



Schenectady County Community College

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

September 1, 2011 — August 31, 2013

2014M-11



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

Dear Community College Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, including community colleges, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Schenectady County Community College entitled Internal Controls Over Selected Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for community college officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Schenectady County Community College (College) is located in Schenectady County, within the City of Schenectady. The College is governed by a 10-member Board of Trustees (Board). Five trustees are selected by the Schenectady County Legislature, four by the Governor of New York, and a student trustee is elected by the College student body each year. The Board is responsible for the general management and control of the College's financial and educational affairs. The President is the College's chief executive officer and the Vice President of Administration is the College's chief financial officer. Both are responsible, along with other administrative staff, for the day-to-day management of the College under the direction of the Board. The Bursar is responsible for the functions of the Student Business Office. These functions include, but are not limited to, overseeing the student billing system, processing loan collections and maintaining financial records. The Bursar reports directly to the Coordinator of Financial Services under the direction of the Vice President of Administration.

During fall 2013, the College had an enrollment of approximately 2,700 full-time students; 59 percent were residing in Schenectady County. For the fiscal year ended August 31, 2013, the College had 675¹ employees with an annual payroll of approximately \$15 million. The College's operating expenditures for the 2013-14 year were approximately \$29.5 million. These expenditures were financed primarily with County sponsorship money, tuition and fees, State aid, Federal grants and contracts, and State and local grants and contracts.

The College's Department of Hotel, Culinary Arts and Tourism offers five programs in the hospitality field, including Culinary Arts and Hotel and Restaurant Management. As part of the curriculum, students provide dining, bakery and butchery services to the public. The Culinary Department (Department) collects cash for these various services, including the Casola Dining Room, which is a functioning restaurant on campus operated by the Department for the purpose of providing students with practical skills in restaurant operations. For the fiscal year ended August 31, 2013, revenues from the Culinary Arts Program totaled approximately \$220,000.

Objective

The objective of our audit was to examine internal controls over selected financial operations. Our audit addressed the following related question:

¹ This figure includes faculty, staff, administration, etc.

- Are internal controls over Culinary Arts cash receipts appropriately designed and operating effectively to adequately safeguard College assets?

**Scope and
Methodology**

We examined the College’s internal controls over selected financial operations for the period September 1, 2011 through August 31, 2013. Our audit disclosed areas in need of improvement concerning the College’s information technology. Because of the sensitivity of this information, the vulnerabilities are not discussed in this report, but have been communicated confidentially to College officials so they could take corrective action.

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
College Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with College officials and their comments, which appear in Appendix A, have been considered in preparing this report. College officials generally agreed with our recommendations and indicated they have initiated, or plan to initiate, corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the 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 this plan available for public review in the Clerk to the Board’s office.

Culinary Arts Cash Receipts

An effective system of internal controls includes cash receipt policies and procedures that contain specific guidance and information for College employees responsible for handling and accounting for cash assets. Effective policies should adequately address issues such as the responsibilities for collecting, recording and depositing cash. Also, it is essential that the Board communicate these pertinent policies to those responsible for handling the College's cash transactions to ensure that duties and responsibilities are clearly defined and understood. In addition, duties must be properly segregated so that someone, other than the person receiving and recording cash receipts, is responsible for reconciling bank accounts and preparing or making bank deposits. This system of internal controls provides reasonable assurance that cash receipts are properly recorded, accounted for and deposited timely. Finally, to increase accountability for cash receipts, each receipt should be collected, recorded and deposited timely and intact.²

We found that internal controls over cash receipts in the Department are properly designed. Class instructors are responsible for the collection of cash and maintaining a daily cash sheet. Instructors submit the daily cash sheet and cash collections to a senior technical assistant (assistant) who is responsible for receiving, recording and submitting the collections to the Bursar for deposit. The Bursar verifies the amount received and provides the assistant with a receipt. This practice establishes an adequate segregation of duties because it does not allow any one employee to control all aspects of the cash receipts process. In addition, the Dining Room is equipped with electronic cash registers with point of sale software that records all transactions into the system, allowing for a complete accountability of all sales and receipts. The system also generates a daily report which is given to the instructors to prepare the cash collections forms submitted to the Bursar for deposit. Such a report is a helpful tool for preparing a daily reconciliation between the sales recorded and the cash collected.

Although internal controls over the deposit of cash collections were properly designed, they were not operating effectively. The Board adopted a policy that provides specific guidance to College employees responsible for collecting, recording and depositing cash; however, the Department's employees have not complied with the policy. The cash handling policy requires employees to submit all cash³ received

² Intact means in the same amount and form (cash or check) as received.

³ Cash is defined as currency, coin, check, money order, travelers check, credit card or debit card collections.

to the Bursar in a timely manner. Specifically, amounts exceeding \$200 must be submitted within 24 business hours and amounts totaling less than \$200 must be submitted weekly. The policy also states the full amount of cash collected must be deposited and not be used for disbursements, refunds or expenses.

The Department operates at full capacity for five months during the course of each year. We judgmentally selected four of the five months the Department operates at full capacity. During these months, the Department and Dining Room collected approximately \$40,000 from 189⁴ receipts. We found that the 23 cash collections totaling \$18,620 from the Dining Room were appropriately posted to the records and submitted timely and intact to the Bursar as required by the Board's policy. However, of 166 cash collections from the baking class, the bakery and the butchery, totaling approximately \$21,400, 149 totaling \$20,569 were not submitted to the Bursar in a timely manner. For example, for 47 collections totaling \$9,110 in March 2013 the average time elapsed from the time of receipt to the date submitted to the Bursar for deposit was 15 days.

The collections we tested from the baking class, the bakery and the butchery were not always remitted to the Bursar intact. The Dean of the Culinary Department authorized the use of a petty cash fund totaling \$150 to purchase food and supplies for Department operations. However, the Department's purchases regularly exceeded the \$150 authorized amount, and employees used the cash received from sales as a revolving fund to purchase food and supplies. For the same four months, we reviewed the Department's petty cash balance sheets and found that employees made purchases using cash collections totaling \$2,408. Employees recorded these purchases in the accounting records and then submitted requests for reimbursement to replenish the petty cash fund. Employees then deposited the replenished petty cash funds in place of the original cash collections. Therefore, because portions of collections were being used to purchase food and supplies for the Department's operations, they were not remitted to the Bursar intact.

We also found that the balance retained in the petty cash fund for the entire month of March 2013 consistently exceeded \$200. The Department recorded a cash balance of \$2,296 on March 1, 2013, which increased to \$8,587 before collections totaling \$8,440 were submitted to the Bursar for deposit on April 4, 2013. Because cash collections were not deposited timely and intact and cash collections were used to fund purchases, the internal control structure established

⁴ 166 cash receipts were collected from the bakery, butchery and baking class and 23 cash receipts were collected from the Casola Dining Room, totaling 189 cash receipts.

by the Board is weakened. This increases the risk that errors, fraud or abuse may occur and go undetected.

Recommendations

The Board should ensure that:

1. All College employees responsible for cash collections deposit receipts timely and according to the established policies.
2. All cash receipts are deposited intact and are not used for making Department purchases.

APPENDIX A

RESPONSE FROM COLLEGE OFFICIALS

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



June 23, 2014

Mr. Jeffrey P. Leonard
Office of the State Comptroller
Division of Local Government and School Accountability
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, New York 12801-4396

Re: Response and Corrective Action Plan for Report #2014M-011
Schenectady County Community College
Internal Controls over Selected Financial Operations

Dear Mr. Leonard:

This is in response to the draft report provided by your office to Schenectady County Community College (SCCC). On behalf of the faculty and staff of SCCC and the Board of Trustees at the college, I would like to thank the Office of State Comptroller for its report on internal controls for handling cash receipts at the College's Department of Hotel, Culinary Arts and Tourism for the period of September 1, 2012 through August 31, 2013 (Report # 2014M-11).

The College Board of Trustees discussed this report and the College's response at its June 16th meeting. I am requesting that this response also serve as the College's Corrective Action Plan. Your report contains two recommendations:

1. "All College employees responsible for cash collections deposit receipts timely and according to established policies.
2. All cash receipts are deposited intact and are not used for making Department purchases."

In response to the draft report and follow up discussions with your staff, SCCC has already implemented corrective actions. Both the bake shop and the boucherie began depositing their

cash on a daily basis in January 2014. The Department of Hotel, Culinary Arts and Tourism has also been issued a credit card with a monthly limit of \$1,500 to establish controls on the purchase of ingredients and supplies and minimize the need for petty cash. Staff will no longer use cash receipts for purchases.

The Department offers one course, Elements of Baking, where students are able to purchase baked goods prepared in class. That course generated \$700 in total cash receipts during the spring 2014 semester. Beginning with the fall 2014 semester, the College will require all instructors in that course to sign off on whether cash was collected at any session as well as the amount collected. Those receipts will be deposited weekly, unless the cash collected exceeds \$200 in which case it will be deposited within twenty-four hours.

Dr. David Brough, the Dean of the Department of Hotel, Culinary Arts, and Tourism, participated in the meeting with your staff on June 17 to discuss the report and the College's response. Dean Brough has also met with his staff to ensure that the College's policy on cash receipts is followed.

We feel that it is important to note that your draft audit report did not find any missing funds or any irregularities of any kind with regard to the operations and accounting for the Department of Hotel, Culinary Arts and Tourism. Your report focused on better ways to handle the comparatively small amount of cash collected as part of the program. We have already implemented measures identified in the draft report to improve the handling of cash receipts.

If you feel that additional steps are needed, please contact me. Again, thank you for your work on our behalf.

Sincerely,

Ann Fleming³Brown
Chairperson, SCCC Board of Trustees

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 College 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 of the College included evaluations in the following areas: control environment, financial condition, budgeting, accounting records, cash management, cash receipts and disbursements, purchasing, claims processing, payroll and information technology.

During the initial assessment, we interviewed appropriate College officials, performed limited tests of transactions, reviewed pertinent documents, such as College policies and procedure manuals, Board minutes, 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 College's financial transactions as recorded in its databases. Further, we reviewed the College'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 those areas most at risk. We selected Culinary Arts receipts and information technology.

We focused on adherence to College policies and procedures related to the cash receipts of the Culinary Arts Department. In addition, we interviewed appropriate College officials to obtain an understanding of the management procedures of the Dining Room and food sales. We reviewed cash receipts and supporting documentation including daily sales reports, daily cash sheets, computerized accounting records and deposit slips.

We judgmentally selected four out of the five months the Department operates at full capacity, including October and November 2012 and February and March 2013. We traced all cash collections from the point of being received and posted in the accounting system to when the collections were remitted to the Bursar for deposit.

We traced the 23 cash collections totaling \$18,620 from the Dining Room to related postings in the records and submissions to the Bursar for deposit.

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.

APPENDIX C

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