

Colton-Pierrepont Central School District

Financial Duties

DECEMBER 2017



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

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Report Highlights

Colton-Pierrepont Central School District

Audit Objective

Determine whether District officials adequately segregated Business office disbursement duties and the Treasurer controlled the use of her electronic signature.

Key Findings

- The District Clerk's (clerk) payroll duties were inadequately segregated.
- The clerk prepared bank reconciliations and controlled all phases of the payroll process.
- Salaries and wages were accurately calculated and paid.
- The Treasurer did not control her electronic signature.

Key Recommendations

- Establish compensating controls over the clerk's duties.
- Ensure the Treasurer maintains control of her electronic signature.

District officials agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Colton-Pierrepont Central School District (District) is located in the Towns of Colton, Parishville and Pierrepont in St. Lawrence County. The seven member Board of Education (Board) is responsible for managing the District's operations. The Superintendent of Schools (Superintendent) is responsible for the District's day-to-day management. The Superintendent is the Business Administrator and with the clerk, who is also the Superintendent's secretary, comprise the Business office staff.

Quick Facts

Employees	93
Enrollment	300
2016-17 Budget	\$10.6 million
Disbursements for the Audit Period	\$16.8 million

Audit Period

July 1, 2015 - May 31, 2017

Financial Duties

How Are Duties Effectively Segregated and Checks Signed?

It is important that financial duties, such as recordkeeping, check signing, adding new employee information to the payroll system, entering pay rates, processing payrolls and preparing bank reconciliations are adequately segregated so 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 financial duties because of limited staff resources, District management should establish compensating controls, which could consist of supervisory reviews of activity and transactions. Comprehensive supervisory reviews could include a review of bank reconciliations, bank statements, general ledger balances, outstanding check lists, canceled checks, deposits-in-transit and account adjustments.

Other compensating controls include establishing a separate position with the responsibility for auditing claims and having someone independent of the payroll process occasionally certify payrolls, which means the individual is thoroughly reviewing the payroll to be sure the employees listed are bona fide employees. A payroll change report is a useful tool for the payroll certifier to use as it points out any changes since the last payroll.

The Board appointed a Treasurer and adopted a policy that authorizes the Treasurer to sign all checks and use an electronic signature.¹ According to the policy, the Treasurer is responsible for preventing unauthorized use of her electronic signature. The Treasurer plays a critical role in the cash disbursement process and must ensure that her signature is not used to make payments that have not been approved or used by another employee to make unauthorized purchases.

Business Office Duties Are Not Segregated

The clerk's duties are not adequately segregated because she processes all non-payroll and payroll disbursements with limited oversight. For example, the clerk is able to add vendors, process invoices and record disbursements in the computer system. The clerk is also responsible for performing nearly all human resource and payroll functions, including adding and removing employee records in the payroll system, entering and adjusting pay rates and processing payrolls.

Additionally, the clerk prepares and prints non-payroll and payroll checks, opens mail (including bank statements) and prepares bank reconciliations. By having

¹ District policy refers to electronic signature as a machine check-signature, a check signing device or a check-signer.

all these responsibilities, the clerk is able to complete a transaction from start to finish, and is also responsible for recording and reconciling transactions and preparing related financial reports. The Superintendent does not review the bank reconciliations prepared by the clerk to verify their accuracy.

We reported similar findings in our previous audit report issued in November 2009.² Further, the District's external auditors found deficiencies in segregation of duties in their prior three audit reports (2013-14, 2014-15 and 2015-16).

Compensating Controls Are Not Functioning as Intended

The Board appointed a claims auditor to audit and approve claims for payment. The claims auditor works off-site and remotely accesses the computer system to view the claims, supporting invoices, purchase orders and other documentation. As part of the audit process, she compares invoices to the supporting documentation to ensure that the amounts are correct and agree to the list of claims generated by the computer system before payment.

The claims auditor also compares the invoice dates with purchase order dates to ensure that the proper protocol was followed and that purchase orders and invoices are attached to all claims. The claims auditor corresponds with the clerk to clear up any identified issues. The clerk makes any necessary adjustments and they agree on the total amount of claims to be paid each month.

The claims auditor provides monthly reports to the Board, which list the claims with the amounts approved for payment and any reportable errors identified. However, she does not submit a signed warrant to the Treasurer, authorizing the Treasurer to sign the checks and pay the related claims.³ As a result, District officials lack assurance that only the claims authorized by the claims auditor are paid.

Additionally, the Superintendent, who is designated by the Board to certify the payrolls, told us that he examines the payroll before certification by looking for irregularities and verifying the clerk's pay to ensure she was not overpaid. However, at the time of our audit, the clerk was not generating a payroll change report for the Superintendent's examination. District officials have since taken steps to correct this and the Superintendent now receives a payroll change report to review as part of the certification process.

² *Colton-Pierpont Central School District – Internal Controls Over Financial Operations (2009M-158)*

³ Before the end of field work, in June 2017, the claims auditor submitted all signed warrants to the Treasurer for 2016-17.

The Treasurer Did Not Control Her Electronic Signature

The Treasurer did not control her signature or supervise the application of her signature during the check signing process. The clerk prepares and prints checks that contain the Treasurer's signature without any oversight, approval or direct supervision from the Treasurer as required by the policy.

As a result of these weaknesses, we examined 27 non-payroll disbursements made during our audit period, totaling \$164,006 to determine whether they were for legitimate purposes and adequately supported and approved.

We also reviewed Board minutes and 2015-16 payroll records for 12 employees who were paid \$577,582 to determine whether they were valid Board-approved employees and the pay rates were accurate based on Board-approved contracts. Other than minor discrepancies, which we discussed with District officials, salaries and wages were accurately calculated and paid.

Although we did not find any improper payments, there is still a risk that improper disbursements or payment errors could occur and remain undetected.

What Do We Recommend?

District officials should:

1. Assign financial duties so that the work of one employee independently verifies the work of another, in the course of their regular duties. Where incompatible duties cannot be segregated, District officials should establish compensating controls such as supervisory reviews.

The claims auditor should:

2. Provide the Treasurer with a certified warrant authorizing the Treasurer to pay the approved claim.

The Treasurer should:

3. Maintain control of her electronic signature and affix her signature to the checks or supervise the signature process for all checks.
4. Review printed checks and compare them to the certified payroll registers and warrants before disbursement to ensure that the checks are properly authorized.

Appendix A: Response From District Officials



Colton-Pierrepont Central School

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December 20, 2017

Office of the New York State Comptroller
Division of Local Government & School Accountability:
PSU – CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

Dear Chief Examiner:

Colton-Pierrepont Central School would like to thank you for your efforts to protect and improve our financial operations. Our Board of Education, administration, and community take pride in the accuracy and efficiency in which the district manages the financial operations with minimal cost to the taxpayers. We are always reassured when *another audit confirms that accuracy* and certainly welcome suggestions for additional compensating controls and improved processes that do not add cost to the taxpayers. We agree with, and have already implemented the four recommendations that you have outlined. In addition, our district will continue to carry an enhanced insurance policy for fraud as a mitigating factor due to the lack of business office personnel and the ability to separate duties.

This audit response also includes the required Corrective Action Plan (CAP).

AUDIT RECOMMENDATION:

District officials should assign financial duties so that the work of one employee independently verifies the work of another, in the course of their regular duties. Where incompatible duties cannot be segregated, District officials should establish compensating controls such as supervisory reviews.

Implementation Plan of Action:

Although the Superintendent has been performing a functional review of the bank reconciliations, there was no formal review documented. The Superintendent will now sign off on the bank reconciliations after the monthly review is complete.

Person Responsible for Implementation:

Superintendent of Schools

Joseph Kardash
Superintendent
Of Schools

James Nee
Building Principal

Lianne Knight
Director of Pupil
Services

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AUDIT RECOMMENDATION:

The claims auditor should provide the Treasurer with a certified warrant authorizing the Treasurer to pay the approved claim.

Implementation Plan of Action:

The claims auditor has historically provided an email confirmation with totals and any corrections/concerns to the Treasurer, District Clerk, and Superintendent. As of 2017-18 school year, a copy of the certified warrant is also transmitted as part of the audit process.

Person Responsible for Implementation:

Internal Claims Auditor

Joseph Kardash
Superintendent
Of Schools

AUDIT RECOMMENDATION:

The Treasurer should maintain control of her electronic signature and affix her signature to the checks or supervise the signature process for all checks.

Implementation Plan of Action:

The check printing process has been updated so that Treasurer now prints the checks instead of the District Clerk.

James Nee
Building Principal

Person Responsible for Implementation:

Treasurer

Lianne Knight
Director of Pupil
Services

AUDIT RECOMMENDATION:

The Treasurer should review printed checks and compare them to the certified payroll registers and warrants before disbursement to ensure that the checks are properly authorized.

Implementation Plan of Action:

The review process for printed checks has included the District Clerk and the Superintendent. It now also includes the Treasurer reviewing printed checks and comparing them to the certified payroll registers and warrants before disbursement to ensure that the checks are properly authorized

Person Responsible for Implementation:

Treasurer

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We further would like to recognize the improved audit processes of the Office of the State Comptroller providing a partnership to encourage improvement rather than a process to simply find something negative to report. The professionalism of your auditor was appreciated by our entire team. Our processes have improved as a result of this audit.

Joseph Kardash
Superintendent
Of Schools

12/20/17

Joseph Kardash, Superintendent of Schools Date

James Nee
Building Principal

12/20/17

Scott Baxter Board of Education President Date

Lianne Knight
Director of Pupil
Services

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Appendix B: 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, we performed the following audit procedures:

- We interviewed District personnel and reviewed policies and Board minutes to obtain an understanding of the cash disbursement and check signing process, payroll process, bank reconciliation process and other Business office procedures.
- We randomly selected March and December 2017 bank statements for non-payroll cash disbursements for examination. From these bank statements we randomly selected 15 percent of cleared checks and reviewed the related claims to determine whether the checks were listed on a warrant, for proper purposes and contained a signed purchase order, appropriate supporting documentation and signed delivery confirmations.
- We reviewed the 2015-16 payroll records for 12 employees to determine whether they were accurately paid. We randomly selected payroll records for 10 employees and judgmentally selected records for two additional employees, the clerk who was directly involved in the payroll process and her son who was also employed by the District.
- We reviewed the Board minutes to determine whether each of our 10 randomly selected employees was Board-appointed.
- We examined the May 2016, June 2016 and March 2017 bank statements, Treasurer's reports and bank reconciliations to determine whether the reconciliations were properly prepared.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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.

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 2116-1(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 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. We encourage the Board to make the CAP available for public review in the Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

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

www.osc.state.ny.us/localgov/costsavings/index.htm

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

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

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

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

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

www.osc.state.ny.us/localgov/planbudget/index.htm

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

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.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/localgov/finreporting/index.htm

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

www.osc.state.ny.us/localgov/researchpubs/index.htm

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

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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