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Mr. Scott D. Smith, Superintendent
Members of the Board of Education
Clymer Central School District
8672 E. Main Street
Clymer, NY 14724

Report Number: 2007M-162-F

Dear Superintendent Smith and Members of the Board of Education:

One of the Office of the State Comptroller's primary objectives is to identify areas where school district officials can improve their operations and provide guidance and services that will assist them in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage district officials to reduce costs, improve service delivery and to account for and protect their district's assets. In accordance with these objectives, we conducted an audit to assess the financial operations of the Clymer Central School District (District). As a result of our audit, we issued a report, dated October 2007, identifying certain conditions and opportunities for District management's review and consideration.

To further our policy of providing assistance to school districts, we revisited the District on August 19, 2009 to review its progress in implementing our recommendations. Our follow-up review was limited to interviews with District personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, the District has implemented most of our recommendations. However, the District has made limited progress in implementing our recommendations with respect to the Trust and Agency Fund and the development and adoption of certain policies and procedures. Of the 19 audit recommendations, nine recommendations were fully implemented, nine recommendations were partially implemented, and one recommendation was not implemented.

Recommendation 1 – User Permissions

The Board should establish and monitor policies and procedures over the administration of user accounts, including restricting access levels of users to promote adequate segregation of duties and detailing how and when users are added and removed from the system.

Status of Corrective Action: Partially implemented

Observations/Findings: The Board has developed, but not adopted, a written policy for the administration of user accounts. The policy requires written procedures to be developed. While District officials have established procedures that address the assignment of user permissions which effectively promote segregation of duties and restrict access levels, these procedures are not written. The instructional technology specialist told us that the District does not have any written policies or procedures regarding the addition, deletion, or modification of an employee's access to the computer system or to specific applications; however, an approved authorization form must be on file for any employee requiring the addition or change of access levels for the financial system. The Business Official authorizes user permissions for employees involved with the financial operations of the District based on each employee's job description, and the Superintendent authorizes the Business Official's access levels. We verified authorization forms were on file for the Business Official, Treasurer and Superintendent. Additionally, the Superintendent's access levels were restricted to those categories needed to perform his duties as purchasing agent, and the Business Official's access levels were restricted for various categories, including the check printing process and payroll (read-only access).

Recommendation 2 - Treasurer Signature

The Treasurer should directly supervise the application of his/her signature to District checks.

Status of Corrective Action: Fully implemented

Observations/Findings: The Treasurer maintains control of her signature disk at all times. We confirmed with the payroll clerk and accounts payable clerk that they must request the use of the disk from the Treasurer and return it immediately after use. Additionally, with the implementation of the District's new financial software package, the Treasurer's signature can no longer be accessed through the system modules. Coupled with the new system of restricting access levels (as described above), this further limits accessibility to the Treasurer's signature and mitigates the risk that checks could be signed that are not for legitimate District purposes.

Recommendation 3 – Password Protection

The Board should establish policies and procedures requiring strong passwords and ensure that users are trained to properly choose and secure passwords, require users to change passwords periodically and require the administrative account to be protected.

Status of Corrective Action: Partially implemented

Observations/Findings: The instructional technology specialist informed us that policies have not been adopted detailing password requirements. However, users of the network and the financial software program are now required to change passwords periodically and are also required to have complex passwords. Several Business Office employees confirmed for us that they have to change their passwords and that their passwords have to meet complexity requirements. Additionally, with the implementation of the new financial software there are no longer any applications or modules that are not password-protected. The system administrator also told us

she no longer has access to all passwords, preventing her from signing in as another user and possibly accessing, or altering, confidential or financial data.

Recommendation 4 – Audit Logs

The Board should ensure that the new system produces audit logs and enables management to monitor user activity.

Status of Corrective Action: Partially implemented

Observations/Findings: Audit logs are now available to management to use as a tool to monitor the activities of the Business Office. However, we discussed the use of audit logs with the Business Official and Superintendent and both stated they do not use this tool on a regular basis. We encourage management to take advantage of this mechanism to help them identify potential problems and to provide them with further assurance that employees are using the system in a responsible manner.

Recommendation 5 – Cash Transfers

The Board should develop and implement a written policy and develop procedures governing cash transfer activity, including but not limited to authority, recordkeeping, call-back procedures, transaction limits, and the opening and closing of District accounts.

Status of Corrective Action: Partially implemented

Observations/Findings: The Board has developed, but not adopted, a written policy regarding cash transfer activity. The policy states that documented policies and procedures must be in place over the cash transfer process. The District has not yet written these procedures. However, we discussed the cash transfer process with the Business Official and Treasurer and found that, although the Business Official can still make electronic transfers without secondary approval, all information concerning these transfers is now forwarded to the Treasurer for her review. In addition, transfers made between accounts by check are now reviewed by the claims auditor, and the Superintendent reviews all journal entries, including those impacting cash accounts. Ideally, all cash transfers should have a secondary approval prior to transfer and we recommend that the District include this control procedure in any policies or procedures that are developed.

Recommendation 6 – Cash Transfer Documentation

The Business Official should attach supporting documentation to all cash transfers.

Status of Corrective Action: Fully implemented

Observations/Findings: The Treasurer told us that she now receives supporting documentation from the Business Official for all cash transfers. We reviewed a book of wire transfer activity for 2008 and confirmed the Treasurer had supporting documentation on file for the transfers.

Recommendation 7 – Review of Cash Transfers

The Treasurer should conduct a thorough review of all cash transfer activity.

Status of Corrective Action: Fully implemented

Observations/Findings: In addition to receiving supporting documentation for wire transfers, the Treasurer indicated she now reviews all journal entries impacting cash accounts and includes a printout of general ledger cash accounts, which details activity in all cash accounts, with the monthly bank reconciliations. We reviewed the Treasurer's 2008 and year-to-date 2009 bank reconciliation files and verified that general ledger printouts were attached to the completed bank reconciliations.

Recommendation 8 – Claims Auditor Duties

The Board should establish comprehensive written guidance for the claims auditor. Further, the Board should provide for adequate training for the claims auditor and monitor his/her activities to ensure compliance with adopted policies and procedures.

Status of Corrective Action: Partially implemented

Observations/Findings: The Board has not established written guidance for the claims auditor. However, the claims auditor stated that she has received training and feels she has a much more thorough knowledge of the duties required of a claims auditor. She also said she has implemented many of the verbal recommendations we gave her during our audit, including maintaining a check log and preparing a monthly report to the Board. These reports provide the Board with assurance that the claims auditor is conducting a thorough review of claims and also allows the Board to note any recurring problems (for example, lack of departmental approval) she may be encountering during her review of claims.

Recommendation 9 – Claim Documentation

The claims auditor should review all claims to ensure that proper original documentation, such as an invoice, is attached and that there is evidence of appropriate departmental approval.

Status of Corrective Action: Fully implemented

Observations/Findings: We scanned the July 2009 claims for all funds and found evidence that they contained original supporting documentation and had departmental approval. We spoke with the claims auditor to determine if there were still instances of not having departmental approval, or lack of supporting documentation, and she stated that this still happened on occasion but there has been significant improvement in the overall process since our audit. She also said that when this does occur she follows up with the Business Official or appropriate departmental supervisor prior to approving the claim.

Recommendation 10 – Claims Auditor Approval

The Treasurer should not pay claims until there is evidence of claims auditor approval.

Status of Corrective Action: Fully implemented

Observations/Findings: We reviewed the 2008 and year-to-date 2009 warrant schedules and all had the approval of the claims auditor and the Treasurer. Further, because the claims auditor also maintains a check log, the risk that a check could be processed and not included in the warrant schedule has been reduced. The claims auditor also informed us that she now compares the printed check against the invoice to ensure that the vendor and payment amount agree.

Recommendation 11 – Service Contract Payments

The Board should approve all contracts and the claims auditor should verify that all payments are made in accordance with contract terms.

Status of Corrective Action: Fully implemented

Observations/Findings: We reviewed Board minutes and noted approval of service contracts in the 2009 re-organizational minutes. The claims auditor informed us that she now has authorized contracts on file and uses them when verifying contract-related payments during her audit of claims. We selected one contract payment to discuss with the claims auditor and found that she was still not fully aware of all the nuances regarding service contract agreements. However, we also discussed the payment with the departmental supervisor who approved the payment and found he was aware of the payment schedule. Because the claims auditor is responsible for verifying payment accuracy, we recommend that she receive further training in this area.

Recommendation 12 – Employment Contract Payments

The Business Official should establish control procedures to ensure that all applicable contractual terms are being followed with respect to the accrual of sick days. The Board should take the appropriate steps to recover the improper separation payments made to former employees.

Status of Corrective Action: Partially implemented

Observations/Findings: The Board did not attempt to recover the separation payments made to former employees because they felt payments were made in accordance with the intent of the contract, as well as past practice. However, they issued a contractual memorandum of understanding which clearly details the accrual of sick days, thus minimizing the risk of overpayment in the future. In addition, the new financial software allows limits to be set for leave accruals, further enhancing controls over the accrual process.

Recommendation 13 – Labor Agreement Language

The Board and District management should ensure that labor agreements, and any adopted retirement incentives, are clearly written.

Status of Corrective Action: Fully implemented

Observations/Findings: The Board authorized a memorandum of understanding clearly specifying contract language as it pertains to separation payments and retirement incentives. We discussed the separation payment process (i.e., calculation of payments) with the Business Official and payroll clerk and found that the District has implemented controls and further segregated duties. The Business Official is now responsible for calculating the payment, including verifying that leave accruals are accurate. Once completed, the payment information is sent to the payroll clerk who also reviews it, ensuring payments are in compliance with contract language, and signs it prior to processing the payment.

Recommendation 14 – Payroll Taxes

The Business Official should ensure that payroll-related payments have the appropriate payroll taxes withheld and are properly reported.

Status of Corrective Action: Fully implemented

Observations/Findings: The Business Official informed us that she issued the appropriate tax documents (1099 forms) for the two employees noted in our report, and that these same employees have not received any further cash payments. (The applicable contractual memorandum of understanding prohibits employees from switching their payment choice – i.e., cash payment or health insurance payments – once selected.)

Recommendation 15 – Employment Contract Underpayment

The Board should ensure that the employee who was underpaid is properly compensated.

Status of Corrective Action: Fully implemented

Observations/Findings: The prior Superintendent contacted the employee and explained how the difference was calculated. According to the Business Official and the District Clerk, the employee declined the additional payment. The memorandum of understanding noted above (relative to Recommendation 13) clarifies all language pertaining to separation and incentive payments.

Recommendation 16 – Transfer of Accounts

The Business Official should identify any accounts which do not belong in the Trust and Agency Fund and transfer them to the appropriate fund or individuals responsible for their custody.

Status of Corrective Action: Partially implemented

Observations/Findings: The transfer of accounts from the Trust and Agency Fund to the Student Activity Fund was completed in June 2007. However, this transfer included accounts that do not belong in the Student Activity Fund. The District should contact the individuals who are responsible for the accounts' custody and make the appropriate transfer as soon as possible. In addition, the Business Official should immediately make the correct transfers of those previously transferred accounts that belong in another fund (for example, scholarship monies).

Recommendation 17 – Account Analysis

The Business Official should conduct an analysis of each account and determine if account balances are accurate and investigate and appropriately resolve any exceptions.

Status of Corrective Action: Not implemented

Observations/Findings: The Business Official informed us that she has not conducted a thorough analysis of all of the accounts but stated that since our audit she has attempted to balance the accounts on a monthly basis. We reviewed the account balances in the Trust and Agency Fund for the fiscal year ending June 30, 2009 and found there were still negative account balances. We also found the Business Official did not reconcile the retiree health insurance account with the payroll clerk's records. We recommend that all account balances be reconciled immediately.

Recommendation 18 – Receipt Issuance

The Treasurer should issue a receipt when monies are received from faculty advisors.

Status of Corrective Action: Partially implemented

Observations/Findings: With the transfer of accounts from the Trust and Agency Fund to the Student Activity Fund, the Treasurer no longer receives monies from faculty advisors. Money is now received in the office by an account clerk who issues duplicate receipts. However, the account clerk told us that she does not always write receipts when she receives monies from advisors or students at the point of exchange. Consequently, there have been instances when the deposit slip attached to the monies does not agree with the monies received. We recommend that the clerk issue a receipt upon exchange of monies to prevent any discrepancies from occurring in the future.

Recommendation 19 – Student Activity Fund Records

Advisors should keep written records of all receipts and disbursements in each activity fund and reconcile their records with the Business Official on a routine basis.

Status of Corrective Action: Partially implemented

Observations/Findings: A secretary in the Superintendent's office works with the students in maintaining receipt and disbursement ledgers, and the student activity treasurer also maintains receipt and disbursement ledgers. However, the secretary was unsure of whether the advisors were also tracking receipts and disbursements. At year-end, the secretary reconciles the bank account with the student ledgers and submits the reconciliation to the student activity treasurer for comparison. We reviewed the June 30, 2009 reconciliation between the bank and student ledgers and noted they were in balance. However, they had not yet been submitted to the student activity treasurer for comparison. We recommend that the faculty advisors work with the Superintendent's office to ensure that the Student Activity Fund receipts and disbursements are properly reconciled with bank account statements.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage you to continue with your efforts to implement our recommended improvements in your fiscal management.

I trust that our follow-up review was of assistance to you. If you have any further questions, please contact Robert E. Meller, Chief Examiner of our Buffalo office, at (716) 847-3647.

Sincerely,

Steven J. Hancox
Deputy Comptroller
Office of the State Comptroller
Division of Local Government
and School Accountability