



Oppenheim-Ephratah Central School District

Business Office Operations

Report of Examination

Period Covered:

July 1, 2011 — November 30, 2012

2013M-70



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2013

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage district resources 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 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of Oppenheim-Ephratah Central School District, entitled Business Office 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*

Introduction

Background

The Oppenheim-Ephratah Central School District (District) is located in the Towns of Oppenheim, Ephratah, Johnstown, and Stratford in Fulton County and the Town of Manheim in Herkimer County. The District is governed by the Board of Education (Board) which comprises seven¹ elected members. The Superintendent of Schools (Superintendent)² 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 District has one school building for students in kindergarten through grade 12; a separate bus garage is located on the same parcel of land. Currently, the District also provides a grant-funded universal pre-k program, Individualized Education Programs for special needs children, and programs at the Herkimer-Fulton-Hamilton-Otsego Board of Cooperative Education Services. The District has 305 students and 78 employees. Budgeted expenditures for the 2012-13 fiscal year are approximately \$8.4 million, funded primarily with real property taxes and State aid.

The District's Business Office staff consist of a District Treasurer (Treasurer) and an account clerk. The Treasurer is responsible for the District's financial and recordkeeping functions. The Treasurer writes all checks, prepares the reconciliation of accounts, and generates monthly and quarterly Treasurer's reports for the Board. The account clerk processes payroll and accounts payable, and reviews the Treasurer's bank reconciliations. Both the Treasurer and the account clerk are involved in the District's receipts process.

The Board appointed a claims auditor for the 2011-12 and 2012-13 fiscal years to assume the Board's powers and duties to formally examine, and allow or reject, claims or demands against the District. The claims auditor reports directly to the Board.

During our audit period, the District merged its athletic programs with neighboring St. Johnsville Central School District (CSD). In addition, District residents voted on December 11, 2012, to merge the entire District with the St. Johnsville CSD effective July 1, 2013. The St. Johnsville CSD is located in Montgomery County.

¹ Currently, the Board only has six serving members. One position has not been refilled since a previous member resigned on November 8, 2012.

² As of February 4, 2013, the District Superintendent for the Herkimer-Fulton-Hamilton-Otsego County Board of Cooperative Educational Services became the Acting Superintendent of the District.

Objective

The objective of our audit was to determine if internal controls over Business Office operations were appropriately designed and operating effectively to adequately safeguard District assets. Our audit addressed the following related question:

- Are internal controls over Business Office operations appropriately designed and operating effectively to adequately safeguard District assets?

**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: control environment, financial condition, budgeting, accounting records and reports, cash management, cash receipts and disbursements, purchasing, claims processing, payroll and personal services, real property taxes, 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 that there are inherent risks in cash transactions and, therefore, we examined internal controls over Business Office operations for the period July 1, 2011 to November 30, 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 are included in Appendix B of this report.

**Comments of
Local Officials**

The results of our audit have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report.

Business Office Operations

The Board is responsible for designing internal controls that help safeguard the District's resources and ensure that they are used economically and efficiently. An adequate system of internal controls includes clear policies and procedures that promote effective operations, the prudent use of resources, and the adherence to applicable laws and regulations. The Board is responsible for establishing a system of checks and balances to ensure that no individual controls all phases of a transaction. When it is not practical to segregate duties because of limited staff resources, the Board should establish compensating controls such as having a separate individual periodically review the work of staff under their direction, and periodically rotating work duties. Furthermore, Education Law requires the Board to audit all claims, with a few exceptions, before they are paid, or to appoint a claims auditor to assume the Board's powers and duties to examine and approve or disapprove claims.

We found that the District established adequate internal controls over Business Office operations. Board policies and written procedures have been developed and adhered to by staff for cash receipts and disbursements, payroll, purchasing, and claims processing. Furthermore, District officials had developed appropriate segregation of duties amongst Business Office staff where possible and also implemented various reviews of the work performed as mitigating controls.

Cash Receipts and Disbursements — The District's revenues are collected, deposited, and recorded by both the Treasurer and the account clerk. Receipts are prepared in a triplicate receipt book by one staff member and then reviewed and initialed by the other. District checks are signed by the Treasurer through the use of the District's accounting software.³ Wire and cash transfers are initiated by the account clerk and then approved by the Treasurer, as two log-in signatures are needed to use the on-line banking system. Monthly journal entries are prepared and recorded by the Treasurer and reviewed by the Superintendent after having been posted. Monthly bank reconciliations for all accounts are prepared by the Treasurer and then reviewed by the account clerk. In addition, the Board receives a summary of the bank reconciliations in its monthly Treasurer's report.

³ The Treasurer reviews computer-generated pay schedule registers and gives the account clerk a verbal approval to process checks. Furthermore, the Treasurer also provides the account clerk with her signature disk to process the payroll checks.

We conducted various tests⁴ to determine if 20 deposits totaling \$738,833 agreed with the cash receipts journals for non-real property tax receipts and if 49 checks issued totaling \$45,451 agreed with the cash disbursements records, including payroll registers and warrants. We also verified that triplicate receipts and checks were issued in sequential numerical order and that unused receipt books and check stock were controlled. Furthermore, we examined bank reconciliations to see if they were accurate and prepared periodically and timely. We did not find any material discrepancies in the testing we conducted. Moreover, our review of District documents verified the existence of District officials' initials as oversight of transactions.

Payroll Processing — The Board approves new hires and determines salary rates for District employees. The Treasurer and account clerk handle separate parts of the payroll process so that duties are adequately segregated. District staff that work outside of the Business Office record and track employee leave accruals. The Treasurer provides oversight by reviewing exception reports generated each pay period from the accounting software. Additionally, the Treasurer reviews the payroll registers, which also have been reviewed and certified by the Superintendent. Furthermore, District officials, employees, and substitute teachers are required to sign for their paychecks or to sign direct deposit advice slips at least once annually.

We examined payroll records⁵ to determine if payments made to 23 employees totaling \$30,222 were made for actual services rendered, were properly recorded, and were at approved pay rates. We also verified that employee time and accrual records were being maintained and periodic reconciliations were performed. We determined that individuals reported and paid on payrolls were bona fide employees. We also reviewed documents which contained the employees' signatures for all employees paid during the verification of payrolls by the District. We found only a few minor issues during our testing, which we discussed with District officials.

Purchasing and Claims Processing — District officials have implemented the use of purchasing requisitions and purchase orders. The Treasurer and account clerk handle separate parts of the purchasing process to ensure that duties are segregated. The claims auditor audits and approves the claims prior to payment and notifies the Treasurer that the claims have been audited and approved for payment. Furthermore, the Board receives copies of all approved warrants.

⁴ See Appendix B, Audit Methodology and Standards, for additional details on our testing.

⁵ Ibid.

We tested 20 claims totaling \$48,502⁶ to determine if the claims were accurate and processed correctly, and that purchases or services rendered were proper District expenditures. The claims we reviewed were processed correctly with a few minor exceptions that we discussed with District officials.

⁶ Ibid.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

OPPENHEIM O-E EPHRATAH

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April 1, 2013

Office of the State Comptroller
One Broad Street
Glens Falls, New York 12801

To Whom It May Concern:

This letter is the official response from the Oppenheim-Ephratah Central School District to the Office of the State Comptroller's Draft Audit Report covering the period of July 1, 2011 to November 30, 2012. The audit of our Business Office Operations found that the District established adequate internal controls. Policies and procedures have been developed and adhered to by staff for cash receipts and disbursement, payroll, purchasing and claims processing. The District officials had developed appropriate segregation of duties amongst Business Office staff where possible and also implemented various reviews of the work performed as mitigating controls.

The fact that there were no findings or recommendations means that there is no need for a formal corrective action plan. However, we would like to take this opportunity to say that the audit process was very informative and a positive experience for our district. We found the auditors to be very knowledgeable and helpful throughout the process. We look forward to working with you again in the future to better serve the taxpayers of our school district.

Thank you for what was, for us, a very beneficial experience.

Sincerely,

Mark Vivacqua, Acting Superintendent of Schools

Cc: Board of Education members
Mrs. Karen Mettler, District Treasurer

Dan M. Russom, Superintendent ■ Brett W. Barr, Building Principal
Joanne Capek-Young, Board of Education President ■ Benedict Conte, Vice-President
Glen Blanchard ■ Cindy Breh ■ Bruce Carpenter ■ Cheryl Lynch ■ Susanne Sammons

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: control environment, financial condition, budgeting, accounting records and reports, cash management, cash receipts and disbursements, purchasing, claims processing, payroll and personal services, real property taxes, 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 the area most at risk. To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed and observed appropriate District officials and employees to learn about procedures used in the Business Office.
- We reviewed minutes of the proceedings of the Board.
- We reviewed Board policies and written procedures related to cash receipts and disbursements, payroll, purchasing, and claims.
- We randomly selected two months, one for each fiscal year of our audit period, to determine if deposits agreed with the cash receipts records. For the months selected, we judgmentally selected the receipts to review. For May 2012, we reviewed 27 Treasurer's receipts resulting in 10 deposits totaling \$139,941, and for October 2012 we reviewed 23 Treasurer's receipts resulting in 10 deposits totaling \$598,892.
- We randomly selected two months, one for each fiscal year of our audit period, to determine if checks agreed with the cash disbursements records for payment of claims and payroll. For the months selected, we randomly selected the checks to review. For April 2012, we reviewed 10 payable disbursements totaling \$2,998 and 13 payroll disbursements totaling \$11,575. For August 2012, we reviewed 11 payable disbursements totaling \$11,793 and 15 payroll disbursements totaling \$19,085.

- We reviewed the District's receipt books, check stock, and warrants and observed a check run being processed by the account clerk to verify the sequence and control of the District's receipts and checks.
- We randomly selected two months, one for each fiscal year of our audit period, to verify that bank reconciliations were prepared periodically and timely. We reviewed the reconciliations for all funds for the months of January and July 2012.
- We randomly selected the month of April 2012 and judgmentally selected the month of September 2012 for our payroll payments and leave accruals testing. For April 2012, we reviewed 12 employees for two pay periods with payments totaling \$13,087. For September 2012, we reviewed 11 employees for two pay periods with payments totaling \$17,135. We also reviewed leave accruals for the employees selected in our testing. In addition, our testing included payouts for a retiree and a teacher who took a leave of absence from the District during our audit period.
- We reviewed the number of employees documented in the payroll registers during our audit period to determine if there were unusual increases or decreases in the number of employees. In addition, we verified that individuals reported and paid on the October 3, 2011, and the October 12, 2012, payrolls were bona fide employees.
- We judgmentally selected the months of June and September 2012 to test claims to determine if they were appropriate District expenses, properly recorded, and approved prior to the release of checks. We selected a total of 20 claims, 10 from each month, totaling \$48,502.

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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