



Hoosick Falls Central School District Electronic Fund Transfers

Report of Examination

Period Covered:

July 1, 2011 — February 29, 2012

2012M-71



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2012

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 Hoosick Falls Central School District, entitled Electronic Fund Transfers. 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*

Introduction

Background

The Hoosick Falls Central School District (District) is located in the Towns of Grafton, Hoosick, Petersburg, and Pittstown in Rensselaer County, and White Creek in Washington 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 is the chief executive officer of the District and is responsible, along with the Business Administrator and other administrative staff, for the day-to-day management of the District, under the direction of the Board. The District Treasurer (Treasurer) is the custodian of all moneys belonging to the District, performs electronic transfers of District moneys, and accounts for all moneys received by the District.

There is one school in operation within the District, with approximately 1,200 students and 188 employees. The District's budgeted expenditures for the 2011-12 fiscal year are \$ 19.9 million, funded primarily with State aid, real property taxes, and grants.

Responsibilities relating to the District's finances and accounting records and reports are largely those of the Business Administrator and the Treasurer. The Business Administrator oversees the day-to-day financial operations of the District and supervises business office personnel. The Treasurer routinely electronically transfers District moneys.

Objective

The objective of our audit was to examine the District's internal controls over electronic fund transfers. Our audit addressed the following related question:

- Did District officials establish adequate internal controls to safeguard electronic fund transfers?

Scope and Methodology

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. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine risk existed in the electronic fund transfers and,

therefore, we examined the District's transactions for electronic fund transfers for the period July 1, 2011 to February 29, 2012.

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 is 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 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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Electronic Fund Transfers

Electronic fund transfers¹ are transfers of District funds to and from different bank accounts, usually effective within minutes of being executed. Due to the timing of a wire transfer, District officials must establish and enforce a framework of comprehensive internal controls over electronic fund transfers to safeguard District moneys. One fundamental element of effective internal controls is adequate segregation of incompatible duties. The duties of authorizing, initiating, and accounting for financial transactions should be performed by different individuals. Electronic fund transfers should be made only upon prior written authorization by someone independent of the transaction. District officials should require that bank personnel independently confirm each transaction with the person authorizing the transfer. It is essential that bank reconciliations are not performed by the same individual who performs electronic fund transfers. Another important component of internal controls over electronic fund transfers is timely management oversight to help ensure that errors or irregularities are detected and corrected.

The Treasurer, as custodian of District moneys, can initiate and execute electronic fund transfers. The Treasurer uses an internet based banking module to electronically pay debt service obligations and perform transfers of District funds to outside accounts. Interfund transfers are also made in person at the local bank office. The Board has adopted a formal policy related to electronic fund transfers which requires verbal or electronic confirmations be sent to the Business Administrator. However, the only confirmation of electronic fund transfers from the bank to the District during our audit scope was sent electronically via e-mail to the Treasurer. The Treasurer initiates each electronic fund transfer, receives the confirmation, records the transaction into the general ledger by hand and at the end of each month makes general journal entries in the financial management system with the monthly totals. He then reconciles the bank accounts. The Business Administrator initialed electronic fund transfer documents but we could not determine if the approval was prior to the transfer because they are not dated. During our scope period, the month end journal entries were not reviewed by the Business Administrator for a month on average after the transaction, and bank reconciliations were not reviewed for up to a three month period.

¹ Electronic fund transfers can be performed via an internet based banking module or in person at the bank office.

Because these incompatible duties are not adequately segregated, there is an increased risk that moneys may be transferred improperly, or that the transfers will not be properly recorded and documented. To address the possibility of improper transfers, we reviewed 40 electronic fund transfers² from our scope period totaling \$10.5 million and verified the propriety of each transaction. We confirmed the electronic fund transfer destination, the amount transferred, and the timing of the payment and receipt. Our testing did not identify any improprieties. All electronic fund transfers were made to other District bank accounts, were routine payroll remittances to governmental tax authorities, or were debt payments. Although we found no improprieties, when one person performs all functions within the electronic fund transfer process without adequate supervision, it increases the risk that cash may be disbursed improperly and that such disbursements may be concealed without detection.

Recommendations

1. The Board should revise its written policy regarding electronic fund transfers to ensure the duties of authorizing, initiating, and recording electronic fund transfers are adequately segregated. The policy should require that confirmations are made verbally from the bank to the Business Administrator and that bank reconciliations are performed by someone other than the Treasurer.
2. The Business Administrator should date her approval showing the authorization of the electronic fund transfer.

² See Appendix B, Audit Methodology and Standards, for information on sample selection.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Hoosick Falls Central School



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Superintendent of Schools

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Pamela Hatfield
Business Administrator

Pamela Cottrell
District Clerk

May 30, 2012

Jeffery P. Leonard, Chief Examiner
State of New York
Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street
Albany, New York 12236

Dear Mr. Leonard,

We are in receipt of the Draft Copy of the Comptroller audit performed by [REDACTED], under the direction of supervisor, [REDACTED]. The information is fairly presented and provides the district with clear, concise recommendations to improve our internal controls involving electronic bank transfers.

The audit was conducted in a professional manner with open communication and two-way dialogue. The post audit meeting was very productive with Greg Laurin, School Board President, Pamela Hatfield, School Business Administrator, [REDACTED] and myself in attendance.

Based on the information contained in the audit of internal controls safeguarding electronic transfers we offer the following:

1. Board Policy #6415 "Wire Transfers-Online Banking" will include language revisions that outline the following changes:

All electronic fund transfers will require verbal confirmation from the bank to the School Business Administrator who will record the date of confirmations.

2. Bank Reconciliations will be performed by the Payroll Clerk so as to adhere to separation of duties now performed by the Treasurer.

Very respectfully submitted,

Kenneth A. Facin
Superintendent of Schools

Cc: Board of Education
Pamela A. Hatfield, School Business Administrator

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected electronic fund transfers for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We compiled the electronic transfers conducted during our scope period from the associated bank statements for the general, federal, school lunch, and trust and agency funds.
- We judgmentally selected 40 of 116 transfers for testing. Transfers were selected based on dollar amount, and whether or not they were executed online or in person.
- We traced from the bank statements to the accounting records and source documents and inquired of District personnel as necessary.

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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