



North Greenbush Common School District Internal Controls Over Financial Operations

Report of Examination

Period Covered:

July 1, 2005 — November 30, 2006

2007M-4



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	5
INTERNAL CONTROLS OVER FINANCIAL OPERATIONS	7
Cash Receipts and Disbursements	7
Payroll	8
Recommendation	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	14
APPENDIX D Local Regional Office Listing	15

State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

March 2007

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the North Greenbush Common School District — Internal Controls Over Financial Operations.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school district officials.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*

Introduction

Background

The North Greenbush Common School District (District) is located in the Town of North Greenbush, Rensselaer County. The District is governed by the Board of Education (Board) which comprises three elected Trustees. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with the Business Manager, for the day-to-day management of the District under the direction of the Board.

There is one school in operation within the District, with approximately 20 students and 8 employees. The District's general fund expenditures for the 2005-06 school year were \$1.6 million, funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to determine if controls over financial operations were adequate. Our audit addressed the following related question:

- Are internal controls over purchasing, cash receipts and disbursements, and payroll appropriately designed and operating effectively?

Scope and Methodology

During this audit we examined internal controls over financial operations of the North Greenbush Common School District for the period July 1, 2005 to November 30, 2006.

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.

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 indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective

action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Internal Controls Over Financial Operations

The Board is responsible for designing internal controls that help safeguard the District's resources and ensure these resources are used economically and efficiently. An adequate system of internal controls includes clear policies and procedures that promote effective operations, the prudent use of resources and adherence to applicable laws and regulations. Control procedures should also provide for segregating critical duties, so that no one person controls all phases of a transaction. Written policies and procedures combined with job descriptions identifying responsibilities for specific activities help ensure that employees understand the Board's objectives and their personal role in the process. These policies should be adopted by the Board and distributed to the appropriate employees. While the District has established adequate policies and procedures related to purchasing, we note that no such policies have been adopted to address cash receipts and disbursements and payroll.

The Board's failure to provide specific guidance by developing and adopting adequate policies and procedures for cash receipts and disbursements and payroll increases the risk that key internal control activities may not be performed as expected. The absence of policies and procedures also increases the likelihood that errors and irregularities could occur and go undetected and uncorrected.

Cash Receipts and Disbursements

Cash receipts and disbursements policies and procedures should contain specific guidance and information for District employees responsible for handling and accounting for cash. Effective policies should adequately address issues such as the following:

- The responsibilities for collecting cash for payments made to the District in person or by mail
- Prescribed procedures for executing cash transfers
- Segregation of duties, such as ensuring that someone other than the person receiving and recording cash collections be responsible for reconciling bank accounts or preparing and making bank deposits
- Guidance as to the proper forms of disbursements for specific transactions such as procedures for utilizing manual checks or electronic transfers
- Provision for the timely deposit of District moneys.

Although our review of cash receipts and disbursements did not reveal any significant deficiencies, the District did not have a written policy covering cash receipts and disbursements or formal procedures established to ensure the proper authorization and timeliness of transactions.

Payroll

Good internal controls for payroll should be established with written procedures describing each employee's responsibilities in preparing and disbursing payroll. The procedures should address responsibilities for entering new employees into the payroll system; procedures for modifying employee data, such as salary amounts; and duties related to preparing the payrolls, reviewing and certifying the payrolls and distributing checks. The payroll procedures should also address the maintenance and review of leave accrual records.

Our review of leave accrual records revealed some discrepancies between the District's absentee forms and the accumulated leave records. Although the noted discrepancies were minor, the lack of adequate policies and procedures to establish effective oversight provisions over the maintenance of leave records creates an environment where mistakes could occur and go unnoticed.

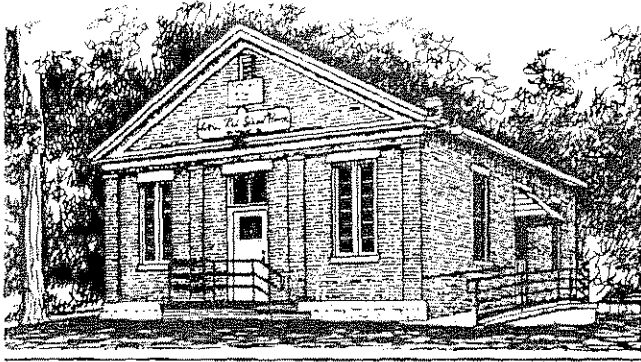
Recommendation

1. The Board should establish adequate written policies and procedures to address the proper performance of District cash receipts and disbursements and payroll operations.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



NORTH GREENBUSH COMMON SCHOOL DISTRICT

476 North Greenbush Road • Rensselaer, New York 12144 • Phone (518) 283-6748

February 23, 2007

The North Greenbush Common School District has been in continuous operation since its formation in 1861. The District has established procedures and followed them with respect to receipts, disbursements and payroll for many years. However, as is often the case in long-term organizations without any employee turnover, procedures become routine but have not been formalized in a written document. We have formalized these procedures in writing (see attached), as a result of the recommendations set forth in the Office of State Comptroller's audit of the District. We would like to thank the Comptroller's Office staff for bringing these items to our attention.

Sincerely,

North Greenbush Common School District
Board of Education

North Greenbush Common School District

Policies and Procedures

Cash Receipts

Cash receipts for the District are composed of four principal items: Property Taxes, Health Services Contracts, Grants and Interest Income. Procedures for these items are as follows:

Property Taxes – The District Tax Collector is independent of District operations and is appointed by the School Board. The Tax Collector obtains the District property listing from Rensselaer County. The Tax Collector obtains the tax rate and STAR amounts from the School Board and submits them to Rensselaer County in early August. The County prints the tax bills and returns them to the Tax Collector who, in turn, checks the bills for accuracy and completeness and mails them to the taxpayers prior to September 1st each year. The tax collections period is from September 1 through October 31. The Tax Collector deposits tax collections to the District bank account (money market account) daily and provides the District Business Manager with copies of deposit slips and a summary report of tax collections each week. The Tax Collector sends a listing of unpaid taxes to the County after October 31 to be relieved. A report of amounts relieved with late fees is forwarded to the District with the payment. The tax rolls are reconciled to total receipts and differences are investigated.

Health Services Contracts – The District provides Health Services for LaSalle Institute, a private school located within the District. The Business Manager obtains a census from LaSalle Institute as to what School Districts their students are from. The individual Districts are billed for the Health Services. The Business Manager maintains a receivables log of the amounts billed to each District and records receipts from the Districts. The totals are reconciled to the billing log and the general ledger annually.

Other Receipts – All other cash receipts are received directly at the District Business Office by the Business Manager. Checks are restrictively endorsed and deposited to the District's money market bank account as received. Procedures with respect to specific other receipts are as follows:

- STAR Reimbursement

STAR reimbursements are composed of five (5) checks from New York State. The total is reconciled to the total per the NYS Education Dept. State Aid website and the School Budget. Any differences are investigated.

- Grants

Grant revenues received by the District are composed of the following items: NYS Aid for Textbooks, Lottery Aid, Software Aid, BOCES Aid, Library Materials, Local Assistance (Milk Fund) and IDEA Grants. These amounts are compared/reconciled to the NYS Education Dept. State Aid Website and/or grant award letters. All differences are investigated.

- Payments in Lieu of Taxes
Payments in lieu of taxes (PILOTS) are received from Rensselaer County. They consist of three (3) separate checks which are agreed/reconciled to the supporting documents from Rensselaer County and to the School Budget. Any differences are investigated.
- Interest
Interest is recorded to the District bank accounts automatically by the bank and is entered in the District's books as a part of the monthly bank reconciliation process.

Cash Disbursements/Transfers

Blank District checks are kept in a locked cabinet in the Business Office. A log of check number sequences is maintained by the Business Manager and periodically compared to the actual check inventory.

Invoices for goods and services are received directly by the Business manager and matched to supporting documentation (ie. packing slips, etc.) where applicable. They are then forwarded to the District's bookkeeping service together with a sequence of blank checks to be processed for payment. Completed checks and invoices are returned to the Business Manager together with unused/void checks. The Business Manager updates the check inventory log, accounting for all checks given to the bookkeeping service. Checks are attached to supporting invoices and all other supporting documentation and are forwarded to School Board members for signature. All checks are manually signed by two (2) School Board Members after comparison to supporting documentation. Transfers are made between the District's money market and checking accounts by the Business Manager based on the total amount of checks processed.

Payroll

Payroll is processed by the District's bookkeeping service. The payroll consists of eight (8) employees, all of which are direct deposited to the employee's bank accounts. Seven of the eight employees are salaried. Salaries and pay rates are established annually by the School Board. The salaries and pay rates are reported to the bookkeeping service. Payroll expense is compared to the budget reports monthly by the School Board and unusual variances are investigated. Annually payroll tax filings are reconciled to the District's payroll records and budgeted wage expense by the School Board. The Business Manager maintains a card system for leave accruals which are updated as time is accrued and used. Copies of the cards are provided to the employee periodically and any questions are investigated and resolved.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

During the initial assessment, we interviewed appropriate 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. This approach provided us with additional information about the District's financial transactions as recorded in its databases. 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/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing, cash receipts and disbursements, and payroll for further audit testing.

We interviewed appropriate District officials regarding policies and procedures that have been established over purchasing, cash receipts and disbursements, and payroll. We also reviewed board minutes for any indication that such policies had been established. In addition, we reviewed all absentee forms submitted by employees in our sample for our audit period and compared them to the accumulated leave time for the same time period.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those district operations within our audit scope. Further, those standards require that we understand the district's management controls and those laws, rules and regulations that are relevant to the district's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT SERVICES
AND ECONOMIC DEVELOPMENT

Mark P. Pattison, Deputy Comptroller
Steven J. Hancox, Assistant Comptroller
John C. Traylor, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Room 1050
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates
counties

SYRACUSE REGIONAL OFFICE

Eugene A. Camp, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence counties

BINGHAMTON REGIONAL OFFICE

Patrick Carbone, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins
counties

GLENS FALLS REGIONAL OFFICE

Karl Smoczynski, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,
Montgomery, Rensselaer, Saratoga, Warren, Washington
counties

ALBANY REGIONAL OFFICE

Kenneth Madej, Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205-1695
(518) 438-0093 Fax (518) 438-0367
Email: Muni-Albany@osc.state.ny.us

Serving: Albany, Columbia, Dutchess, Greene,
Schenectady, Ulster counties

HAUPPAUGE REGIONAL OFFICE

Richard J. Rennard, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau, Suffolk counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Orange, Putnam, Rockland, Westchester
counties