



# Wyoming Central School District

## Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — April 7, 2008

2008M-93



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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

July 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 Wyoming Central School District, entitled *Internal Controls Over Selected Financial Operations*. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*



# State of New York Office of the State Comptroller

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## EXECUTIVE SUMMARY

The Wyoming Central School District (District) is located in the Town of Bethany in Genesee County and the Towns of Attica, Covington, Middlebury, Perry and Warsaw in Wyoming County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

### **Scope and Objective**

The objective of our audit was to examine the internal controls over the District's payroll and claims processing functions for the period July 1, 2006 through April 7, 2008. Our audit addressed the following related questions:

- Are salaries and wages paid to District officials and employees accurate and supported?
- Are internal controls over claims processing appropriately designed and operating effectively?

### **Audit Results**

We found that the District's internal controls over payroll were inadequate to ensure the accuracy and propriety of salaries and wages. The District has not established adequate written policies and procedures for payroll processing or properly segregated payroll processing duties. The District's payroll clerk handled most aspects of payroll processing with minimal managerial oversight. The payroll clerk entered new employees into the computerized payroll system, inputted and updated salaries and biweekly payroll information, applied the Treasurer's signature and printed payroll checks. Although our testing did not disclose any material exceptions, the weaknesses in controls over payroll processing increase the chance that errors and irregularities could occur and not be detected and corrected in a timely manner.

The Board as a whole, or a Board-appointed claims auditor, is responsible for auditing claims to ensure the District pays for only valid District purchases that were actually received. Although the Board adopted a policy in January 2001 that called for the appointment of a claims auditor, the Board did not make this appointment; instead, the Board's three-person Audit Committee has assumed responsibility for auditing claims. Our tests of 40 claims found that none of the claims showed indication of audit.

Six of the 40 claims were not sufficiently itemized to tell what was purchased and seven claims had no evidence of receipt. For example, one claim totaling \$18,584 for a new security system and another claim totaling \$2,945 for audio CDs lacked any indication of who received the goods/services or when. We were subsequently able to account for the delivery of the security system, and determined that the 50 CDs purchased were all for an elementary school music class. The failure to audit claims before paying vendors could have resulted in the District paying for goods it did not receive. We also found that the Board's policy did not provide detailed guidelines for auditing claims or communicate the Board's expectations for the performance of the claims audit function. Unless the entire Board or a Board-appointed claims auditor thoroughly audits claims before they are paid, District officials do not have any assurance that payments are for valid and appropriate District purposes.

### **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 welcomed our recommendations and indicated they would specifically address each recommendation in their corrective action plan.

# Introduction

## Background

The Wyoming Central School District (District) is located in the Town of Bethany in Genesee County and the Towns of Attica, Covington, Middlebury, Perry and Warsaw in Wyoming County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is currently one school in operation within the District, with approximately 170 students and 55 employees. The District's budgeted expenditures for the 2007-08 fiscal year are approximately \$4.5 million which are funded primarily with State aid and real property taxes.

## Objective

The objective of our audit was to examine the internal controls over the District's payroll and claims processing functions. Our audit addressed the following related questions:

- Are salaries and wages paid to District officials and employees accurate and supported?
- Are internal controls over claims processing appropriately designed and operating effectively?

## Scope and Methodology

We examined the internal controls over the District's payroll and claims processing for the period July 1, 2006 to April 7, 2008.

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 welcomed our recommendations and indicated they would specifically address each recommendation in their corrective action plan.

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*.

## Payroll

Payroll is the District's most significant operating cost and, as such, it is essential that management design and implement effective controls over the payroll process. An effective system of internal controls includes well-developed policies, practices and procedures, effective managerial oversight, and proper segregation of duties. Proper segregation of duties is a key internal control that helps to reduce the risk of fraud and professional misconduct by dividing various payroll functions between multiple employees so that no one employee performs all aspects of payroll processing, including adding new employees to the computer system, updating salary information, processing data and printing checks. If it is not feasible or cost effective for the District to adequately segregate duties over the payroll process, additional monitoring and reporting procedures can reduce the risk.

We found that the District's internal controls over payroll transactions were inadequate. In particular, the District has not established adequate written policies and procedures for payroll processing and properly segregated payroll processing duties. The District's payroll clerk handled most aspects of payroll processing with minimal managerial oversight. The payroll clerk was responsible for adding new employees into the computerized payroll system, inputting and updating salaries, inputting biweekly payroll information, applying the Treasurer's signature and printing payroll checks. With responsibility for all these functions, the payroll clerk had the ability to add fictional employees to the payroll, make unauthorized changes to pay rates, or generate unauthorized checks.

While the District instituted certain mitigating controls to reduce the risk of errors or inappropriate payments, such as having the Superintendent certify each payroll, this procedure did not adequately compensate for the identified weaknesses. Payroll checks were generated prior to this certification, and there was no comparison between the payroll checks and the certified payroll by someone independent of the payroll process.

Based on these control deficiencies, we tested 16 employees' salary payments to ensure they were accurate and supported. Although our testing did not disclose any material exceptions, the weaknesses in controls over payroll processing increase the chance that errors and irregularities could occur and not be detected and corrected in a timely manner.

## **Recommendations**

1. District officials should establish and implement adequate written policies and procedures to ensure that salary and wage payments are accurate and supported.
2. District managers should adequately segregate payroll processing duties or establish additional monitoring and reporting procedures to compensate for the lack of duty segregation.

## Claims Processing

The Board, as a whole, is responsible for auditing 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 or deny claims for payment. An important aspect of the District's internal controls rests with the Board or the claims auditor. The Board or the claims auditor must ensure that proper documentation and itemization are provided for each claim, that the payment is for a legal purpose, and that the transaction was properly authorized.

In January 2001, the Board adopted a policy that called for the appointment of a claims auditor and generally described the claims auditor's duties. However, the policy does not provide detailed guidelines for auditing claims or any requirements of the claims auditor, and it fails to communicate, except in a general way, the Board's expectations for the performance of the claims audit function. Furthermore, the Board has not appointed a claims auditor. We were told that the Audit Committee, which is made up of three Board members, audits claims.

We selected 40 claims, paid between July 31, 2006 and December 31, 2007, totaling \$184,827 and tested whether the claims contained notation of audit and were properly supported with itemized documentation indicating what goods and services were purchased, when the items were received, and by whom. Our testing disclosed the following:

- None of the 40 claims had any indication that they were audited by the Audit Committee.
- Seven claims lacked any indication of who received the goods/services or when. A claim for the purchase of a new security system totaling \$18,584 did not have evidence that anyone verified that the entire system, or even a portion of the system, was received or installed. Another claim for the purchase of audio CDs totaling \$2,945 did not indicate how many were received or who received the items. We were subsequently able to account for the delivery of the security system, and determined that the 50 CDs purchased were all for an elementary school music class.
- Six claims were not sufficiently itemized to indicate what was purchased.

Unless the entire Board thoroughly audits claims before they are paid, or the Board appoints a claims auditor to perform this function, District officials do not have any assurance that payments are for valid and appropriate District purposes. The lack of an adequate process to audit claims prior to payment resulted in the District making unsupported payments. While we were able to determine that the payments noted above were for appropriate District purposes, the current system would not prevent inappropriate purchases from being paid by the District.

## **Recommendations**

3. The Board, as a whole, should either audit claims or appoint an independent claims auditor to do so.
4. The Board should adopt a comprehensive claims audit policy that adequately communicates Board expectations and provides necessary guidance for the audit of claims.
5. The Board, or properly designated claims auditor, should ensure that claims are sufficiently supported and itemized prior to approving claims for payment.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



*Wisdom, Commitment, Success*

**WYOMING CENTRAL SCHOOL DISTRICT**

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Sandra B. Duckworth  
*Superintendent*

June 24, 2008

[REDACTED]  
Office of the State Comptroller  
Division of Local Government Services  
295 Main Street, Room 1050  
Buffalo, New York 14203-2510

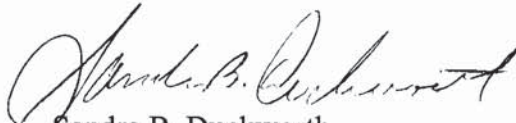
Dear [REDACTED]:

Thank you meeting with District Officials on June 3, 2008, to review your Draft Report of our District's Examination of Internal Controls Over Selected Financial Activities. We welcome the recommendations to us contained in the above mentioned report.

Once the Report of Examination is finalized and released, we will respond with a Corrective Action Plan within 90 days. The Corrective Action Plan will respond to each of the five recommendations contained within your report dealing with payroll and claims processing.

Once again, thank you for assisting our District with a thorough review of our financial and internal control structures. This process has provided valuable input into how our District may continue to review and improve the effectiveness and efficiency of our financial operations and related internal control structures.

Respectfully,

  
Sandra B. Duckworth  
Superintendent of Schools

## 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, 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 its computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected payroll and claims processing for further audit testing.

Within payroll, we focused our attention on the accuracy of payments to officials and employees. We examined the following records to determine if the District had properly designed and implemented internal controls over the payroll processing function:

- Collective Bargaining Agreements
- Time Records
- Board Authorizations.

Within claims processing, we focused our attention on the approval for payment for various types of goods and services acquired from July 31, 2006 through December 31, 2007. We examined the following records and reports to determine if the District had properly designed and implemented internal controls over the claims processing function:

- Vendor Payment Report
- Claims, vendor invoices and other supporting documentation
- Purchase Orders
- Warrants
- Vendor Contracts.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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