

West Canada Valley Central School District

Non-Payroll Disbursements

JUNE 2021



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

West Canada Valley Central School District

Audit Objective

Determine whether West Canada Valley Central School District (District) officials implemented adequate internal controls to ensure that non-payroll disbursements were authorized and proper.

Key Findings

District officials did not implement adequate internal controls to ensure that non-payroll disbursements were authorized and proper.

- The Business Manager/Treasurer (Treasurer) did not control when her electronic signature was used by another employee to sign checks.
- The claims auditor did not approve medical, vision, and dental insurance claims totaling \$3.9 million.
- The Board did not develop an online banking policy or procedures to verify that transactions are proper.

Key Recommendations

- The Treasurer should control when her electronic signature is applied to checks.
- The Board should ensure that all insurance claims are presented to the claims auditor for audit and approval prior to payment.
- The Board should develop an online banking policy.

District officials generally agreed with our recommendations and indicated they will take corrective action. See OSC's comment in Appendix B.

Background

The District serves the Towns of Fairfield, Herkimer, Manheim, Newport, Norway and Schuyler in Herkimer County, and the Town of Deerfield in Oneida County.

The seven-member Board of Education (Board) is responsible for the general management and control of financial and educational affairs.

The Superintendent is the chief executive officer and, along with the Treasurer, is responsible for day-to-day financial management under the Board's direction. The Treasurer is also responsible for disbursing District funds.

The Board delegated its claims auditing powers and duties to the claims auditor.

Quick Facts

2019 – 2020 Non-Payroll Disbursements	\$9 million
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2019 - 2020 Budgeted Appropriations	\$18.3 million
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Audit Period

July 1, 2019 – July 31, 2020

Non-Payroll Disbursements

Non-payroll cash disbursements are unrelated to payroll and employee withholdings. These disbursements include payments to vendors, employee expense reimbursements and bond payments and are typically made by check, wire transfer or electronic payment.

What Is an Effective System Over Non-Payroll Disbursements?

The board and district management are responsible for establishing policies and procedures to ensure that cash disbursements are supported by appropriate documentation and are authorized and proper. The treasurer plays a critical role in the cash disbursement process and must ensure that his or her signature on district checks is not used to make payments that have not been approved or used by another employee to make unauthorized purchases. The board may authorize the treasurer to use a flash drive to imprint checks with his or her required signature; however, it is imperative that the treasurer maintain custody of his or her signature and directly supervise the check signing process.

When the board has appointed a claims auditor, the claims auditor is responsible for auditing and approving claims before they are presented to the treasurer for payment. The treasurer should ensure that disbursements are authorized and supported by certified warrants or individual claims are approved by the claims auditor.

Online banking provides a way to directly access funds held in the district's bank accounts. To safeguard cash assets, a board should adopt policies and procedures to properly monitor and control online banking transactions. Such policies should clearly describe the online activities district officials may perform and establish a process to verify the accuracy and legitimacy of online transactions.

The District Could Strengthen Its Non-Payroll Disbursement Process

The Treasurer has not maintained effective custody of her electronic signature used to sign District checks. And the Board has not adopted an online banking policy to ensure that there is a process in place to verify that online banking transactions are proper.

Check Signing Process – The accounts payable clerk enters disbursements into the District's computer system and provides the claim packets and a list of checks to be printed to the District's claims auditor for review. After auditing the claims, the claims auditor initials each claim to show her approval of the claim and authorize payment. She then sends the claims back to the accounts payable clerk to process the checks.

The treasurer should ensure that disbursements are authorized and supported by certified warrants or individual claims are approved by the claims auditor.

The accounts payable clerk obtains a password protected USB drive containing the electronic signature of the Treasurer. As the business office staff knows the password, either of them would be able to apply the signature to the checks. The USB drive is kept in a locked filing cabinet in the Treasurer's office; however, the cabinet is accessible by all staff working in the business office. The business office staff could apply the Treasurer's signature to checks without the Treasurer's knowledge.

Although the Treasurer makes bank transfers from the District's various savings accounts to the checking account to cover the checks, the Treasurer does not review the approved claims, nor does she receive a certified warrant of approved claims to verify all disbursements were authorized by the claims auditor prior to payment. The Treasurer said that she is aware when the claims are returned to the accounts payable clerk but does not directly communicate with the claims auditor to verify the dollar amount and which specific disbursements were authorized.

We examined 338 check disbursements totaling \$2,126,400 during our audit period and found that claims for six disbursements totaling \$593,992 were not audited and approved by the claims auditor.¹ These six claims were related to medical, dental and vision insurance premiums that the District paid for its active and retired employees. The Treasurer told us that she did not provide these claims to the claims auditor for review because she felt it would be difficult for the claims auditor to understand her calculations of the amounts to be paid by the various funds. We reviewed the six claims and found them to have been calculated accurately. We then reviewed 33 other similar payments for insurance premiums made by the District during our audit period, totaling \$3.3 million. We found these payments had also been made without audit and approval by the claims auditor as required.

When medical, dental and vision insurance claims are paid without an independent review and approval by the claims auditor, there is an increased risk that inaccurate or improper payments could be made.

Bank Transfers – As part of the disbursements process, the Treasurer transfers funds from various bank accounts to the appropriate checking accounts through the online banking platform to cover the payments. She also makes transfers to external accounts for bond payments, without any review or confirmation by another official. The Board has not adopted an online banking policy that outlines the procedures for authorizing, processing and monitoring online banking transactions. The Treasurer told us that once she performs a bank transfer, she provides the transfer information to the business office staff to record the journal

¹ See Appendix C for information on our sampling methodology.

entries. She also told us that she issues receipts for interfund transfers. There is no approval process to verify the accuracy and legitimacy of transfer requests, and no one other than the Treasurer receives a confirmation from the bank for each bank transfer.

We reviewed all District bank statements during our audit period to identify all transfers and to determine whether they were for appropriate and valid District purposes. We reviewed 111 external transfers totaling \$4.1 million and 220 internal transfers totaling \$21.6 million and determined all transfers were appropriate and for valid District purposes.

Although our review of bank activity did not disclose any questionable or improper transactions, without adequate controls over disbursements, the risk remains that unauthorized or inappropriate transactions could be made without detection.

What Do We Recommend?

The Board should:

1. Ensure that all claims for medical, dental and vision insurances are presented to the claims auditor for audit and approval prior to payment.
2. Adopt an online banking policy which clearly describes the procedures for authorizing, processing and reviewing online transactions and requires written bank confirmations to be provided to someone who is not involved in processing the transactions.

The Treasurer should:

3. Maintain custody of her signature at all times, and directly supervise the check-signing process when others use it.
4. Verify that checks agree with payments authorized by the claims auditor.

There is no approval process to verify the accuracy and legitimacy of transfer requests, and no one other than the Treasurer receives a confirmation from the bank for each bank transfer.

Appendix A: Response From District Officials



West Canada Valley Central School District

Committed to preparing responsible, caring and productive citizens.

DONALD J. SHEPARDSON
Superintendent

KELLEY CROSSETT
Business Manager
District Treasurer

CORRENE M. HOLMES
Elementary Principal

GLENN BROADBENT
Middle/High Principal

EDMUND DOUGHERTY
Director of Special Programs
Athletic Director

FELIX W. RAY JR.
Transportation Supervisor

May 11, 2021

Rebecca Wilcox
Chief Examiner
NYS Office of the State Comptroller
Division of Local Government and School Accountability
333 E. Washington St
Syracuse, NY 13202

Dear Ms. Wilcox;

The West Canada Valley Central School District is in receipt of the Draft Audit Report titled *Non-Payroll Disbursements* for the period of July 1, 2019 through July 31, 2020, and concurs with noted findings.

For each recommendation included in the audit report, the following is our corrective action(s) taken.

Audit Recommendation 1

Ensure that all claims for medical, dental and vision insurances are presented to the claims auditor for audit and approval prior to payment.

Implementation Plan of Action: The District has implemented this change, all medical, dental and vision insurance claims are presented to the claims auditor for approval prior to payment.

Implementation Date: This change was implemented September 1, 2020.

Person Responsible for Implementation: Business Manager/Treasurer and Internal Claims Auditor.

Audit Recommendation 2

Adopt an online banking policy which clearly describes the procedures for authorizing, processing and reviewing online transaction and required written bank confirmations to be provided to someone who is not involved in processing the transactions.

Implementation Plan of Action: Email confirmation, to the Superintendent of Schools, of online banking transfers was established on January 15, 2021. The Board of Education

5447 State Route 28
PO Box 360
Newport, N.Y. 13416-0360

Telephone: 315-845-6800
Middle/High Fax: 845-8652
Elementary Fax: 845-1640
Garage Fax: 845-8653
www.westcanada.org

adopted Policy # 5510 on May 10, 2021 establishing procedures for authorizing, processing and reviewing online transactions.

Implementation Date: January 15, 2021 and May 10, 2021

Person Responsible for Implementation: Business Manager/Treasurer, Board of Education

Audit Recommendation 3

The Treasurer should maintain custody of her signature at all time, and directly supervise the check signing process when others use it.

Implementation Plan of Action: A signature log has been established requiring the Business Office Clerk to sign out the USB containing the Treasurers' signature prior to use. This log is countersigned by the Treasurer.

Implementation Date: January 15, 2021

Person Responsible for Implementation: Business Manager/Treasurer

Audit Recommendation 4

The Treasurer should verify that checks agree with payments authorized by the claims auditor.

Implementation Plan of Action: The Claims Auditor will email the Treasurer with the total number of checks and total dollar amount authorized prior to returning the audited claims to the Business Office Clerk for payment.

Implementation Date: April 22, 2021

Person Responsible for Implementation: Business Manager/Treasurer, Internal Claims Auditor

Summary

On behalf of the West Canada Valley School District, I would like to thank the audit team for working in collaboration with the district on this review. The district is appreciative of the recommendations and has implemented all corrective actions. Each of these actions will only improve upon the great work our district staff has done to ensure proper controls are in place.

Sincerely,

D.J. Shepardson
District Superintendent

See Note 1 Page 7

Appendix B: OSC's Comment on the District's Response

Note 1

Receiving an email with the total number and amount of the checks approved by the claims auditor is not sufficient to verify the individual payments were authorized. In order to verify checks agree with payments authorized by the claims auditor, the Treasurer should either receive a certified abstract listing the approved claims or the individual claims showing the claims auditor's approval and compare the authorized payments with the checks.

Appendix C: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed officials to gain an understanding of the non-payroll disbursement process and to assess the related controls.
- We reviewed 323 disbursements totaling \$1.7 million made during two randomly selected months (October 2019 and March 2020) to determine whether the claims were audited and approved by the claims auditor and whether the Treasurer verified claims were authorized prior to payment.
- We judgmentally selected an additional 15 disbursements totaling \$394,566 paid during the audit period that we considered high risk to determine whether the disbursements were for valid District purpose and properly audited. We selected disbursements that posed a higher risk for inappropriate expenditures, such as payments to Board members, other District officials, unrecognized vendors, and credit card vendors.
- We identified all 39 medical, dental and vision insurance disbursements totaling almost \$3.9 million for the audit period and determined whether they were audited and approved by the claims auditor. This includes the six claims for \$593,992 reviewed for the two selected months previously mentioned.
- We reviewed bank statements for all of the District's bank accounts to identify and follow up on transfers and withdrawals made during the audit period. We reviewed 111 external transfers totaling \$4.1 million and 220 internal transfers totaling \$21.6 million to determine if the transfers were for valid District purposes.

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.

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.

The Board has the responsibility to initiate corrective action. 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, 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. 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 CAP should be posted on the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

<https://www.osc.state.ny.us/files/local-government/pdf/regional-directory.pdf>

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

<https://www.osc.state.ny.us/local-government/publications>

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/local-government/fiscal-monitoring

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

<https://www.osc.state.ny.us/local-government/publications>

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/local-government/resources/planning-resources

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

<https://www.osc.state.ny.us/files/local-government/publications/pdf/cyber-security-guide.pdf>

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/local-government/required-reporting

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

<https://www.osc.state.ny.us/local-government/publications>

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/local-government/academy

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

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www.osc.state.ny.us/local-government

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SYRACUSE REGIONAL OFFICE – Rebecca Wilcox, Chief Examiner

State Office Building, Room 409 • 333 E. Washington Street • Syracuse, New York 13202-1428

Tel (315) 428-4192 • Fax (315) 426-2119 • Email: Muni-Syracuse@osc.ny.gov

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