing agent about the lack of required documentation, he told us that purchasers obtain quote/State contract information before they make purchases. However, he does not obtain or review this information when he approves the items for payment.

The failure to ensure that District personnel consistently use requisition forms prior to initiating transactions and that purchase documentation includes evidence of compliance with quotation requirements increases the risk that purchases will be made at costs that are higher than necessary, and that errors or irregularities could occur and not be detected and corrected in a timely manner.

Claims Audit

The Board is responsible for conducting a deliberate and thorough audit of all claims prior to payment. If the Board so chooses, it may appoint a claims auditor, who then assumes the powers and duties of the Board to approve claims for payment. Education Law specifically prohibits certain individuals, including the Superintendent, from serving as claims auditor. The State Education Department defines the duties of the claims auditor, which include ensuring that all claims are for legitimate expenses and supported with appropriate documentation.

⁸ These items were selected from the check register. Hand-drawn checks do not appear on the check register. See related finding entitled Claims Audit for further discussion.

The Superintendent was inappropriately appointed to be the claims auditor. In addition, there were deficiencies in the claims documentation and claims for hand drawn checks were not audited.

- Superintendent – The Board inappropriately appointed the previous Superintendent and then the Interim-Superintendent to be the claims auditor during a period of more than two fiscal years.⁹ The previous Superintendent and the Interim-Superintendent did not audit claims until after checks were printed, signed and mailed out. Due to these internal control weaknesses, we tested 29 purchases to determine if they were for legitimate expenses and supported with appropriate documentation. The Treasurer paid 20 of the related claims, totaling \$142,969, without evidence of departmental approval and 19 of those lacked an indication that the underlying goods or services were received.
- Hand-Drawn Checks – From July 1, 2006 through June 30, 2007 the District issued over 100 hand-drawn checks to pay certain claims totaling \$2.06 million. The claims auditor did not audit these claims. The claims included \$1.2 million to the Chautauqua County Medical Trust,¹⁰ \$547,809 to Erie 2 BOCES,¹¹ as well as payments to numerous vendors. Further, appropriation codes were not always identified on the documentation available, items subject to a price quotation requirement did not have supporting documentation to indicate the requirement was met, and in many cases copies of the checks were the only documentation for the transactions.

The failure to appoint a claims auditor in accordance with Education Law and conduct a deliberate and thorough audit of claims prior to payment increases the financial risk to the District. Errors or irregularities such as payments made in the wrong amount or made twice, or moneys expended for inappropriate purposes could occur and not be detected and corrected in a timely manner.

Third-Party Payments

To safeguard District assets, the Board must ensure that controls are in place to prevent funds from being disbursed without authority and the specific review and approval of supporting documentation by an authorized District official.

⁹ The Superintendent served as claims auditor during 2005-06 and 2006-07 and the Interim-Superintendent served as such from June through August 2007. The Board appointed the elementary school principal's secretary as the claims auditor for the 2007-08 school year in accordance with Education Law.

¹⁰ The District's medical, dental, and vision insurance provider

¹¹ Board of Cooperative Educational Services

The District's flexible benefits administrator, Health Economic Group (HEG), withdrew funds from the District's trust and agency bank account several times each month to pay for plan participants' claims and related costs. There was no legal authority for HEG to make these withdrawals. Further, there was no evidence that District officials reviewed or approved documentation for any of these withdrawals. In total, we identified approximately 60 withdrawals made during the program year from September 1, 2006 to August 31, 2007. These withdrawals totaled more than \$67,000 and included a management fee of approximately \$2,800. Due to this and other significant internal control weaknesses such as those related to the trust and agency fund, HEG may have access to moneys that District officials do not appropriately monitor and control.

The failure to prevent third parties from accessing District bank accounts and of District officials to conduct a deliberate and thorough review of supporting documentation prior to disbursement increases the risk that moneys could be expended without authorization and for inappropriate purposes.

Check-Signing

The Board may authorize the Treasurer to sign checks with a check-signing machine. If the Treasurer does not personally affix her signature, it must be done under her direct supervision and she must maintain custody of her facsimile signature. The Board is responsible for adopting policies or procedures for the use and physical security of the check-signing machine.

The Board has adopted a check-signing policy that requires all payroll and accounts payable checks to be machine or hand-signed after Board approval.¹² The Treasurer manually signs hand-drawn checks, and the payroll clerk and accounts payable clerk use the check-signing machine to affix the Treasurer's signature to payroll and accounts payable checks, respectively. Although the Treasurer told us that she reviews signed checks prior to mailing, she does not directly supervise the use of the check-signing machine. Further, the check-signing machine is kept in the Business Manager-District Clerk's office, which remains unlocked, with the door open, in his absence. In addition, the policy states the Business Manager-District Clerk is responsible for the check-signing machine keys. However, there are no keys. Instead, there is a password, which each clerk knows. There are no password requirements in the policy, and neither the Business Manager-District Clerk, nor the accounts payable clerk could recall if the password had ever been changed.

¹² The Board appointed a claims auditor to perform this function on its behalf.

The failure of the Treasurer to supervise and control the use of her facsimile signature and of the Board to establish specific procedures for the use of and physical security over the check-signing machine increases the risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Recommendations

6. The Business Manager/purchasing agent should ensure District personnel comply with the Board adopted procurement policy. Purchase documentation should include items such as requisition forms and quotations as required.
7. The Board should monitor the work performed by the Business Manager/purchasing agent to ensure he adequately performs his job duties.
8. The Board should ensure that all claims are reviewed and approved by the claims auditor and include proper documentation such as departmental approvals, evidence of receipt, appropriation codes and quotations, as required.
9. The Board should ensure that HEG cannot electronically withdrawal funds from a District bank account and that payments to HEG for their own and flexible benefit plan claims are paid by check.
10. The Treasurer should not sign or allow checks to be signed prior to the review and approval of the related claims by the claims auditor.
11. The Treasurer should have control over the check-signing machine and it should be used only by her or under her direct supervision.
12. The Board should amend its check-signing policy to include specific procedures to be followed in the use and security of the check-signing machine. These procedures should include specific password requirements.

Trust and Agency Fund

Trust and agency funds are used to account for assets held by the District in a trustee capacity and/or as agent for individuals, other funds and outside entities. The District has six trust and agency bank accounts. As of June 30, 2007, the accounts had a combined balance of \$220,285, comprised of a “Primary” account (\$6,092), which is a clearing account to which moneys are transferred from the following sub-accounts: Group Insurance (\$147,074), Miscellaneous (\$56,957), Westfield CSD (\$4,160), Student Deposits (\$3,961) and Permanent Fund (\$2,039).

The Board and District officials are responsible for ensuring that procedures and controls are in place to account for and monitor financial activity and that trust fund moneys are deposited and paid as required. Appropriate care must be exercised in maintaining and accounting for trust and agency funds.

The District has not developed appropriate procedures, appropriate records are not maintained and activity is not monitored to ensure funds are deposited and paid as required. The Business Manager, according to his job description, is responsible for maintaining the District’s accounting records. However, there are no written bookkeeping procedures for trust and agency fund moneys and he directed all of our inquiries to the Treasurer. The Treasurer maintains the banking records, disburses fund moneys, performs monthly bank reconciliations and reports cash balances to the Business Manager, which he records in his manual general ledger. However, the Treasurer’s reconciliation process does not include a comparison of trust and agency activity to general fund activity or the matching of deposits to payments to ensure that appropriate funds are transferred in and that all payments specifically relate to those deposits. Further, the information the Treasurer provides to the Business Manager is not detailed and he records it without verification. Our review of the Business Manager’s ledger indicated that only summary information, for the entire trust and agency fund, was recorded. The Business Manager does not monitor trust and agency fund activity, nor does he possess any balances or detailed information regarding sub-account activity. As a result, there is a substantial risk that moneys could be disbursed contrary to their intended purpose.

Due to these control weakness, we inquired as to the balance in the primary account. The Treasurer could not demonstrate what the balance in this account represented. However, it appears that more moneys have been, and continue to be, transferred into this account

than are needed for disbursement. Due to this ongoing practice, District officials cannot discern the identity of the residual amount.

We also inquired about the group insurance sub-account given its size in relation to the other accounts. As with the primary account, the Treasurer could not specifically identify the composition of funds. We reviewed bank statements, payroll reports and other documentation and found deposits included biweekly employee payroll deductions for insurance premiums (medical, dental and vision), employee flexible spending account contributions, employee life insurance deductions, and periodic deposits of retiree health insurance premium payments. Payments included all flexible spending claim withdrawals, two months of insurance premiums paid to the Chautauqua County Medical Trust (CCMT), certain other health insurance premium payments and all life insurance premium payments. We found that the deposits to this account did not always specifically relate to the payments from this account. For example:

- Flexible Benefits – Employer flexible spending contributions for District employees, totaling \$19,309, were not deposited into this account. However, all flexible spending claims paid to the third-party administrator were withdrawn from this account. As a result, payments exceeded deposits by \$6,630.
- Life Insurance – Employer life insurance contributions were not deposited into this account. However, premium payments were made from this account. As a result, payments exceeded deposits by \$8,546.
- Health Premiums – All payroll deductions for premium contributions related to one of the District’s health care providers were deposited into this account. However, none of the monthly premiums were paid from this account. As a result, deposits exceeded payments by \$15,422.
- CCMT – Employee contributions¹³ for CCMT premiums totaling about \$301,483 were deposited into this account. However, only \$242,393 was paid out of this account. As a result, deposits exceeded payments by \$59,090.

Overall, deposits exceeded payments, which added to the substantial balance due to the activity in previous years. District officials could not identify the source of the accumulated balance. The general fund essentially made up the difference by making premium payments

¹³ Includes active and retired employees

to various vendors, which caused general fund expenditures to be inflated.

These significant internal control and accounting deficiencies were readily apparent. It was also readily apparent that the manner in which trust and agency fund moneys have been accounted for has been similar for several years.

Although we did not identify any improper disbursements, the District has not developed appropriate procedures, maintained appropriate records and monitored activity to ensure that funds are appropriately deposited and paid. As a result, expenditures have not been recorded correctly and there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner. Further, because a significant amount of trust and agency fund moneys likely belong in the general fund, they could have been used to fund District operations and reduce real property taxes.

Recommendations

13. District officials should develop and monitor procedures to account for trust and agency fund moneys.
14. The Treasurer's completely autonomous duties with respect to the trust and agency fund should be segregated.
15. The Business Manager and Treasurer should identify the composition of all moneys that remain in the trust and agency fund, and determine the appropriate disposition of such amounts. It is likely that a significant amount of these moneys should be transferred to the general fund.

Payroll

District officials are responsible for adopting procedures to ensure that payroll duties are properly segregated and that requirements for leave time approvals, records and benefit calculations are clearly defined to provide assurance that disbursements are proper and that employees receive only the benefits to which they are entitled.

District officials have not adopted policies and procedures for payroll processing and leave time. As a result, there is an increased risk that improper payments may be made and employees may receive leave time and related benefits to which they are not entitled.

Payroll Processing

An effective system of internal control separates incompatible duties so that no single individual controls most, or all, aspects of a transaction to reduce the risk that errors or irregularities could occur. When it is not practical to segregate duties because of limited staff resources, compensating controls must be established. For example, other District employees can periodically review the work in question, or duties can be rotated among staff members. District officials are responsible for adopting procedures to ensure that payroll duties are properly segregated and that employees are paid in accordance with their respective employment agreements.

The Board has not adopted written policies and procedures for payroll processing to ensure that payroll duties are properly segregated. The payroll clerk is solely responsible for entering and deleting employees, making changes in hourly and annual salary rates in the payroll software, processing payroll, using the check-signing machine and distributing payroll checks. District officials have not developed or implemented appropriate mitigating controls. For example, the payroll clerk provides the Superintendent with a payroll report each pay period for certification¹⁴ and the Superintendent told us that he reviews and signs each page of the report. However, District officials have not adopted specific procedures for payroll certification and the report that he uses does not provide sufficient information for oversight and control. We reviewed the February 2007 report and identified the following deficiencies:

¹⁴ The certification process provides assurance that the payroll is accurate. The Board annually appoints the Superintendent as the individual responsible for certifying the District's payroll.

- The information includes only net pay amounts per individual, by category (i.e., paper check, direct deposit to a bank, direct deposit to the credit union).
- The portion of the report that identifies individuals having money direct-deposited to the credit union does not include amounts.
- Net pay amounts were presented on various pages of the report for individuals.

Due to these deficiencies, there was no way to look at one person's pay and determine accuracy. The payroll clerk told us that these are the reports she has always provided to the Superintendent for certification, but that additional information could be provided if necessary. However, at the present time, the manner in which the reports are presented make it impossible for the Superintendent to attest as to the accuracy of the payroll. Due to these control weaknesses we reviewed payroll records for eight individuals, including four administrators, one teacher, the head bus driver and two clerks to determine if they were paid appropriately and in accordance with their employment agreements. Although we did not identify any discrepancies, the failure to adopt procedures for payroll processing/certification and to properly segregate payroll duties provides the potential for wrongdoing and puts the District's assets at risk.

Leave Time

To ensure that employees receive the leave time and benefits to which they are entitled, the District officials must clearly define the approval process, the records that will be maintained, and ensure that payments that are made based on accumulated leave time are properly calculated. The Board may choose to establish District-wide policies, pass annual resolutions, or authorize collective or individual contracts to define the proper use of and approvals for leave time.

The Board has not defined the leave time approval process, the records that will be maintained, or ensured that payments will be properly calculated. Per contract, Business Office staff and District administrators are entitled to a specific number of days of paid leave time for various purposes. We found these individuals maintain their own leave time records and submit summaries of leave time balances, and in some cases the specific days the leave time was used, to the Superintendent. The summaries are filed in their personnel files, and, in most cases, cover an entire year. Further, these records are not always dated, and some lack evidence of review and approval. In addition, there is no documented approval process for Business Office staff or administrators to use leave time, and attendance

records or time sheets are not used. Due to these deficiencies there is virtually no assurance that the use of leave time is authorized or appropriately accounted for, and we were unable to verify whether the accumulated leave time balances were accurate.

In addition, payments were not properly calculated based on the records that were maintained. Per contract, District administrators had the option to ‘sell-back’ up to seven unused vacation leave days each year and to convert unused sick leave days into monthly medical insurance premiums upon retirement. We reviewed the vacation leave ‘sell-back’ payments for four active District administrators and the sick leave/medical conversions for two retired District administrators. We found:

- Vacation Days – Four administrators were paid a total of \$16,891 for 43.5 unused vacation days from July 1, 2005 through June 30, 2007. The records indicated they had sufficient vacation days available. However, their contracts did not specify daily rates. Education Law provides that District administrator daily rates¹⁵ should be calculated using 1/240th of their base salary, unless otherwise agreed upon by the District, and thus documented in an employment agreement or by Board resolution. The payments were incorrectly calculated using a daily rate of 1/220th of their salary, resulting in overpayments totaling approximately \$1,400. District officials could not provide any documentation to support the alternate calculation method.
- Sick Days – From July 1, 2005 through June 30, 2007 the District paid \$44,172 in medical insurance premiums on behalf of two administrators. The records indicated they had sufficient sick days available for the conversions. The payroll clerk indicated that, for 2007-08, 24 sick days would be used to pay \$25,116 for a full year’s coverage for these individuals. However, the records indicated that one of the individuals only had 18.5 sick leave days available. As a result, there could be a six and one half day shortfall equivalent to \$3,448 in medical insurance premiums.

The failure to establish written procedures to define the approval process, the records required, and to ensure that payments are properly calculated increases the risk that employees could receive leave time to which they are not entitled and that payments could be

¹⁵ Also referred to as per diem rate

made that exceed the District's obligations pursuant to employment contracts.

Recommendations

16. The Board should adopt written policies and procedures for payroll processing, including the certification of payroll, to ensure that duties are properly segregated or that adequate mitigating controls are in place to ensure that employees are paid in accordance with their respective employment agreements.
17. The Superintendent, or whomever the Board appoints to certify payrolls, should obtain and review sufficient data to ascertain the completeness and accuracy of payrolls before payment is made.
18. The Board should adopt written policies and procedures for the maintenance of leave time records and the approval process for using leave time. These policies and procedures should include, at a minimum, a timely and documented leave time approval process and reconciliation of these approval records to individual leave time balance records.
19. District officials should seek recovery of the amounts overpaid for leave credits.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Westfield Academy and Central School

Mark D. Sissel
Superintendent of Schools

203 East Main Street
Westfield, New York 14787
Phone: (716) 326-2151
FAX: (716) 326-2195

Alan L. Holbrook
Business Manager/
District Clerk

May 13, 2008

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

Office of the State Comptroller,

On behalf of Westfield Central School, please accept this letter as our response to your preliminary draft findings of your offices audit of activities covering the period from July 1, 2005 through October 18, 2007.

Financial Condition:

1. Beginning with the fiscal 2009-2010 budget, District Officials shall prepare estimates of projected year-end unreserved fund balance for Board consideration in developing future budgets.
2. Beginning with the fiscal 2009-2010 budget, the Board shall examine the projected year-end unappropriated fund balance and appropriate as necessary in order to comply with statutory requirements.
3. The Board and District Officials shall monitor operations and the budget so that the revenue and appropriation estimates identified in the audit report align more closely with actual activity as future budgets are developed and administered.
4. District Officials and the Board established the existing reserve funds under the guidance recommendation of the Independent Auditor, District Superintendent and counsel. When the Worker's Compensation Reserve Fund was established the District was under the impression that they were acting appropriately. The District will work with counsel to determine the appropriate steps necessary to address the issues identified in the Audit.
5. The Board shall review and update all the tax certiorari claims on file to ensure that the amount reserved is necessary and appropriate to cover the District's potential exposure. This reserve was originally established based on a reasonable estimate and it will now be updated.

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Cash Disbursements:

1. Purchasing documentation shall be revised to ensure that all, not just some, proposed purchases appropriately document approvals by various levels of supervision and have all required supporting documentation to support compliance with all District Procurement Policies.
2. The Board (through the Audit Committee) and with the assistance of the Claims Auditor, shall review and monitor the activities of the Purchasing Agent to ensure that all required documentation is present and that there is compliance with all District Procurement and Purchasing Policies.
3. The claims audit procedure was revised during the State Comptroller's visit. The Board established a Claims Auditor position, and a Claims Auditor has been appointed and assumed those duties. Claims are being audited for all required documentation, approvals, receipts and coding. The Claims Auditor has developed a spreadsheet for each transaction of these required activities that will be regularly shared with the Audit Committee.
4. Payments to HEG will be made by check rather than electronically and supporting documentation will be required prior to the check being issued. After July 1, 2008, there will be no further authorization for electronic withdrawal by HEG.
5. The signing of checks by the Treasurer prior to review and approval by the claims auditor was stopped shortly after the State Audit review. All checks now require claims auditor approval prior to being signed by the Treasurer.
6. The check-signing machine became inoperable at the end of the summer and the machine is obsolete. There are no replacement parts available so all checks are now being signed by hand by the Treasurer. There are no immediate plans to replace the check signing machine.
7. See number 11 above.

Trust and Agency Fund:

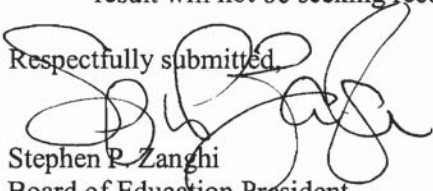
8. The District shall develop procedures to account for and to monitor all activities of the Trust and Agency Fund. The Treasurer will develop spreadsheets and other procedures to properly account for and track all receipts and disbursements.
9. The Treasurer's duties shall be segregated to produce autonomy to the greatest extent possible. Forms, policies and procedures will be developed to provide segregation and accountability for all activities and groups that utilize this account. The 2008-2009 budget include the temporary funding of a 0.5 FTE to assist with Business Office/Treasurer functions and separation of duties. The Board has committed to participate in the Central Business Office being established through the E2CC BOCES, and it is anticipated that several business office functions will eventually be transferred to the Central Business Office.

10. The Business Manager and Treasurer, to the greatest extent possible, will attempt to identify by June 30, 2008 the composition of all remaining funds in the Trust and Agency account. Some of the funds pre-date the employment of these individuals and may never be truly identified. Any funds that can be transferred into the general fund shall be at the conclusion of this process.

Payroll:

11. Written policies and procedures will be developed for payroll processing to ensure proper payroll certification, segregation of duties and that employees are being properly paid in accordance with their employment agreements. The 2008-2009 budget include the temporary funding of a 0.5 FTE to assist with Business Office/Treasurer functions and separation of duties. The Board has committed to participate in the Central Business Office being established through the E2CC BOCES, and it is anticipated that several business office functions will eventually be transferred to the Central Business Office.
12. All back-up and supporting documentation shall be provided to the Superintendent to permit the Superintendent to properly certify payrolls. This documentation shall be in such a format as to provide a complete and accurate representation of the particular payroll being certified. The District will be changing financial software July 1, 2009 which will provide greater and clearer detail for payroll certification.
13. The Districts leave policies and procedures shall be modified so that all leave records are maintained with a single source and that all leaves will be properly approved and reconciled with District records in a timely fashion.
14. The District intended for the calculation of unused vacation time to be based upon 220 days but it was never memorialized. The Board of Education adopted a resolution on May 12, 2008 formally recognizing 220 days as the basis for the calculation of unused vacation time and as a result will not be seeking recovery for payments previously made and identified in the Audit.

Respectfully submitted,


Stephen P. Zanghi
Board of Education President



Mark D. Sissel
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, 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 determine if 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 objective and scope by selecting for audit those areas most at risk. We selected financial condition, cash disbursements, the trust and agency fund and payroll for further audit testing. Our procedures included the following:

- Financial Condition – We reviewed the reported results of operations for the six most recently completed fiscal years, the budgets for the ensuing years and the financial reports provided to the Board for monitoring the budget. We also interviewed the Business Manager, and obtained and reviewed Board resolutions, certain financial transactions and statutory provisions to determine the legitimacy of reserve funds.
- Cash Disbursements – We reviewed the procurement policy, interviewed personnel, and examined purchase orders, duplicate checks, check registers, invoices, receipts and bank statements. We judgmentally selected and reviewed 29 purchases made during 2006-07 to gain an understanding of the approval process. We tested specific attributes including proper approval for the purchase, subsequent approval for payment, and evidence that price comparisons were obtained and considered before purchases were initiated. We interviewed the claims auditor regarding the claims audit process and obtained and reviewed records related to hand-drawn checks and certain electronic payments. We also physically observed the controls over the check-signing machine and interviewed relevant personnel regarding the use of the machine.
- Trust and Agency Fund – We assessed internal controls and focused our review primarily on the group insurance account. We interviewed the Treasurer and Business Manager and reviewed bank statements and other financial information including payroll deduction data provided by the payroll clerk for 2006-07. We analyzed the data to determine if officials were

properly matching deposits to with payments. We also obtained financial data for the flexible benefits spending program and various insurance programs including medical, dental, vision and life insurance. We compared the amounts paid to the amounts that were deposited for each source of funds.

- Payroll – We evaluated the effectiveness of the payroll process and the controls over Business Office staff and administrator leave records. We obtained and reviewed payroll reports provided for certification and evaluated the effectiveness of the certification process. We assessed the controls over Business Office staff and administrator leave records and payments that are based on such records. We obtained and reviewed employment agreements and leave records for Business Office staff and administrators, including Principals, the Superintendent, Interim-Superintendent and the Business Manager.

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 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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