



# West Genesee Central School District Segregation of Duties

## Report of Examination

Period Covered:

July 1, 2014 – March 31, 2016

2016M-303



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**

December 2016

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 West Genesee Central School District, entitled Segregation of Duties. 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 West Genesee Central School District (District) is located in the Towns of Camillus, Geddes, Onondaga, Elbridge and Van Buren in Onondaga County. The District is governed by the Board of Education (Board), which is composed of nine 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 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 seven schools with approximately 4,630 students and 870 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$78.6 million, which were funded primarily with real property taxes, grants and State aid.

## Objective

The objective of our audit was to determine if the District's controls over certain cash receipts were adequate. Our audit addressed the following related question:

- Did District officials establish sufficient segregation of duties or compensating controls for certain cash receipts?

## Scope and Methodology

We examined the District's financial records for the period July 1, 2014 through March 31, 2016. We expanded our scope to review the District's 2015-16 adopted budget.

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. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

## 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 findings and indicated they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State 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 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.

## Segregation of Duties

The Board is responsible for establishing an internal control system that provides reasonable assurance that resources are being safeguarded. District management is responsible for implementing the Board's control directives by designing and documenting appropriate operating policies, practices and procedures and properly delineating employee responsibilities. One component of good internal control is the proper segregation of duties to ensure that one individual does not control all phases of a transaction. It is important that key duties, such as recordkeeping, preparing and making deposits and preparing bank reconciliations, are segregated so that the work of one employee is routinely verified in the course of another employee's regular duties. If it is not practical to adequately segregate the financial duties because of limited staff resources, District management must establish compensating controls. Such controls could consist of reviews of activity and transactions by supervisory personnel.

It is important for the Board to establish policies and procedures to provide assurance that cash receipts are adequately safeguarded, accounted for and deposited intact<sup>1</sup> and in a timely manner. In addition, the regulations<sup>2</sup> require the use of prenumbered, duplicate forms when collecting funds. Key internal control practices suggest that someone independent of cash and recordkeeping functions open the mail, restrictively endorse all checks, establish a record of all funds received and prepare the deposit slip. These practices also suggest that someone independent from the recordkeeping function should verify that funds were deposited into a District bank account.

The District has not established written policies or procedures for the cash receipts process at the District's Business Office or for the Food Service Department, which collects cash at the school cafeterias. We found that the key duties of cash handling, recordkeeping and reconciliation are concentrated with one position. In addition, there was no process in place for someone independent from the recordkeeping function to verify that funds were deposited into a District bank account.

The Business Office was the centralized cash receipt location for the District's processing of over \$7.1 million for the audit period.<sup>3</sup> The

<sup>1</sup> Intact refers to deposits being made in the same amount and form (i.e., cash or check) as the original collections.

<sup>2</sup> New York State Education Department Commissioner Regulations, Section 170.2(h)

<sup>3</sup> This total includes receipts for sales, sales tax, donations, individual health insurance, refunds, reimbursements, tuition, rent, fees, adult education and accounts receivable.

Deputy Treasurer is responsible for opening the payments received by mail<sup>4</sup> and collecting cash and checks in the Business Office, such as school food service receipts remitted by the District courier<sup>5</sup> and food service manager and other miscellaneous revenues (e.g., donations and student fees). The Deputy Treasurer prepares the bank deposit and either the Treasurer or Deputy Treasurer makes the deposit. The Deputy Treasurer records the cash receipts in the District's computerized accounting records.

The District has not segregated the cash handling function from the recordkeeping function for most District receipts. Although most cash receipt duties have not been segregated, the Treasurer provides supervisory oversight by reviewing the prepared deposits, tracking bank activity and reviewing bank reconciliations and completed journal entries.<sup>6</sup>

We also found weaknesses in the District's process for recording receipts when initially collected. The District does not maintain a daily log or other record of cash received that includes receipt numbers, payees, dates and amounts. The Deputy Treasurer prints a computerized receipt after the bank validates the deposit amount but does not issue a receipt to the payee unless one is specifically requested. Therefore, there is no process in place to verify that all funds received were deposited into District bank accounts.

Due to these weaknesses, we reviewed 140 cash receipts remitted to the Business Office in February 2016 and March 2016 totaling \$559,949,<sup>7</sup> consisting of payments for school lunch services, retiree health insurance, donations, transportation use, BOCES reimbursements and student fees, to determine whether these receipts were adequately supported, accurately accounted for in the financial records and deposited intact and in a timely manner.

Generally, cash receipts were accurately recorded and deposited timely and intact.<sup>8</sup> Specifically, all cash receipts tested were found in the appropriate bank accounts, deposited no later than one business

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<sup>4</sup> Payments received by mail for retiree health insurance are remitted directly to the insurance clerk and taxes for the Town of Elbridge are remitted directly to the tax collector.

<sup>5</sup> The District courier collects and delivers the cafeteria receipts for all buildings except the High School. The Assistant Superintendent for Management Services or the food service manager delivers the High School cafeteria collections to the Business Office daily.

<sup>6</sup> Other than the Treasurer's signature indicating reviews of the bank reconciliations, we were unable to determine the extent of the reviews due to the lack of an audit trail.

<sup>7</sup> See Appendix B for sample selection information.

<sup>8</sup> Tested from source documents where available

day after the deposit was prepared, and recorded in the accounting records through a cash receipts entry or a journal entry.

District officials have implemented compensating controls to help reduce risks, such as oversight of the cash receipts process, review of prepared bank deposits<sup>9</sup> and bank reviews of reconciliations by the Treasurer. However, District officials' implementation of these control procedures could be improved by assigning tasks to an individual independent from the Business Office to perform the reviews and requiring review of the audit trail reports generated from the financial system. As a result, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

## **Recommendations**

The Board and District officials should:

1. Develop and implement cash receipts policies and procedures.
2. Segregate duties and ensure sufficient management oversight is in place within the cash receipts process.
3. Implement a process to view audit trail reports in the financial system to independently complete a review of financial transactions.

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<sup>9</sup> We could not verify the review of prepared bank deposits because the documentation provided did not indicate a review was conducted and completed.



## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



## WEST GENESSEE CENTRAL SCHOOL DISTRICT

Paul E. Pelton · District Clerk · 300 Sanderson Drive · Camillus, New York 13031 · 315-487-4563

November 17, 2016

Ms. Ann Singer  
Office of the State Comptroller  
State Office Building  
44 Hawley Street – Suite 1702  
Binghamton, New York 13901-4417

RE: Response to Draft Report Number: 2016M-303  
West Genesee Central School District  
Segregation of Duties  
July 1, 2014 – March 31, 2016

Dear Ms. Singer:

On behalf of the West Genesee Central School District, we would like to thank the Comptroller's Office, especially the field staff that reviewed our cash receipts process and the segregation of duties related to these operations. We found the team assigned to our District to be approachable and they gained an in-depth understanding of the practices utilized by the district.

We have reviewed the draft audit report and are pleased that the Comptroller's Office noted that all transactions reviewed were accurately documented, deposited timely and recorded properly in our accounting system. Furthermore, the District concurs that documenting its cash receipts procedures would be beneficial at multiple levels. The District will also look to further segregate the duties and oversight of the cash receipts procedures, which has become a little more difficult due to the fact that we have reduced the business office staff by 1.5 FTE.

Please be assured that the remaining business office staff will also remain diligent in our fiscal oversight to assure that all receipts continue to be received, recorded and deposited in a timely and accurate manner. As always, we will continue to monitor our internal practices and controls to seek opportunities for improvement.

Please feel free to contact us at your convenience should you have any additional questions.

Sincerely,

Róberta M. Herron  
Board of Education President

CC: Board of Education  
Jim Buffum, CPA, Internal Auditor

Jerry Mickelson, CPA  
Paul Pelton, District Clerk

## **APPENDIX B**

### **AUDIT METHODOLOGY AND STANDARDS**

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the District's internal controls over the cash receipts process, including the procedures in place for collecting and depositing cash, as well as any oversight and review procedures.
- We judgmentally selected February and March 2016 for cash receipt testing. We traced 40 deposits from bank statements totaling \$469,960 to the deposit slips and to the District's accounting records, to determine if deposits were properly recorded in a timely manner. School lunch deposits were traced to reports generated from the food service management software.
- We traced 100 cash receipts totaling \$89,989 from source documents, where available, to detailed deposit slips, deposits in the bank account and entries in the financial system to determine if all money received was properly recorded and deposited intact in a timely manner.

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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Andrew A. SanFilippo, Executive Deputy Comptroller  
Gabriel F. Deyo, Deputy Comptroller  
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