

Waverly Central School District

Financial Operations

SEPTEMBER 2019



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

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Report Highlights

Waverly Central School District

Audit Objective

Determine whether District officials provided adequate oversight of cash disbursements and payroll processes.

Key Findings

District officials did not implement adequate internal controls over disbursements and payroll duties.

- In our audit sample, 30 claims (11 percent) totaling \$73,865 were not approved by the department head and 15 claims (5 percent) totaling \$69,670 were not approved by the claims auditor.
- The senior account clerk's leave accrual records contained errors, and her sick leave balances exceeded the contractual maximum by 111 days.

Key Recommendations

- Implement internal controls to verify that checks, wire transfers and payroll disbursements are accurate and appropriate.
- Ensure the claims auditor receives all claims for payment and requires adequate support for each claim.

District officials generally agreed with our recommendations and indicated they have initiated, or planned to initiate, corrective action.

Background

The Waverly Central School District (District) is located in the Town of Barton in Tioga County and the Towns of Ashland, Baldwin and Chemung in Chemung County.

The Board of Education (Board) is responsible for managing the District's financial and educational affairs. The Superintendent is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The School Business Executive (Executive) oversees the senior account clerk and account clerk who perform most of the District's financial duties.

Quick Facts

Total Appropriations for 2018-19	\$32,633,544
Real Property Tax Levy for 2018-19	\$7,043,717
Number of Employees	245

Audit Period

July 1, 2017 – January 31, 2019

Financial Operations

The senior account clerk processes payroll and the account clerk processes cash disbursements. The Executive completes bank reconciliations on all District bank accounts. The District also employs a Treasurer, who does not have any cash disbursements or payroll duties. In addition, officials hired the local Board of Cooperative Educational Services (BOCES) to print District checks.

How Should Officials Oversee Cash Disbursements and Payroll Processes?

District officials should segregate duties so that no one individual controls all phases of a transaction, i.e., authorizing, executing and recording them. When it is not practical to segregate duties, District officials should institute compensating controls, such as ensuring the claims auditor reviews claims and has a process to determine whether all claims are processed for payment. In addition, someone independent of the check signing process should review bank statement activity, including scanning check images and obtaining documentation for wire transfers to ensure they are proper. Finally, compensating controls over the payroll process include reviewing payroll documentation to ensure payroll disbursements are supported and properly calculated based on employment contracts.

Officials Did Not Adequately Oversee the Cash Disbursement Process

The account clerk receives the invoices, prepares the claims (voucher) packet and sends this information to the Department heads for approval. She also prints the warrant, which lists all the claims for payment, and gives the warrant and the claims packets to the claims auditor for approval. Once the claims auditor signs the warrant, the account clerk gives a report to BOCES that lists all the check numbers, vendors and amounts to be paid. BOCES then applies the Treasurer's signature to the checks and sends them out.

The claims auditor said she does not have procedures in place to ensure she is auditing all claims for payment. For example, she does not compare the warrant to the voucher packets to ensure that she received supporting documentation for all the expenditures listed on the warrant. In addition, although the Executive completes bank reconciliations to ensure all disbursements per the bank are recorded in the financial software, the claims auditor does not review check images as part of this process. Therefore, there is a risk that improper checks are being issued and recorded into the system, but not detected by either the claims auditor or the Executive. Finally, the Executive has online access to perform wire transfers without sufficient oversight.

We traced 283 expenditures totaling \$483,580 from check images or ledgers to the voucher packets¹ to ensure they were approved by the department head and

¹ See Appendix B for our sample selection methodology.

claims auditor and supported by an invoice. Although the expenditures were appropriate District expenditures, 30 claims (11 percent) totaling \$73,865 were not approved by the department head, 15 claims (5 percent) totaling \$69,670 were not approved by the claims auditor and seven claims (2 percent) totaling \$5,145 were not supported. In addition, although the claims auditor ensured travel expenditures were supported with receipts, she did not ensure they contained documentation of why the employee was traveling, or ensure that one employee returned his unused meal money. We also traced 35 wire transfers totaling \$10 million from bank statements to supporting documentation and found they were all supported and proper District expenditures.

District officials did not establish adequate procedures to ensure cash disbursements are appropriate District expenditures. The claims auditor informed us it was too much work to ensure she had all the claims on the warrant and the Executive does not review check images because she does not receive them with the bank statements. Without adequate internal controls in place over cash disbursements, there is a risk that inappropriate checks could be issued or wire transfers made without being detected.

Officials Did Not Adequately Oversee the Payroll Process

The senior account clerk enters new employee information, inputs rates of pay and hours worked into the financial software and maintains leave records. When processing payroll, the senior account clerk prints out a payroll register and the Superintendent certifies it. The Superintendent told us he does a cursory review of the payroll. No other mitigating controls exist that would determine the accuracy of each payroll.

We reviewed 16 employees' rates of pay and hours worked for the 2017-18 fiscal year totaling \$940,200; all deductions for the three business office employees involved in processing financial transactions; health insurance deductions for all 178 employees who received health insurance; State and federal withholdings in total for two payrolls; five employees' leave records; 32 health insurance buyouts totaling \$198,300; and one leave buyout totaling \$13,217.² Our testing did not reveal any discrepancies with payroll processing.

We reviewed leave records for the Executive, senior account clerk and account clerk to determine whether leave accrued was in compliance with contracts and leave taken was reduced in their leave records. Leave records were generally accurate with the exception of the senior account clerk's records. Her timecards indicated she did not work for 23.75 hours, but these hours were never deducted from her leave accruals. Descriptions on the senior account clerk's timecards indicated that 13.75 hours were due to snow days, but District officials did not

² Ibid.

maintain support to show that the Superintendent informed employees they could leave work for the day. District officials indicated that the remaining 10 hours were most likely errors. In addition, the senior account clerk's sick leave balances as of January 29, 2019 (311 days) exceeded the maximum allowed (200 days) by 111 days. The senior account clerk did not have a maximum allowance in her former contract and never applied the maximum to her leave accruals when the contract changed, establishing the maximum allowed sick leave. District officials subsequently corrected the senior account clerk's sick leave balances.

District officials did not establish procedures over payroll to segregate duties or implement adequate compensating controls. As a result, there is a risk that payroll is not paid in accordance with the employment contracts, leave taken is not properly reduced from leave accruals and the senior account clerk could use more sick leave than she is entitled to.

What Do We Recommend?

The Board and District officials should:

1. Establish adequate internal controls over cash disbursements and payroll processes that require someone to verify the following:
 - Checks issued are for the proper amount and to the proper vendor;
 - Wire transfers are for appropriate District expenditures; and
 - Payroll disbursements are supported and properly calculated based on employment contracts.
2. Ensure the claims auditor receives all claims for payment and requires adequate support for each claim.

Appendix A: Response From District Officials

Waverly Central Schools

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Eric A. Knolles, Superintendent
Kathy J. Rote, Business Administrator
David Mastrantuono, Director of Management Services

September 4, 2019

Ann C. Singer, Chief Examiner
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Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor
Albany NY 12236

Dear Ms. Singer:

On behalf of the Waverly Central School District, I hereby acknowledge receipt of the Waverly Central School District Report of Examination 2019M-136. This letter will serve as our official response.

Waverly Central School District recognizes and appreciates the work and effort the comptroller's office has put into examining the accuracy of the school district's financial operation. We understand the importance of fiscal oversight and have implemented internal controls to verify checks, wire transfers and payroll disbursements. In response to the senior account clerk's leave records, they have been adjusted according to policy.

The findings identified in your audit process will continue to be reviewed and a more comprehensive corrective action plan will be developed to address the recommendations put forth by your office.

If you need additional information, please feel free to contact at my office.

Sincerely,

Eric A. Knolles
Superintendent

EAK/mlk

Inspire. Educate. Learn. Succeed. Grow.

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, our audit procedures included the following:

- We interviewed District officials to gain an understanding of the cash disbursements and payroll processes.
- We traced disbursement data (check number and amount) from the bank data to the general ledger for all check disbursements in our audit period from the general fund. In addition, for all funds for one month (December 2018) we compared the check number, vendor name and amount from the check image to the general ledger. We also traced direct deposit amounts from two months of payrolls (June 2018 and December 2018) from the bank statements to payroll journals. These tests ensured that we could rely on reports from the District's software to perform our testing.
- We traced 22 credit card disbursements totaling \$30,640 from the ledger to the voucher packets to determine whether they were approved, supported and appropriate District expenditures. For the general fund, we selected all checks issued in three months; for the school lunch and federal funds, we selected the largest check and the smallest check over \$25; and we selected all the credit card payments paid out of the trust and agency fund.
- We traced all 73 utility payments paid in three months, totaling \$56,840, from the ledger to the voucher packets to determine whether they were approved, supported, and appropriate District expenditures.
- We selected 25 expenditures from December 2018 (by selecting every nth expenditure), totaling \$81,800, and traced them from the check images to the voucher packets to determine whether they were approved, supported and appropriate District expenditures.
- We traced 163 expenditures totaling \$314,300, selected based on employee names and unusual vendors, from the check images to the voucher packets to determine whether they were approved, supported and appropriate District expenditures.
- We tested all 356 interfund transfers totaling \$86.1 million documented on the bank statements to determine whether they were deposited into other District accounts.
- We traced 35 selected wire transfers totaling \$10 million from the bank statements to supporting documentation to determine whether they were appropriate District expenditures. We obtained our test sample by selecting at least one transfer from each vendor and adding transfers of amounts that seemed unusual for a particular vendor.

-
- We traced all 307 employee names for two payrolls from payroll journals to staff directories to verify they were actually District employees.
 - We traced amounts paid to 16 employees totaling \$940,200 (selecting all District office staff and two employees from each bargaining unit) from payroll journals to Board-approved rates and timecards to determine whether they were paid at proper rates and hours worked.
 - We traced employee names from the health insurance bill for June 2018 to the payroll reports of health insurance deductions to verify that all employees receiving health insurance are contributing. Then, we analyzed the payroll reports of health insurance deductions and compared them to employee contracts to ensure the employees contributed the proper amounts.
 - We traced deductions for the three business office staff involved in processing financial transactions from the payroll journals to the payment amount and supporting documentation sent to third parties to ensure they were properly turned over to third parties.
 - We traced State and federal withholdings from the payroll journal for two payrolls to the payment amount per the bank statements to determine whether the total amounts withheld were turned over to State and federal agencies.
 - We traced leave taken for five employees (one from each bargaining unit) who used leave during the December 2018 payroll from the timecards to the leave accrual records to ensure it was deducted from the leave records.
 - We tested the accumulation and use of leave for three business office staff to determine whether contracts were applied correctly and leave used was properly deducted.
 - We tested all 32 health insurance buyouts from the health insurance buyout report to the employee contracts and health insurance bills to ensure they were accurate and proper.
 - We tested the only leave buyout during our scope period from the leave buyout report to the employee's leave records and Board-approved salary to ensure it was proper and calculated correctly and that leave was available.

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/pubs/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/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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