



Allegany-Limestone Central School District

Claims Processing and Administrative Employee Compensation and Benefits Report of Examination

Period Covered:

July 1, 2004 - June 30, 2005

2006M-28



ALAN G. HEVESI

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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

August 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Allegany-Limestone Central School District — Claims Processing and Administrative Employee Compensation and Benefits.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article 5, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by the School District Board of Education.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Allegany-Limestone Central School District (District) is governed by the Board of Education (Board) which is comprised 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 chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District, under the direction of the Board.

The Superintendent and business manager are both appointed as purchasing agents who are responsible for authorizing purchases. The Board appointed an account clerk in the business office as its claims auditor. The Board has overall responsibility for District operations. The Board is also responsible for establishing a good internal control environment. An effective tool in establishing a strong control environment is to adopt effective policies that guide the overall direction of the District, including policies and procedures for administrative and office staff compensation and related fringe benefits. The Board should also ensure that regulations (i.e., procedures) established by the Superintendent are effectively implemented.

Scope and Objectives

The objective of our audit was to evaluate internal controls over the District's claims processing and certain payroll processing functions. Our audit addressed the following questions for the period July 1, 2004 through June 30, 2005:

- Are internal controls over the claims processing function designed appropriately and operating effectively?
- Are effective policies and procedures in place to ensure payments for administrative and office staff compensation and related fringe benefits are properly authorized?

Audit Results

The Board has not established adequately designed internal controls over the audit, processing and payment of claims. The District has not segregated incompatible duties or taken the necessary steps to ensure adequate audits of claims before they are paid. We identified deficiencies in 82 of 113 claims we reviewed, including the lack of departmental approval, itemization and documentation. In reviewing

an additional 11 credit card claims, we found one or more of the same deficiencies in virtually all 135 transactions on the claims. For example, purchases totaling \$2,843 had no supporting documentation. Claims for \$1,726 spent for District officials' meals while traveling or on District business did not identify the travelers, the purpose of the travel or who attended the meetings.

We also found that the District paid \$1,352 for donations. State law prohibits school districts from making gifts of public funds.

The District does not have written compensation and benefit agreements with 15 administrative and office staff employees. Other than the adoption of yearly salaries, there is no approval by the Board concerning payments made or benefits provided to these individuals. The District compensated these individuals a total of \$12,219 for longevity payments, health insurance opt-outs and unused vacation leave. These payments were improper because the Board did not authorize them. Further, District officials informed us that these 15 employees essentially receive the same leave time benefits (personal and vacation leave) as provided for in the support staff contract. However, they also indicated that 6 of these individuals routinely received vacation leave time at a higher rate than the agreement provides. All the additional benefits were provided without formal Board authorization.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in *Appendix A*, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated that they planned to take corrective action. *Appendix B* includes our comment on one issue raised in the District's response letter.

Introduction

Background

The Allegany-Limestone Central School District (District) is located in the Towns of Allegany, Carrollton, Hinsdale, Humphrey and Olean, all of which are located in Cattaraugus County. The District is governed by the Board of Education (Board), which comprises 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 day-to-day management of the District under the direction of the Board.

The Superintendent and other administrative staff have the responsibility for overseeing and managing the District's daily operations. The business manager plays an important role in the day-to-day functions of the business office. The Superintendent and business manager are both appointed as purchasing agents who are responsible for authorizing purchases. The Board appointed an account clerk in the business office as its claims auditor.

The Board has overall responsibility for District operations. The Board is also responsible for establishing a good internal control environment. An effective tool in establishing a strong control environment is to adopt effective policies that guide the overall direction of the District, including policies and procedures for administrative and office staff compensation and related fringe benefits. The Board should also ensure that regulations (i.e., procedures) established by the Superintendent are effectively implemented.

There are 3 schools in operation within the District, with approximately 1,400 students and 230 employees. The District's budgeted expenditures for the 2004-05 school year were approximately \$17 million, funded primarily with real property taxes, State aid and grants. The major expenditures are employee salaries and related fringe benefits. For the school year ending June 30, 2005, general fund instructional salaries totaled approximately \$6.5 million and non-instructional salaries totaled approximately \$1.8 million.

During our audit, we were notified by District officials that the District's independent auditors had been hired to review the student activity fund accounts from June 30, 2003 through February 28, 2005. They performed bank reconciliations and compared receipts

and disbursements to bank statements. They also reconstructed the scholarship fund accounts for the period June 30, 1997 through June 30, 2004. They determined that \$42,611 in student money could not be accounted for. After completing their analysis, the independent auditors reported the following:

- Certain funds that were recorded on the books were either never deposited in the bank, or were deposited for a different, lesser amount.
- Some funds were deposited in the bank, but were not recorded on the books.
- A voided check in the scholarship fund was shown as an expense, but it did not appear on the student ledgers.

On August 3, 2005 the District accepted the resignation of the student activity treasurer in connection with the missing funds. In September 2005, she entered a guilty plea to one count of grand larceny in the fourth degree. As part of the guilty plea, she agreed to pay \$20,000 in restitution. The District is expecting to collect the remainder of the missing funds through its insurance carrier. Based on our communications with the independent auditors, a review of their work and the subsequent resolution, we determined that no further audit work on our part was necessary at this time.

Objectives

The objective of our audit was to evaluate the District's internal controls, which are designed to effectively safeguard District assets. During this audit, we examined the internal controls over the claims processing function and selected payroll processes. Our audit addressed the following related questions:

- Are internal controls over the claims processing function appropriately designed and operating effectively?
- Are there effective policies and procedures in place to ensure payments for administrative and office staff compensation and related fringe benefits are properly authorized?

Scope and Methodology

During this audit, we evaluated the internal controls over claims processing and certain payroll processing functions for the period July 1, 2004 through June 30, 2005.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. More information on such standards and the methodology used in performing this audit are included in *Appendix C* of this report.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in *Appendix A*, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated that they planned to take corrective action. *Appendix B* includes our comment on one issue raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing the plan of action, the Board may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District Clerk's office.

Claims Processing

An internal control system, which is established by management and implemented by District officials, is the integration of activities, plans, attitudes, policies and efforts of the people in an organization to provide reasonable assurance that the organization will achieve its objectives. The foundation of an effective control environment is competent managers with integrity who attentively monitor operations. A good control environment helps ensure that all employees follow District policies and procedures.

In general, the objectives of internal controls over claims processing are to ensure that every claim contains enough supporting documentation to determine that it complies with District policies, and that the amounts claimed represent actual and necessary District expenses. When internal controls are not designed appropriately or operating effectively, it increases the risk that employee errors and irregularities may occur and not be detected and corrected. Properly segregating duties is another key element in the internal control system. District officials should set up the duties so that no single individual controls all phases of a financial transaction.

The Education Law (Law) states that Districts should not pay claims unless they have been audited and approved for payment by the Board or by a District claims auditor appointed by the Board. A claims auditor serves a critical District function, since the individual assumes the Board's powers and duties with respect to auditing and authorizing claims for payment. The Board should provide a written job description for the claims auditor position so the claims auditor clearly understands how to perform his or her responsibilities to comply with the Law's requirements and meet the Board's expectations.

The Law prohibits certain District employees, such as the Superintendent, the official responsible for business management, or District employees involved in purchasing or accounting functions from serving as the claims auditor. The basis for this prohibition is the need to segregate the audit and authorization function from the purchasing, approval and payment functions. The District's adopted policy reaffirms the Law's requirement.

The claims auditing process is an integral part of the District's internal controls because it includes procedures designed to ensure the District pays only legal and proper vendor claims. For example, the claims auditor determines whether all necessary approvals are met

by checking for proper signatures; verifies the accuracy of claimed amounts; and ensures that all necessary documentation (e.g., signed receiving slips) is attached to the claim. Except for a few statutory exceptions, the Treasurer should pay vendors only after receiving a warrant of the claims approved by the claims auditor.

However, in examining District operations, we found the District's controls over the claims audit process are not appropriately designed or effectively implemented. We found:

- the District's business manager performs the claims audit function, which is not allowed by either the Law or District policy;
- the District paid claims that were not properly documented, itemized or approved; and
- the Treasurer paid claims that were not authorized for payment, since the claims auditor did not indicate claims were audited, and the warrant was not signed.

We found the Board does not segregate the claims audit function from business office operations and purchasing functions. The Board appoints a business office account clerk as the claims auditor at its annual reorganizational meeting, but the District business manager stated that he actually performs most, if not all, the duties of the claims auditor without formally acknowledging it. The Law expressly prohibits the business manager from serving as the claims auditor. In this case, the business manager is also the District-appointed purchasing agent, whose responsibility includes approving requisitions prior to purchase. He is also authorized to sign checks in the Treasurer's absence. Therefore, when the business manager also serves as the claims auditor, he can initiate a purchase, authorize the payment and, on some occasions, sign checks. Failure to segregate these duties can result in misuse or abuse of District funds.

The District did not have an effective claims audit function in place. We reviewed 113 claims, totaling \$69,777, to determine if they were properly authorized, documented, itemized (description of purchase), approved and reviewed to verify the purchase was an appropriate District expenditure. Our tests identified problems with 82 (almost 73 percent) of these claims, as described below.

- Thirteen claims lacked any supporting documentation. Included was a \$390 payment to a bed and breakfast. When asked, the business manager stated it was for lodging for

the prior Superintendent who was attending a conference. Another payment of \$1,260 was made to a local bowling alley and the only notation on the claim form was “boys and girls bowling team.” Yet another claim had a notation from the prior Superintendent directing that a past due payment of \$52 for flowers for an unknown purpose be made to an out-of-state vendor.

- Of the 100 claims that contained some level of documentation, 4 claims totaling \$964 were not sufficiently itemized. These included a \$200 payment for food to a local vendor. “Senior class picnic” was noted on the invoice, with no identification of who attended the picnic. The remaining 3 claims, totaling \$764, were reimbursements to the Board President for Board members’ meals. The Board President stated these costs were incurred when they were conducting interviews for a new superintendent. However, the claim itself did not state this purpose, who attended the dinners or when they occurred.
- Thirty-nine claims totaling \$8,094 were not signed to indicate departmental approval. Included were payments for mileage while on District business; a payment to a local diner for food provided for a sports banquet; and tennis court rental fees. In addition, a payment of \$285 was made to a catering company for providing a year-end luncheon for staff and faculty at one of the elementary schools.
- Twenty-six claims totaling \$1,352 were paid to a number of organizations for memorials, flower arrangements and fruit baskets for various occasions including funerals and birth announcements. According to District policy, the Board is prohibited, in accordance with the New York State Constitution, from making gifts of public (District) funds.

We also tested an additional 11 credit card claims that included 135 individual purchases totaling \$29,506. As with any claim, credit card transactions should be supported by sufficient information to allow for a proper audit of the claim. We tested to determine if transactions were documented, itemized, had departmental approval and were proper expenditures of District funds. As with the prior sample of claims, we found the District’s claims audit process is not working effectively to safeguard District funds. Our test identified one or more problems with virtually all 135 transactions, as explained on the following page.

- Fifteen transactions totaling \$2,843 had no supporting documentation. Included were \$1,612 for meals and travel, and \$319 for a purchase at a home improvement store. The building and grounds superintendent indicated this was for a washing machine. However, he was unable to provide documentation to support that assertion.
- Thirty-three of the transactions totaling \$2,301 were not sufficiently itemized. Of the 33 transactions, 22 transactions (67 percent), totaling \$1,726, were for meals while traveling or attending District-sponsored meetings. However, the related claims did not identify the travelers; the purpose of the travel; any pre-approval for the travel; or the number/identity of persons who attended the meetings. Of the total for meals, \$1,086 was spent by District officials and Board members who attended a 4-day conference in Buffalo in October 2004.
- One of the four bills submitted for lodging included expenses associated with a spouse who was not on authorized District business at this conference. Although the business manager and the Board President both said the District typically pays the expenses of spouses who attend this conference, some Board members disagreed. The District should pay only necessary and actual expenses incurred to conduct authorized District business. Travel expenses for spouses are not necessary expenses and should not be paid by the District.
- For 99 of the 120 transactions (83 percent) for which some type of documentation was attached, we found no signature to indicate departmental approval of the purchase.

In addition, neither the account clerk, who is appointed as claims auditor, nor the business manager, who acts as the claims auditor, reviews or signs the warrant (check register) to indicate the warrant contains only those claims that are authorized for payment. Further, the business manager does not review the checks prior to their being issued to vendors by the treasurer or the account clerk. Without doing this, District officials cannot be sure that checks are being issued to the vendors listed on the warrant.

Recommendations

1. The Board should not appoint as claims auditor an individual who is also responsible for certain other business functions, as stated in the Law and District policy.

2. The Board should establish comprehensive written policies that clearly identify costs the District will pay for. The District should also establish monitoring procedures to ensure that:
 - the claims auditor reviews claims to verify expenses are properly documented, itemized, approved and appropriate before paying the claims;
 - the claims auditor reviews the warrant to ensure that only those claims approved for payment are listed in the amounts approved; and
 - no money is paid out by the District treasurer except on the warrant of the claims auditor.
3. The District should discontinue the practice of making gifts or charitable donations with District funds.

Administrative Employee Compensation and Benefits

To ensure employees receive the compensation and benefits the District intends for them, such payments must be clearly defined and authorized by the Board. For those employees not covered by employment contracts or collective bargaining agreements, the District may choose to establish District-wide policies or pass annual resolutions concerning compensation and benefits for these individuals.

However, we found the District does not have adequate policies and procedures in place concerning leave time benefits and certain employment payments for 15 employees not covered under employment contracts or collective bargaining agreements. In addition to their annual salaries, these same employees received additional compensation in the amount of \$12,219 during the year.

Most District employees are covered by a collective bargaining agreement or an employment contract. For the remaining employees (business manager; four principals; technology coordinator; buildings and grounds supervisor; transportation supervisor; secretary to the superintendent; District treasurer; account clerk; and four secretaries to the principals), the Board passes annual resolutions that set salaries, but do not address additional benefits. We found the District paid these employees additional benefits that were not approved by the Board, as required. The extra, unapproved benefits occurred because District officials said that they were following “past practices.” District officials made these payments without verifying the payments were appropriate; defining the benefits to be received by these employees; or monitoring payments to ensure they conform to employment contracts, Board policy and State law.

In reviewing the compensation paid to these 15 individuals for the period July 1, 2004 through June 30, 2005, we found the District improperly provided additional compensation totaling \$12,219. The payments were improper because the Board did not authorize them, as required. Specific instances are as follows:

- The District paid a principal \$4,070 for unused vacation leave at the time of his resignation from the District. This payment was authorized by the prior Superintendent.

- The District made longevity payments to 6 individuals totaling \$1,275. The business manager said such payments are “past practice,” and that a provision that supports the payments is included in the current educational support personnel contract.
- The District made \$6,874 in health insurance opt-out payments to 5 individuals. A provision for such a payment does exist in the current educational support personnel contract; however, these individuals are not covered by that agreement.

In addition to the compensation noted above, District officials informed us that 6 of the 15 employees were routinely provided extra leave time without Board authorization. While District officials had told us that the above 15 employees essentially receive leave benefits which, while not formalized by the Board, are in line with what is provided to support staff covered by the collective bargaining agreement, they also indicated that certain individuals are provided additional vacation time. Our review disclosed that 9 of the 15 employees do receive the same leave benefits as support staff, but that 6 employees (the 4 principals, the business administrator and the technology coordinator) receive vacation leave time at a higher rate than the contract provides. For example, support staff receive 10 days of vacation leave when they begin working for the District, and do not receive 20 days of vacation leave until they have worked at the District for 15 years. However, the technology coordinator receives 20 vacation days annually, even though he has not worked at the District for 15 years. The principals and the business administrator were each credited with 25 vacation days annually; 3 of the 4 principals have worked at the District for less than 15 years. None of the extra vacation leave provided to these six employees was authorized by the Board.

The principals also receive additional leave time benefits for being “on call” during the holiday break. However, they are not required to report to work unless they are notified to do so by the Superintendent. According to the District treasurer, who processes the payroll, this has been a practice for at least ten years.

We also found that all 15 of the above employees accumulate sick leave credits. We calculated the total value of recorded accrued sick time for these employees was \$261,870 as of June 30, 2005. The District also allows three¹ of the employees to convert a portion of their accumulated sick leave to cash (up to a maximum of \$7,400 per individual) upon retirement from the District. District officials provided us a calculation that indicated that two of the three individuals currently qualify for this benefit and the value as of June 30, 2005 was \$10,940. Without express written approval by the Board, any payments for accrued sick leave at retirement would be improper and potentially a gift of public funds. Moreover, we question whether the sick time accrued thus far can be used for this purpose, since the Board had not authorized the “cashing-in” of sick leave credits at the time the accruals took place.

Recommendations

4. The Board should determine the propriety of the separation payment to the principal. If the Board determines it was not a proper expense, it should recover these funds.
5. The Board should adopt a policy for verifying and approving separation payments and ensure that the Superintendent, or his/her designee, develops adequate procedures to implement the policy.
6. The Board should clearly define in writing any compensation or benefits to be received by those employees currently not covered by an employment contract or collective bargaining agreement.
7. The Board should periodically monitor employee compensation and benefit payments to ensure that they are consistent with applicable Board policies, employment contracts and/or collective bargaining agreements, and State law.

¹ Of the 15 employees, this additional benefit is provided only to the principals. For sick leave benefits only, they are provided the same benefit as the teachers' negotiated contract. The other individuals are guided by the support staff contract which, with its current language, would not allow any portion of sick leave to be converted to cash at retirement.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Allegany – Limestone



Diane M. H. Munro, Superintendent

dmunro@alli.wnyric.org

July 19, 2006

Office of the State Comptroller
1050 Ellicott Square Building
295 Main Street, Room 1050
Buffalo, New York 14203

Dear [REDACTED]:

The Allegany-Limestone Central School District was the first District in Cattaraugus County to undergo the audit by the State Comptrollers Office. The audit process focused attention on the internal controls of the District during the 2004-2005 school year. We believe it is important for those reading the report to understand the purpose of this type of audit. The audit examined internal procedures and has provided recommendations that will help the district safeguard district funds from threat of theft or misuse. It is not an audit that reports on the district's over-all financial condition, which continues to be very strong carrying an "A" bond rating.

Field auditors conducted an onsite review of district internal controls over a three-month period beginning September 2005 and concluding December 2005. On July 5, 2006 representatives from the State Comptroller's Office met with the Allegany-Limestone Central School Board of Education to provide comments related to the audit. This meeting afforded the opportunity to question the clarity of certain aspects of the report, and we anticipate that some changes will be made. In the event that comments provided here do not align with the content of the final report, we will be happy to provide additional responses. Although recommendations for strengthening policies and procedures have been acted upon, please feel free to contact me at any time with additional suggestions.

RESPONSE TO RECOMMENDATIONS:

Recommendation #1 – The Board should not appoint as claims auditor an individual who is also responsible for certain other business functions, as stated in Law and District policy.

Response – The Board has appointed a claims auditor that has no conflicting business office responsibilities and reports directly to the Board of Education.

Recommendation #2 – The Board should establish comprehensive written policies that clearly identify costs the District will pay for. The District should establish monitoring procedures to ensure that:

- The claims auditor reviews claims to verify expenses are properly documented, itemized, approved and appropriate before paying claims;
- The claims auditor reviews the warrant to ensure that only those claims approved for payment are listed in the amounts approved; and
- No money is paid out by the District Treasurer except on the warrant of the claims auditor.

<i>District Office</i>	<i>Middle/High School</i>	<i>Allegany Elementary</i>	<i>Limestone Elementary</i>	<i>District Coordinator</i>
716-375-6600	716-375-6600	716-375-6600	716-925-8873	C.S.E./C.P.S.E.
FAX 375-6629	FAX 375-6630	FAX 375-6628	FAX 925-7287	716-373-0061
				FAX 373-4802

Response – The Board has revised its purchasing policy and adopted new policies that address the concerns noted in recommendation #2. Training of district personnel in relation to the new policies has begun and is ongoing.

While the Claims Auditor reports directly to the Board of Education, the Board of Education Audit Committee will be responsible to monitor the Claims Auditor to verify expenses before paying claims, ensure claims approved match claims paid, and that the District Treasurer makes no payment unless it is on the warrant of the claims auditor.

Recommendation #3 – The District should discontinue the practice of making gifts or charitable donations with District funds.

Response – The District sent flowers or a memorial to family members of staff that have died. This was a long-standing practice done in full view of the entire school community. The Board of Education believes that this contributed to a culture of caring essential to the success of an educational entity, and thus was an appropriate use of District funds. Often, these individuals were tax paying members of our communities whose families appreciated the thoughtfulness and compassion during a very difficult time. It is with great reservation and sadness that the District has discontinued this practice.

Recommendation #4 – The Board should determine the propriety of the separation payment to the principal. If the Board determines it was not a proper expense, it should recover these funds.

Response – The previous Superintendent approved a \$4,070 payment for unused vacation days subsequent to the resignation of a Building Principal. The Superintendent consulted the District's Labor Relations Attorney who concluded that the Principal was entitled to the payment. The Board of Education agreed with this conclusion and has formally approved the expenditure.

Recommendation #5 – The Board should adopt a policy for verifying and approving separation payments and ensure that the Superintendent, or his/her designee, develops adequate procedures to implement the policy.

Response – The Board of Education has adopted an Internal Audit policy. The Internal Auditor reports directly to the Board of Education and is responsible for, among other duties, verifying separation payments. All terms and conditions of employment are now approved by the Board of Education.

Recommendation #6 – The Board of Education should clearly define in writing any compensation or benefits to be received by those employees currently not covered by an employment contract or collective bargaining agreement.

Response – The Board of Education has approved the written terms and conditions of employment for those individuals not represented by a collective bargaining agreement at the time of this audit.

Recommendation #7 – The Board should periodically monitor compensation and benefit payments to ensure that they are consistent with applicable Board policies, employment contracts, and/or collective bargaining agreements, and State Law.

Response – The Audit Committee, the Internal Auditor, the Claims Auditor, and the External Auditor will report to the Board of Education to verify that compensation and benefit payments are appropriate.

GENERAL NOTES AND COMMENTS:

- The District acknowledges and appreciates the need to improve the documentation process related to payment of claims, especially credit card claims. Although details of the process need to be improved, to our knowledge, no payment of a claim was made without first determining that it was a legitimate expense of the District.
- The School Business Official has a reputation for being thorough in his responsibility to oversee the district funds. His provision of a double check for the documentation process was interpreted as his acting as the Claims Auditor. Although a separate Claims Auditor has been appointed, the School Business Official will continue to provide diligent oversight of the entire business office operation.
- Prosecution of the individual responsible for the money found missing from the Student Activity Accounts was completed prior to the Comptroller's Audit, and was initiated by the district after an internal review revealed the missing money. The District was forthcoming about the missing money during the entry conference. All Student Activity Accounts are now under the control and oversight of the Business Office.
- The audit process was extensive and included a thorough examination of a massive number of documents. The report refers to only a small portion of the total claims that were "reviewed".
- The District now recognizes that giving the Superintendent responsibility for approving the working conditions of staff members not represented by a collective bargaining unit does not meet the standards of the Comptroller's office. At the time, it was believed to be appropriate. Although payment of those benefits has been defined as "improper", taxpayers may be interested to note that in just one of the examples (\$6,874 in payments made in lieu of family health insurance coverage) provided a net savings to the District of \$30,666. These savings will continue, as the correct procedures have been adopted.
- Finally, the thorough nature of this audit has helped the District strengthen our procedures for safeguarding district funds. It is important that the public realize that in many cases, a single specific issue discovered in the testing process appeared in more than one of the citations provided by the auditors. We hope that the repeating nature of these citations does not magnify the level of concern unnecessarily.

See
Note 1
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Thanks to you and your staff for the opportunity to strengthen our operation.

Sincerely,



Diane M. H. Munro
Superintendent

APPENDIX B

OSC COMMENT TO DISTRICT OFFICIALS' RESPONSE

Note 1

Based on interviews conducted and information reviewed during the audit, we determined that the business manager was performing the functions of the claims auditor. Even if the claims auditor was fulfilling all of the responsibilities associated with that position (which we determined she was not), internal control weaknesses would still have existed because the claims auditor worked in the business office, in a position effectively subordinate to the business manager. If in the future, the business manager wishes to review documentation for claims, this review should be done prior to the claims auditor's examination of the claim and approval for payment. Further, as was indicated in the District's Response to Recommendation #1, the claims auditor will appropriately report directly to the Board of Education, essentially fulfilling the Board's obligation to audit claims. The business manager's assurance that all required documentation is included with the claims should not be perceived by the claims auditor to be a substitute for his or her claims auditing duties nor should it be considered a "double check" of the claims auditor's work. Any such evaluation or review of the claims audit function should be performed by the District's internal auditor and reviewed by the District's audit committee.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District 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 included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board of Education minutes and 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 District's financial transactions as recorded in its database(s). Further, we 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.

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 audit's objectives and scope by selecting for audit those areas most at risk. We selected claims processing and administrative payroll compensation and benefits for further audit testing.

Within claims processing we focused our attention on the approval of purchases and the approval for payment for various types of goods and services acquired, giving special attention to claims for reimbursement of expenses for officials and purchases made with the District credit card. During our initial review of records, we also noted payments made which appeared to be for donations.

We examined the following records to determine the effectiveness of internal controls pertaining to the claim processing function and any associated effect of deficiencies in those controls:

- Vendor History Reports
- Requisitions
- Conference Request Forms
- Employee Reimbursement Forms
- Purchase Orders
- Claims
- District Policies and Regulations concerning travel and expense reimbursement

Within payroll processing, we focused our attention on compensation and benefits provided to certain employees who were not covered under any type of bargaining agreement or written employment agreement. We examined the following records to determine if the payments were properly authorized:

- Earnings Summaries
- Claims
- Attendance Summaries
- Board of Education Minutes
- Payroll Register

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX D

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