



Onondaga Central School District

Nonpayroll Disbursements

Report of Examination

Period Covered:

July 1, 2012 — February 28, 2014

2014M-257



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of District Officials and Corrective Action	2
NONPAYROLL DISBURSEMENTS	4
Recommendations	5
APPENDIX A Response From District Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2014

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 Onondaga Central School District, entitled Nonpayroll Disbursements. 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 New York State 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 Onondaga Central School District (District) is located in the Towns of Lafayette, Marcellus, Onondaga and Otisco in Onondaga County. The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for general management and control of District operations. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates three schools with approximately 900 students and 180 full- and part-time employees. The District's 2013-14 fiscal year general fund budget appropriations were about \$19.4 million, funded primarily with State aid and real property taxes.

The District Treasurer and the accounts payable clerk are responsible for processing all disbursements. All computerized checks are printed by the Onondaga-Cortland-Madison BOCES at the Central New York Regional Information Center (CNYRIC). During our audit period, nonpayroll disbursements totaled more than \$15.7 million.¹

Objective

The objective of our audit was to assess internal controls over nonpayroll disbursements. Our audit addressed the following related question:

- Are internal controls over nonpayroll disbursements appropriately designed and operating effectively to adequately safeguard District money?

Scope and Methodology

We examined the District's internal controls over nonpayroll disbursements for the period July 1, 2012 through February 28, 2014.

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 have initiated corrective action.

¹ Approximately \$13.24 million from the general fund, \$2.22 million from the capital projects fund and \$262,000 from the special aid fund

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the New York State General Municipal Law, Section 2116-a (3)(c) of the New York State Education Law and Section 170.12 of the New York State 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 provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. 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.

Nonpayroll Disbursements

The District should have internal controls in place to ensure that nonpayroll disbursements are authorized and appropriate. The foundation of good internal controls over such disbursements is adequate segregation of incompatible duties. Authorizing (approving payments, signing checks or releasing wire transfers), having custody (ability to access blank check stock or initiate wire transfers) and recordkeeping (ability to record transactions in the accounting system) should be separated so that one individual cannot complete a transaction from start to finish. If it is not practical for District officials to segregate duties, compensating controls² should be implemented.

With certain exceptions, the Treasurer should sign checks after receiving a warrant certified by the claims auditor directing the Treasurer to pay the related claims.³ The Treasurer should compare signed checks with the certified warrant for accuracy and consistency before the checks are issued. If the Board allows the District Treasurer to use an electronic or facsimile signature to sign District checks, the signature must be affixed by the Treasurer or under the Treasurer's direct supervision.

District officials need to improve internal controls over nonpayroll disbursements. The accounts payable clerk (Clerk) performed all nonpayroll disbursement processes for the general fund with little oversight or any other compensating controls. The Clerk is responsible for recording all general fund nonpayroll disbursement transactions, initiating check printing, receiving printed checks and distributing checks. The Treasurer performs these functions for the special aid and capital projects funds. Thus, the Clerk and Treasurer control the entire nonpayroll disbursement process. As a result, District officials do not have adequate assurance that all nonpayroll disbursements are approved and for appropriate District purposes.

Most District checks are computer generated and printed at the CNYRIC with the Treasurer's electronic signature already imprinted. Therefore, the Treasurer does not have control over her signature. Additionally, general fund checks are sent directly to the Clerk who processes and distributes them without the Treasurer's involvement.

² Such controls could include designating someone independent of the process to periodically review canceled checks and online payments.

³ When a district's annual budget provides for payment, the treasurer may pay certain claims without a warrant or prior to the claims auditor's approval. Such payments include principal and interest for bonds, notes or other evidence of indebtedness for which the district is liable and compensation paid to officers or employees included on a duly certified payroll.

Manual checks, which are hand-signed by the Treasurer, are used occasionally, when a disbursement must be made before the next regularly scheduled disbursement period. However, these checks are not always audited and approved before they are distributed. Further, no one reviews canceled checks to verify if check payments are appropriate.

The Treasurer also pays certain types of expenditures online, including fuel purchases, which should be subject to the same requirements as claims paid by check. The Treasurer is responsible for recording, initiating and processing these online payments. No one compares online transactions with the approved warrants. Due to these weaknesses, District officials cannot be sure that all online cash disbursements have been audited and approved.

To address these weakness, we tested 209 nonpayroll disbursements totaling more than \$6.2 million during our audit period. We reviewed 108 computer-generated check payments totaling \$179,107, all online transfers and automatic payments for two months of our audit period totaling over \$6 million and all 18 manual checks totaling \$11,939. We also scanned bank statements during the audit period for any unusual or suspicious activity. While we did not identify any inappropriate payments, we did find that some payments were made before or without the claims auditor's approval. Our testing disclosed the following discrepancies:

- We found that 20 automatic payments totaling \$31,190 were withdrawn from the District's bank account to pay the gas credit card monthly bills without the claims auditor's audit and approval.⁴
- We found that 13 manual checks totaling \$7,859 were cashed before the warrant was approved.

When one individual controls all phases of the nonpayroll disbursements process and effective mitigating controls are not implemented, there is an increased risk that errors and irregularities may occur and may not be detected and corrected.

Recommendations

District officials should:

1. Segregate duties over the nonpayroll disbursements process. If segregating duties is not practical, compensating controls should be implemented.

⁴ The District discontinued using gas credit cards in March 2014.

2. Ensure that all nonpayroll disbursements, including online payments, are properly audited and approved before payments are distributed.

The Treasurer should:

3. Maintain control over her electronic signature and either affix her signature to all District checks or supervise the signature process for all District checks.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Onondaga Central School District

November 10, 2014

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**Office of the State Comptroller
Syracuse Regional Office**
Rebecca Wilcox, Chief Examiner
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Dear Ms. Wilcox:

We at Onondaga Central Schools appreciate the Office of the State Comptroller in helping identifying any possible deficiencies. The extensive review of our financial system and processes, specifically non-payroll disbursements helps our district to manage district resources efficiently and effectively. In addition, we enjoyed working with the examiners throughout the audit process.

We have reviewed the preliminary draft of the report of examination for the period of July 1, 2012 – February 28, 2014, received on October 8, 2014, with the Board of Education and the district's audit committee. The report is accurate and the district has already implemented changes in our procedures as a result of the audit findings. The audit results and recommendations are resources for our district officials to use in effectively managing operations and meeting the expectations of our community.

In addition to our answer, this letter serves as our official corrective action plan (CAP).

OSC Recommendations:

Non-Payroll Disbursements:

1. Segregate duties over non-payroll disbursements process. If segregating duties is not practical, compensating controls should be implemented.

OCS response: Based on the recommendations outlined by the findings this district has restructured past operations to require the claims auditor submit the audited claims to the School Business Administrator for review and approval. Once received the School Business Administrator will certify that the internal claims auditor discrepancies were corrected and acted upon and that each claim is appropriate. Once approved by the School Business Administrator the warrants will be provided to the District Treasurer. The District Treasurer will verify the claim packet, give the checks to the accounts payable clerk and provide authorization to the accounts payable clerk to mail the checks.

2. Ensure all non-payroll disbursements, including online payments, are properly audited and approved before payments are distributed.

The Onondaga Central School Community Challenges individual maximum potential, prides itself on Success and prepares contributing Citizens for life.

www.ocs.cnyric.org

OCS response: The District has closed the gas card account in March of 2014 so we do not foresee that being an issue in the future. In addition, in regards to the manual checks, the Business Administrator will also approve the manual checks and they will be audited by the claims auditor prior to being sent out. Finally, the district is changing banks and we have instituted an approval process that should eliminate online payments being made before they are approved by the Business Administrator and the Claims Auditor.

Treasurer's Operations

1. Maintain control over the District Treasurer's electronic signature and either affix District Treasurer's signature to all district checks or supervise the process for all District checks.

OCS response: The District over the past many years has had Central New York Regional Information Center (CNYRIC) print checks and have them sent to OCS where they are reviewed via the claims audit process prior to being mailed out. The district felt this is a cost effective and efficient process. Since it is nearly impossible and highly inefficient to have the treasurer manually sign all of the checks, and/or send the Treasurer to CNYRIC every time checks are printed, the district has implemented the following process to allow for additional checks in this area. After a warrant is audited by the claims auditor the School District Business Administrator will review the warrant and certify that the audited warrant is complete to include any noted corrections. After the Business Administrator approves the warrant the claim packet will be given to the District Treasurer. The District Treasurer will give the printed checks to the Accounts Payable Clerk and will notify the Accounts Payable Clerk that the warrant is approved and the checks will be mailed out after that approval.

Sincerely,

Debra B. Eichholtz
School Business Administrator

cc: Board of Education
Robin Price, Superintendent
Jill Amidon, AP Clerk
Patricia Jones, Treasurer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluating the following areas: financial oversight, cash receipts and disbursements, purchasing and payroll and personal services.

During the initial assessment, we interviewed 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. 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 professional misconduct. We then decided on the reported objective and scope by selecting for audit the area most at risk. We selected internal controls over nonpayroll disbursements for further audit testing. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed District policies and interviewed the District Business Manager, Treasurer and Clerk to gain an understanding of internal controls surrounding nonpayroll disbursements.
- We analyzed the District's computer-processed disbursement data for our audit period to verify the data's completeness, consistency and reliability.
- We reviewed all online bank transfers and automatic payments for two months during our audit period. We traced each online bank transfer and automatic payment to the corresponding bank statements, bond payment schedules, employees' contract or approved warrants. We selected the first two months of 2014 for our sample months, with no expectation that more or fewer errors would occur in any other month.
- We reviewed all online banking transfers and payments on the bank statements within our audit period for suspicious transactions.
- We traced all gas credit card bill automatic payments to approved warrants to determine whether they were audited and approved.
- We reviewed bank statements within our audit period to identify all manual checks and traced them to the electronic disbursement journal and approved warrants.
- We reviewed all claims auditor reports within our audit period and verified the check sequence

on the reports to identify any gaps between warrants. We followed up on the correction of reported issues to verify they were corrected before payments were distributed.

- We traced 108 payments to approved warrants to verify they were approved. We used a random number generator to select a sample of 100 computer-generated check payments. We selected an additional eight computer-generated check payments, based on high risk factors including payments to vendors which were susceptible to purchases for personal use and payments to District employees who were involved in disbursement processing.

We conducted this performance audit in accordance with 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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