

Fulton City School District

Non-Payroll Cash Disbursements

OCTOBER 2017



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

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Report Highlights

Fulton City School District

Audit Objective

Determine whether District officials established a sufficient segregation of duties or compensating controls for non-payroll cash disbursements.

Key Findings

- District officials established effective controls over non-payroll cash disbursements by segregating duties and providing management oversight, so that no individual controls all phases of a transaction.
- District officials allow third party administrators (TPAs) who process health, dental and prescription claims on the District's behalf to electronically withdraw funds from a District bank account.

Key Recommendation

- The Board should not allow TPAs to withdraw funds from the District's bank account. The Treasurer should transfer moneys to the TPAs for the total amount payable in satisfaction of claims audited and approved by the TPAs.

District officials generally agreed with our findings and indicated they planned to take corrective action.

Background

The Fulton City School District (District) is located in the City of Fulton and the Towns of Granby, Minetto, Oswego, Palermo, Scriba and Volney in Oswego County.

The District is governed by the Board of Education (Board) which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Business Administrator oversees business operations.

The District is self-insured for employee dental, prescription drug and medical benefits and contracts with three TPAs to process, audit and pay related claims on the District's behalf.

Quick Facts

\$70.4 million	2016-17 Budgeted Appropriations
\$40.9 million	Non-Payroll Disbursements in Audit Period
3,517	Enrollment
696	Employees

Audit Period

July 1, 2015 – March 31, 2017

Non-Payroll Cash Disbursements

Non-payroll cash disbursements are unrelated to payroll and employee withholdings. These disbursements include payments to vendors, employee expense reimbursements and bond payments and are typically made by check, wire transfer or electronic payment.

How Should District Officials Segregate Duties?

The Board and District management are responsible for establishing internal controls to ensure that non-payroll cash disbursements are supported by appropriate documentation, are properly recorded in the accounting records and are for proper business purposes. One component of good internal control is the proper segregation of duties. Key duties, such as record keeping, preparing and signing checks, making payments and performing bank reconciliations should be segregated so that the work of one employee is verified in the course of another employee's regular duties. Compensating controls could include management oversight or routine reviews of the work performed.

Pursuant to Education Law, the Board appointed claims auditor is generally responsible for auditing all claims before they are paid.¹ The Treasurer is generally responsible for the disbursement of all money, including electronic payments and signing checks. General Municipal Law (GML) allows districts that self-fund health care benefits to enter into agreements with qualified TPAs to audit, approve or pay benefit claims on the district's behalf. The law permits the District to transfer money to TPAs in the total amount of benefit claims audited and approved by the TPA for disbursement by the TPA, but does not authorize the District to provide TPAs with access to withdraw funds from District bank accounts.

District Officials Adequately Segregated Duties

District officials have segregated duties. The accounts payable clerk enters claims into the computerized accounting system and generates checks. The claims auditor reviews and authorizes claims for payment² and the Treasurer signs checks with her electronic signature, which is restricted to herself and to the Deputy Treasurer.

District officials provide oversight by having independent staff review transactions. A clerk, who works outside of the business office, completes the monthly bank reconciliations to determine whether bank account balances reconcile to the cash balances in the computerized accounting system. The Business Administrator

¹ The Board may authorize claims for public utility services, postage, freight and express charges to be paid prior to audit.

² The TPAs review and approve health, dental and prescription benefit claims by contract.

reviews and signs bank reconciliations, general journal entries prepared by the Treasurer and claims to indicate the bank accounts reconcile and journal entries and claims were for proper business purposes.

We reviewed 124 check disbursements totaling \$651,770 to determine whether they were properly authorized and recorded, were for proper business purposes and were reviewed. We also reviewed general journal entries that reduced cash for August and October 2016 totaling \$9.7 million to determine whether they were for proper business purposes and reviewed. Lastly, we reviewed all 12 bank reconciliations for November 2016 to determine whether they were properly reconciled and reviewed. Our testing disclosed only minor deficiencies that we discussed with District officials.

District Officials Need to Improve TPA Disbursement Controls

District officials have also adequately segregated wire transfer duties. The Treasurer initiates wire transfers through on-line banking software and the Deputy Treasurer or Business Administrator approves the wire transfers. However, District officials allow all three TPAs to electronically withdraw funds for benefit claims from a District bank account. The two TPAs that process dental and prescription claims electronically withdraw funds without any authorization by the Treasurer. The Treasurer authorizes each electronic withdrawal by the TPA that processes medical claims.

The TPAs provide the Treasurer with lists of claims to support their planned withdrawals and the Treasurer electronically transfers funds into a separate District bank account to cover the payments. However, the Treasurer does not make the transfers to the TPAs. Also, the Treasurer transfers funds in excess of the totals for the claims to minimize the number of on-line transfers during a month. As a result, as of March 31, 2016, the bank account had a balance that was \$96,745 in excess of what was necessary to pay the claims. This means the District is exposing itself to additional risk because more funds are available to the TPAs than are necessary to pay the claims. Furthermore, as noted, GML authorizes the District to transfer moneys to the TPA for the total amount of claims audited and approved by the TPA. GML does not provide authority for the District to allow the TPA to directly access District bank accounts, irrespective of whether the Treasurer authorizes the withdrawal.

We traced all September 2016 and January 2017 non-check cash disbursements to the TPAs on the bank statements totaling \$746,170 to supporting lists of claims payments. Our testing disclosed no exceptions.

What Do We Recommend?

1. The Board should not allow the TPAs to withdraw funds from the District's bank account. The Treasurer should transfer moneys to the TPAs for the total amount payable in satisfaction of claims audited and approved by the TPAs.

Appendix A: Response From District Officials



FULTON CITY SCHOOL DISTRICT

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Brian T. Pulvino
Superintendent of Schools

September 26, 2017

Rebecca Wilcox, Chief Examiner
State Office Building, Room 409
E. Washington Street
Syracuse, NY 13202-1428

RE: Fulton City School District
Non-Payroll Cash Disbursements
2017M-144

Dear Ms. Wilcox,

The Fulton City School District has received the draft report of examination on Non-Payroll Cash Disbursements, Report 2017M-14, for the audit period July 1, 2015 through March 31, 2017. The District appreciates the professionalism and courtesy that was provided by your staff. This letter serves as the District's official Response and Corrective Action Plan. The District is extremely pleased with the positive key finding listed in the draft report regarding effective controls over non-payroll cash disbursements. Below is the key recommendation identified in your draft report.

- **Audit Recommendation:**
The Draft Report provided the Board of Education with a recommendation to disallow Third Party Administrators to withdraw funds from the District's healthcare bank account. Furthermore, it was recommended that the healthcare checking account is funded for the exact dollar amount of healthcare claims to be paid.
- **Implementation Plan of Action:**
The District agrees with these recommendations as the District's goal is to always comply with General Municipal Law as well as establish and maintain effective internal controls. The District has already taken corrective action to adhere to the recommendation. The dental and prescription TPAs no longer withdraw the funds to pay the District's dental and prescription claims. The District Treasurer receives invoices from the TPAs and then initiates a weekly ACH to pay the TPA's. The District Treasurer and Deputy Treasurer use dual authorization to approve the ACH method of payment. The claims auditor will review the disbursements. The District has also requested to modify the banking arrangements with the TPA that processes medical claims; to

terminate the electronic withdrawal and pay the agent with a dual authorized ACH for approved claims as it does for dental and prescription claims.

- **Implementation Date:**

The District has already corrected payment procedures for the dental and prescription TPAs and is currently working collectively with the medical TPA and expects to initiate the stated changes by October 15, 2017.

- **Person Responsible for Implementation:**

The Business Administrator is responsible for implementation.

The Fulton City School District's Board of Education and administration expresses its gratitude to [REDACTED] for the guidance in the written report as well as the oral report and discussion. The District found the audit recommendation useful and informative.

Sincerely,

David Cordone
Board President

Brian Pulvino
Superintendent of Schools

/ch

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 officials and employees to obtain an understanding of the procedures related to non-payroll disbursements.
- We examined 124 non-payroll checks totaling \$651,770 and reviewed corresponding original claims and invoices to determine whether the disbursements were properly authorized and recorded and were for proper business purposes and reviewed by the Business Administrator. One hundred checks totaling \$632,167 were randomly selected using a computerized spreadsheet function. Twenty-four checks totaling \$19,603 were issued to business office staff involved in non-payroll cash disbursements.
- We randomly selected all adjusting journal entries that reduced cash in the accounting system for August and October 2016 totaling \$9,708,928 to determine whether they were for proper business purposes and reviewed by the Business Administrator.
- We randomly selected the month of November 2016 and reviewed all 12 bank reconciliations and determined whether the bank statements were properly reconciled to the accounting system and the reconciliations were reviewed by the Business Administrator.
- We randomly selected September 2016 and January 2017 and reviewed all non-check disbursements totaling \$1,746,170. We traced a \$1,000,000 bank transfer to the deposit in another District bank account and traced all \$746,170 in electronic payments to TPAs to the supporting lists of claims.

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 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#lmgm

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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