DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

REPORT OF EXAMINATION | 2018M-52

Pine Plains Central School District

Internal Controls Over Select Financial Activities

JUNE 2018

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

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Report Highlights

Pine Plains Central School District

Audit Objective

Determine the accuracy of the Treasurer's reports and the effectiveness of internal controls over bank checks and transfers.

Key Findings

- Officials did not identify $93,569 in federal withholding penalties that were incurred and paid by the Treasurer.
- Officials did not properly oversee the bank reconciliation and accounting processes of the Treasurer.

Key Recommendations

- The Board should review and segregate incompatible duties or have mitigating oversight.
- The Board should ensure that interim financial reports are reviewed to detect errors in preparation.

District officials agreed with our recommendations and indicated they are implementing corrective action.

Background

The Pine Plains Central School District (District) serves residents of Dutchess and Columbia Counties. The Board of Education (Board) is the governing and legislative body of the District. The Board is composed of seven members, three of which also function as the District's audit committee.

The District Superintendent (Superintendent) serves as the District's chief executive officer, while the Board President serves as the District's chief financial officer.

The Assistant Superintendent for Business and Finance (Assistant Superintendent) is responsible for the District's day-to-day management and oversight of the Business Office staff, including the Treasurer. At the start of our audit, the Treasurer resigned because she made mistakes in filing the District's federal payroll reports and in submitting federal payroll payments which resulted in penalties.

Quick Facts	
Students	1,001
Staff	262
2016-17 Budgeted Appropriations	$30 million

Audit Period

July 1, 2014 – September 22, 2017

Internal Controls Over Select Financial Activities

How Can the Board Ensure Adequate Controls Over Bank Transfers, Checks and Reconciliations?

To maintain an effective system of internal controls over the wire transfer process, the Board should segregate duties so that no one individual controls all aspects of wire transfers. When it is neither practical nor cost-effective to segregate duties, the Board must instill compensating oversight procedures to reduce the risk of errors or irregularities not being detected. Effective controls include:

- Requiring documentation detailing the amount, purpose and destination of wire transfers be presented for review.
- Requiring monthly bank reconciliations be prepared. Any differences between net bank balances and general ledger cash accounts should be researched and explained. A supervisor should review the monthly bank reconciliation and authorize any correcting entries needed.
- Reviewing the monthly Treasurer's Report submitted to the Board which includes the month's cash transactions per the accounting records and a reconciliation with the bank statements.

Officials Did Not Segregate Duties in the Wire Transfer Process

Officials did not adequately segregate the Treasurer's wire transfer duties and mitigating controls were not implemented. The Treasurer made mistakes in filing the District's federal payroll reports and in submitting federal payroll payments which resulted in financial penalties. To address the penalties, the Treasurer overpaid amounts for regular payroll tax submissions via wire transfer on five occasions and made an extra wire transfer on one occasion.

The Treasurer received the penalty notices directly and initiated the wire transfers without supervisory review. Although the Assistant Superintendent received emails after wire transfers were completed, he did not review the transfers by comparing them to documentation detailing the amount, purpose and destination of wire transfers.

Because there was no oversight of the process, Officials only learned of the penalties and payments upon the resignation of the Treasurer at the start of our audit.

To determine the amount overpaid and if other transfers were valid, we reviewed all 299 of the District's wire transfers to external parties within the audit scope totaling $16 million. We found that the Treasurer made $93,569 in transfers to the IRS[1] that were above the amount required for payroll. The remainder of the

1 Internal Revenue Service

transfers were legitimate District expenditures. In addition, we tested the Treasurer's payroll payments to herself to determine if she was paid correctly and if withholdings such as health insurance were correct and found no exceptions.

Without segregation of duties or oversight, the Treasurer was able to incur and pay $93,569 in penalties without Officials' knowledge. Subsequent to our fieldwork, the District was able to recoup $92,329 from the IRS for these penalties.

Officials Did Not Review Records and Reports

The Treasurer had custody and access to cash as the signor of the bank accounts, disbursed cash through wire transfers and prepared journal entry transactions. The Treasurer prepared and provided Treasurer's reports to the Board that included a summary of the cash activity for each account within the month and a reconciliation between the book and bank balances. The Assistant Superintendent did not review or require someone to review the reports. We reviewed the Treasurer's Reports over a 36-month period from July 2014 through June 2017 and found the following:

- Treasurer's reports were provided to Board members from one month to three months late.
- Twenty-two bank statements were missing. We were subsequently able to review all ending balances by reviewing the beginning balance in the next month's statement. For the accounts that were missing consecutive months, District officials obtained these statements from the bank.[2] These were accounts that typically had little to no activity, except interest earned.
- Backup documentation was not provided to a reviewer or kept on file to support outstanding checks at the time of the reconciliation or debit and credit adjustments on reports.
- Treasurer's reports were inaccurate. Of the 36 reports reviewed, 12 (33 percent) had errors in bank statement balances reported.

These issues could have been detected by comparing the accounting records and bank statements to the Treasurer's report. For example, we reviewed the December 2016 Treasurer's report that was approved in February 2017. The available cash balance at the end of the month per the accounting records was $43,891.60, which differed from the Treasurer's report (see Figure 1).[3] The

2 Ten statements were obtained from the bank.

3 The December 2016 Tax Receipts Account statement was not in the District's files so we used the January 2017 beginning balance for the December 2016 ending balance.

Treasurer's Report stated that the ending bank balance of the Tax Receipts Account was $743,566.51 but the actual balance was $43,583.36, a difference of $699,983.15. It appears that the bank balance on the Treasurer's report was the prior month balance that had not been updated. Additionally, the activity in the Treasurer's report for this account did not foot.

FIGURE 1

Treasurer's Report Example

Available Cash Balance At End of Month	**$43,583.36**
	A200.1
Reconciliation with Bank Statements:	
Balance Per Bank Statements:	**$743,566.51**
Less: Outstanding Checks	0.00
Add:Deposits in Transit	0.00
Less: Other Debits	0.00
Add: Other Credits	0.00
Adjusted Bank Balance	**$43,583.36**
Unreconciled Difference:	0.00

In addition, we reviewed 299 of the District's wire transfers to external parties within the audit scope totaling $16 million and found that $94,066 of the transfers were not recorded in the accounting records. Of the transfers, $93,569 were the payroll penalties and payments previously mentioned.

These errors went undetected because the Assistant Superintendent did not review the monthly bank reconciliation, review bank statement activity compared to payrolls, or authorize any correcting entries needed. In addition, the Board did not detect errors in reports they received. Without comparing bank statements to the accounting records, the Treasurer's errors and payments for penalties to the IRS went undetected.

What Do We Recommend?

The Board should:

1. Segregate incompatible duties related to wire transfers, bank checks and bank reconciliations or implement mitigating controls.

2. Ensure that Officials perform regular reviews of bank reconciliations.

3. Review monthly Treasurer's reports.

The Assistant Superintendent should:

4. Require the Treasurer to:
   - Submit timely reports;
   - Retain bank statements and support for outstanding checks; and
   - Record all wire transfers in accounting records.

5. Review wire transfers for appropriateness.

6. Review Treasurer's report for completeness and accuracy.

7. Review bank reconciliations and compare detail to bank statements and accounting records.

Appendix A: Response From District Officials

PINE PLAINS CENTRAL SCHOOL DISTRICT
2829 CHURCH STREET • PINE PLAINS, NEW YORK 12567-5504

TEL: (518) 398-7181 FAX: (518) 398-6592 WWW.PPCSD.ORG

June 20, 2018

Office of the State Comptroller
Attn: Chief Examiner Tenneh Blamah
Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Chief Examiner Blamah:

The Pine Plains Central School District acknowledges receipt of the draft audit report regarding internal controls over select financial activities.

We value the recommendations in the report which are being utilized to improve operations where appropriate. A Corrective Action Plan has been prepared and is attached to this document. All of the recommendations noted in the report have been accepted and addressed. Nearly all have already been implemented.

The District appreciates the professionalism of the audit team and the courtesy shown to our staff during their audit. We found them to be thorough as well as knowledgeable and helpful. We thank the audit team for the time spent in conducting the audit and the valuable insights and perspectives they offered.

Sincerely,

Fred Couse Jr.
President, Pine Plains Board of Education

Dr. Martin D. Handler
Superintendent of Schools

PINE PLAINS CENTRAL SCHOOL DISTRICT
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Pine Plains Central School District
OSC Audit Corrective Action Plan
June 20, 2018

BOARD OF EDUCATION
APPROVED
DATE: 6/20/18

Audit Recommendations (Board):

1. ***Segregate incompatible duties related to wire transfers, bank checks and bank reconciliations or implement mitigating controls.***

Wire transfers are initiated by the District Treasurer and are communicated to our banking institutions as follows:

Transfers between accounts within one of our banking institutions:

- In-person delivery or email to bank officer from District Treasurer noting amount, withdrawal account and destination account; this communication is submitted to the Assistant Superintendent for Business for approval.
- Once processed, transfers are then verified by return email to District Treasurer, with copy emailed to the Assistant Superintendent for Business. We are requiring that these transfer verifications provide sufficient detail (e.g.: date and time of transfer and account numbers) to properly confirm that such transfers are appropriate.

Transfers from banking institution to outside entity (e.g.; payment to service provider; transfer to another district banking institution (New York Liquid Asset Fund.)

- Transfer out of banking institution is verified via email, by phone or in person.
- Assistant Superintendent is copied on all such transfers when initiated by District Treasurer.
- Transfer is not processed by banking institution until they speak directly to District Treasurer, by phone or in person, to verify account, amount and destination.
- Once transfer is complete it is verified by return email to District Treasurer with copy sent to Assistant Superintendent for Business.

All transfers are further reviewed by the Assistant Superintendent for Business during monthly review of bank reconciliations that have been prepared by the District Treasurer. In addition the Assistant Superintendent reviews all journal entries processed by the District Treasurer.

Implementation Date: Immediate
Person Responsible for Implementation: Assistant Superintendent for Business

PINE PLAINS CENTRAL SCHOOL DISTRICT
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2. ***Ensure that Officials perform regular reviews of bank reconciliations.***
   - All monthly bank statements are first opened and initialed by the District Claims Auditor in the presence of the District Treasurer. Any questions or concerns (such as missing or unfamiliar accounts) are brought to the attention of the Assistant Superintendent for Business.
   - Cash accounts from the General Ledger (Trial Balance) are confirmed with the bank statements cash account and reconciled on the Treasurer's Report.
   - Any necessary supporting documentation is attached to the individual bank account reconciliations.
   - Bank reconciliations are reviewed monthly by the Assistant Superintendent for Business.

   Implementation Date: Immediate
   Person Responsible for Implementation: Assistant Superintendent for Business

3. ***Review monthly Treasurer's Reports.***
   - The Assistant Superintendent for Business initially reviews monthly Treasurer's Reports against Trial Balances and Cash Accounts prior to submission to the Board of Education.
   - Any discrepancies are noted on the Treasurer's Report along with a note attached providing explanation and/or correcting entries.
   - Once approved by the Assistant Superintendent for Business, the Treasurer's report is provided to Board of Education for review along with necessary supporting documentation.

   Implementation Date: Immediate
   Persons Responsible for Implementation: Assistant Superintendent for Business; District Treasurer, Board of Education

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Audit Recommendations (Assistant Superintendent):

4. ***Require the Treasurer to: Submit timely reports; Retain Bank Statements and support for outstanding checks; Record all wire transfers in accounting records.***
   - The Assistant Superintendent has developed a schedule of Financial Reports detailing when reports are to be provided by the District Treasurer to the Board of Education for review. This schedule will be presented to the Board of Education for acceptance at the annual reorganization meeting in July. It will be the responsibility of the Assistant Superintendent to ensure that the Treasurer adheres to this schedule and notify the Board should it become necessary to deviate from this schedule for any reason.
   - Bank reconciliations will be attached to bank statements for all district accounts by the Treasurer and retained in the Treasurer's office for both the current and prior years. Older statements and reconciliations are be retained by the District according to the records retention policy.
   - The Treasurer will account for all wire transfers; transfer-related accounting entries are to be reviewed by the Assistant Superintendent for Business.

   Implementation Date: July 1, 2018
   Person Responsible for Implementation: Assistant Superintendent for Business

5. ***Review wire transfers for appropriateness***
   - All wire transfers related to payroll are reviewed by the Assistant Superintendent at the time of each semimonthly payroll. Additional wire transfers are to be reviewed by the Assistant Superintendent along with supporting documentation as to the reason for the transfer. All such transfers will be additionally verified against bank statements.

   Implementation Date: Immediate
   Person Responsible for Implementation: Assistant Superintendent for Business

6. ***Review treasurer's report for completeness and accuracy***
7. ***Review bank reconciliations and compare detail to bank statements and accounting records***
   - As noted, above, prior to submission to the Board of Education the Assistant Superintendent will review the monthly Treasurer's Report, confirm against monthly bank statements, prepared bank reconciliations and relevant accounting entries, to ensure accuracy and appropriateness and confirm that they are complete and up to date.

   Implementation Date: Immediate
   Person Responsible for Implementation: Assistant Superintendent for Business

Signed: Martin D. Handler Date: 6-20-18
Dr. Martin D. Handler, Superintendent of Schools

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 Officials and employees to gain an understanding of the procedures related to disbursements.
- We reviewed all transfers in the District's bank statements and traced them to the accounting records to determine if they were appropriately accounted for and legitimate District expenditures.
- We reviewed all completed bank reconciliations that were submitted to the Board during our audit period to determine if they were properly performed and reviewed.
- We compared all payroll payments to the Treasurer to the salary approved by the Board.
- We reviewed all disbursement and payroll check images to determine if additional checks were made to the Treasurer.
- We randomly selected the month of May 2017 and reviewed a biased judgmental sample of 16 voucher packets to ensure various types of purchases were reviewed. We reviewed the voucher packets to determine if supporting documentation included approved purchase orders, original invoices, and a verified receiving slip.

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 should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. 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 District 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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