

FRONTIER CENTRAL SCHOOL DISTRICT



INTERNAL CONTROL SYSTEM TESTING

CASH DISBURSEMENT TESTING

For the period from
July 1, 2021-December 31, 2022

FRONTIER CENTRAL SCHOOL DISTRICT



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FRONTIER CENTRAL SCHOOL DISTRICT



INTRODUCTION

In June, 2015, we issued a risk assessment report to the District, which was based primarily on a series of interview sessions we held with District personnel, as well as some testing focused on the operation of District's internal controls. The objective of the risk assessment update was to gain an understanding of how management identifies, analyzes, and takes action to address risks relevant to the District's financial reporting and compliance objectives. Our assessment considered the District's control environment, along with the specific controls currently in place at the system level.

Based on the risks identified during the initial risk assessment and updates, the audit committee and management selected the area below for further testing. The report we are now issuing describes the specific testing we performed during February 2023, along with the results of that testing and our recommendations.

AREA TESTED

- Purchasing/Cash Disbursement Testing

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CASH DISBURSEMENTS

FRONTIER CENTRAL SCHOOL DISTRICT



PURCHASING/CASH DISBURSEMENTS

The first step in completing the test of internal controls over purchasing/cash disbursements was obtaining an understanding of the processes the District currently has in place. We held interviews with various district personnel and inquired about the following processes:

- Process for entering cash disbursement into the District's accounting software
- Process for initiating purchase requisitions
- Process for generating purchase orders
- Process for reviewing and approving purchase orders
- Process for receiving goods delivered to the District
- Process for receiving formal bids and quotes for purchases
- Process for approving the BOCES contract as well as subsequent changes to the contract
- Process for reviewing and approving credit card purchases
- Process for travel and expense reimbursements
- Process for issuing checks
- Understanding the role and responsibilities of the claims auditor

Procedure 1: Cash Disbursement Testing

We selected a sample of cash disbursements from the period of July 1, 2021 through December 31, 2022 and traced to supporting documentation noting whether proper policies and procedures were being followed and whether proper documentation existed and was obtained in a timely manner. As part of this testing, we reviewed disbursements to ensure that: a requisition existed; a purchase order or contract existed, if applicable; disbursements were appropriately authorized; the invoice was reviewed for clerical accuracy; a packing slip evidenced goods and services were clearly marked received; no sales tax was paid; the disbursement was allowable and reasonable; disbursement followed proper bidding procedures; the check was appropriately signed, endorsed and cleared the bank. We also tested to determine whether the District followed criteria as stipulated within its purchasing policy. We selected disbursements consisting of the following:

General Fund

- 10 maintenance department expenditures
- 5 transportation expenditures
- 3 travel and conference expenditures
- 2 credit card expenditures
- 15 other general fund expenditures

Cafeteria

- 2 third-party contractor
- 3 other cafeteria expenditures

Capital Project (if applicable)

- 10 disbursements

Special Aid Fund

- 10 expenditures related to various grant funds

Extra-Classroom Activity Funds

- 10 expenditures related to various extra-classroom activity funds

Manual Checks

- 10 disbursements written manually (not through warrant)

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PURCHASING/CASH DISBURSEMENTS

Results:

For the sample tested, we noted that there were 2 instances when a purchase was initiated without documentation of prior authorization or approval from management in the form of a purchase order and/or purchase requisition. We also noted that there were 6 instances when an invoice was dated before the purchase order was created, indicating a lack of prior approval.

Lastly, for the sample of student activities disbursements tested, we noted that there were 8 instances when sales tax was not paid when it should have been.

Recommendations:

The goal of the District should be to have all purchase orders signed and approved prior to the purchase of all goods and services. During situations when it is not practical to issue a purchase order, documentation should be maintained that evidences that proper authorization for the purchases has been made.

Further, we recommend that all advisors and student officers are made aware of the non-exempt tax status of the extraclassroom fund and that sales tax is properly paid for goods and services purchased with extracurricular funds.

Procedure 2: BOCES Contract Review

We reviewed the BOCES contracts for the 2021-22 and 2022-23 fiscal years and performed testing on adjustments exceeding \$100,000 (7 instances) made to the contract from the beginning of the fiscal year through December 31, 2022, to determine whether proper authorizations were granted to support changes.

Results:

Based on our review, it appeared that all changes to the contracts pertaining to special education services were properly authorized by the District Treasurer and the Assistant Superintendent for Curriculum and Instruction. All other contract adjustments tested, were properly authorized by the Assistant Superintendent of Finance and Operations as well as the District Superintendent. In addition, proper documentation was maintained to support these changes.

Recommendations:

We recommend that the District consider setting a dollar threshold whereby adjustments exceeding this threshold would require prior approval from the Board of Education, in addition to those currently authorized to approve changes.

Procedure 3: Wire Transfers/EFT Payments

Reviewed process and controls for wire transfers/EFT payments. Selected 5 transactions and reviewed supporting documentation and determined whether processes in place were followed.

Results:

For 1 sample tested, we noted that there was no purchase order created to evidence prior approval. The specific payment tested was related to 403B contributions.

Recommendations:

During testing, it was noted that the District started creating purchase orders for 403B payments during the 22-23 school year. We commend the District for implementing an approval process related to these types of payments and recommend that continued efforts are made to adhere to internal policies and procedures.

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PURCHASING/CASH DISBURSEMENTS

CONCLUSION

The District's internal controls over purchasing/cash disbursements continue to be strong and well developed. Based on our internal audit testing, the purchasing/cash disbursements processes as tested in this report appear to be functioning adequately. We have the following recommendations.

Purchase Orders/Purchase Requisitions

We recommend the District continue to focus efforts in having all purchase orders signed and approved prior to the purchase of all goods and services. During situations when it is not practical to issue a purchase order, documentation should be maintained that evidences that proper authorization for the purchases has been made.

Payment of Sales Tax – Extraclassroom Fund

We recommend that all advisors and student officers are made aware of the non-exempt tax status of the extraclassroom fund and that sales tax is properly paid for goods and services purchased with extracurricular funds.

The District has developed a formal tracking spreadsheet, which lists each recommendation, its status, the responsible party and its priority. This spreadsheet was then reviewed during regularly scheduled audit committee meetings during the year. We commend the District for taking these steps to improve and enhance its internal controls and encourage continued commitment to good governance and sound controls. It is our understanding that many of the suggested recommendations have been reviewed and evaluated. We are cognizant that many of these initiatives require time commitments and realize it is not feasible for the District to immediately dedicate resources to address all of these areas of concern. We also recognize that the list is very extensive. We might suggest that the District develop a calendar which might outline target dates for a few of the high priority action items. Once accomplished, other recommendations could be added to the list.

Our goal is to assist the District in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal controls and the governance process. We would be happy to further discuss any of the items contained within this report with the audit committee and management of the District

We look forward to continuing to serve you as your Internal Auditors.