



Guilderland Central School District Cash Disbursements

Report of Examination

Period Covered:

July 1, 2015 – September 23, 2016

2017M-29



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2017

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' 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 district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Guilderland Central School District, entitled Cash Disbursements. 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 New York State General Municipal Law.

This audit's results are resources for district 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 Guilderland Central School District (District) is located in the Towns of Guilderland, Knox, New Scotland and Bethlehem in Albany County. The District is governed by the Board of Education (Board), which is composed of nine elected members. 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 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 District operates seven schools with approximately 5,000 students and 900 employees. The District's budgeted appropriations for the 2016-17 fiscal year are \$96.6 million, which are funded primarily with State aid and real property taxes.

Objective

The objective of our audit was to review the District's cash disbursement transactions using computer-assisted auditing techniques (CAAT). Our audit addressed the following related question:

- Were cash disbursements adequately supported, for District purposes and properly recorded?

Scope and Methodology

We examined cash disbursement transactions of the District for the period July 1, 2015 through September 23, 2016.

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. 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.

Comments of District Officials

The results of our audit have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials acknowledged our report.

Cash Disbursements

The Board and District management are responsible for establishing and implementing effective cash disbursement policies and procedures to ensure that disbursements are supported by appropriate documentation, are for legitimate District purposes and are properly recorded in the accounting records. Furthermore, job duties must be segregated so that no one individual controls most or all phases of a cash disbursement transaction. Establishing and adhering to strong procedures decreases the risk that errors and irregularities may occur and not be detected and corrected, and that unauthorized payments could be made for non-District purposes.

District officials have ensured that cash disbursements are adequately supported, for District purposes and properly recorded. They have established effective policies and procedures over cash disbursements. For example, the claims auditor reviews claims prior to checks being processed to ensure that cash disbursements have supporting documentation and are for legitimate District purposes. Further, an independent contractor conducts bank reconciliations on a monthly basis to ensure that cash disbursements clearing the bank are properly recorded in the accounting records. In addition, duties within the cash disbursement process have been segregated to ensure that the same person does not control multiple aspects of the process. Furthermore, the claims auditor obtains audit logs¹ from the District's accounting system and verifies the validity of changes to vendor and personnel files on a monthly basis.

Using a combination of CAAT and manual procedures, we reviewed cash disbursement transactions for 2,085 vendors paid during the audit period to identify high-risk transactions. This resulted in testing records for 7,142 checks² covering 25,478 invoice payments totaling over \$189 million. See Appendix B for more information about our audit methodology.

Except for minor discrepancies, which we discussed with District officials during our fieldwork, cash disbursements were adequately supported, for District purposes and properly recorded. We commend District officials for designing and implementing effective policies and procedures to help ensure the accuracy of cash disbursements.

¹ An audit log is an automated record of system activity that identifies the person responsible and the time and date of the transaction.

² This includes printed, manual and voided checks, and wire transactions.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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April 14, 2017

[REDACTED]

Office of the State Comptroller
44 Hawley Street – Suite 1702
Binghamton, NY 13901

Re: Report of Examination 2017M-29
Cash Disbursements
July 1, 2015 – September 23, 2016

Dear [REDACTED]:

The Guilderland Central School District acknowledges receipt of a draft of the above referenced report relative to the recent audit conducted by members of the New York State Office of the State Comptroller.

The purposes of the audit was to ascertain that effective policies and procedures were implemented to ensure cash disbursements are supported by appropriate documentation, are for legitimate District purposes, and are properly recorded in the accounting records. Further, that job duties are segregated so that no one individual controls most or all phases of a cash disbursement transaction. The School District appreciates the commendation issued in the report highlighting the District's efforts to design and implement effective policies and procedures to help ensure the accuracy of cash disbursements. The Board of Education is entrusted by the taxpayers to ensure that the highest level of financial integrity is maintained. The Board of Education and administration are deeply committed to doing all within our power to meet that expectation and to be good financial stewards of the district's assets.

The report does not contain any adverse findings or recommendations therefore, it is our understanding that a corrective action plan is not required of the District.

Finally, the School District would like to express its appreciation for the courtesy, professionalism and respect demonstrated by the field audit team during the engagement.

Sincerely,

Dr. Marie Wiles
Superintendent of Schools

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We used computer-assisted auditing techniques to review the District's cash disbursements. The use of CAAT increases efficiency and enables testing on large data sets. We obtained various data sets from the District's computerized financial database and then performed tests on them using specialized software to identify anomalies and high-risk transactions. We also 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. Further, we reviewed the District's internal controls over cash disbursements.

A significant portion of our testing used electronic accounting data from the District's accounting program. The overall population of electronic data for the audit period consisted of 25,478 invoice payments, 7,142 checks³ and 2,085 vendors. To accomplish our audit objective and obtain valid audit evidence, we used a combination of CAAT and manual audit procedures to identify and focus on high-risk transactions for testing.

We used CAAT to perform detailed analyses of cash disbursements transactions in the District's financial system. Specifically, CAAT methodology was used to examine the integrity of checks, appropriateness of invoices and use of purchase orders, as well as identify fictitious vendors and find potential conflicts of interest. Our audit program included the following CAAT procedures, unless otherwise indicated:

- We reviewed policies and procedures to gain an understanding of the District's guidelines over cash disbursements practices.
- We interviewed and observed District officials and employees to learn about the cash disbursement process.
- We reviewed various source documents, including vendor invoices, purchase orders, bank statements, canceled check images, audit logs and other source documents.
- We performed various audit procedures to assess whether vendors paid were actual vendors and had any potential conflicts of interest. These procedures included the following tests:
 - o Comparing vendor Social Security numbers to the Social Security death master file;
 - o Identifying any relationships, prior employment and related payments between Board members/District employees and vendors;
 - o Reviewing individuals paid as vendors with addresses outside of New York State; and
 - o Reviewing individuals paid as vendors who did not receive a 1099 tax form.
- We also examined payments made to the vendors who were not on the vendor master list; had the same name, address or phone number; had the same vendor ID and different name; or had the same or similar name as another vendor. We used multiple judgmental sampling techniques

³ This includes printed, manual and voided checks, and wire transactions.

to select payments to vendors with the same address as a District employee, with Post Office box addresses or no address and with more than one address, for a total of 33 transactions.

- We performed various audit procedures to determine the appropriateness of invoices and proper use of purchase orders. These procedures involved identifying and verifying instances where purchase order dates were after check dates, invoices with amounts greater than \$10,000 without purchase orders and instances of invoice payments with duplicate check dates and duplicate vendor ID numbers. We used various judgmental sampling techniques to select 18 instances of a single invoice being paid with multiple checks and to select two vendors with abnormal invoice volume activity on a monthly basis.
- We performed various audit procedures to verify the appropriateness of check payments to vendors. These procedures included reviewing and verifying checks written or payments made to vendors on unusual dates (i.e., weekend days, legal holidays), duplicate check numbers, checks with no written description, check numbers written out of sequence, voided checks, manual checks and vendors with the highest proportion of manual checks.
- We used multiple judgmental sampling techniques to select checks made out for the same dollar amount, checks that took 60 days or more to clear the bank, payments with even or rounded dollar amounts, payments made with a credit card, payments to vendors with potential for high risk (hotels, food, cell phone, travel) and vendor credits, for a total of 147 transactions. In addition, we performed a Benford analysis of the cash disbursement data to follow up on any unusual or similar check amounts.
- We compared the financial data in the District's accounting program to transactions in the bank statements to identify any discrepancies between bank records and the District's accounting records. We also manually verified the accuracy of wire and manual transactions, because this data was not available in electronic format from the bank.
- We judgmentally selected payments in certain high-risk areas to determine the propriety of those payments. Specifically, we reviewed the top 25 vendors who received the largest number of checks paid in the 2015-16 fiscal year, the top 10 District employees who received the most vendor payments in the scope period and the top 25 vendors paid by the District during the 2015-16 fiscal year within our scope period, to determine the propriety of those payments.
- We performed data reliability tests by using a random number generator to select a sample of 90 invoice payments in the financial system and verifying them against source documents. We also selected, without any known bias, a judgmental sample of 11 cash disbursement transactions and verified them from the source documents to the data in the financial system. Further, we reviewed all of these same transactions to determine whether the disbursements were adequately supported and for District purposes.
- We selected, without any known bias, a judgmental sample of three District bank reconciliations and manually verified their accuracy.

We conducted this performance audit in accordance with 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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