



# Beekmantown Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2004 - January 31, 2006

2006M-126



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# State of New York Office of the State Comptroller

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## Division of Local Government Services and Economic Development

December 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. Further objectives 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 Beekmantown Central School District — Internal Controls Over Selected Financial Activities.

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

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# EXECUTIVE SUMMARY

The Beekmantown Central School District (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 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 District reported approximately \$35.5 million in capital assets as of June 30, 2005 of which approximately \$1.9 million is equipment. Gross payroll costs during the 2004-05 fiscal year totaled approximately \$15.4 million plus \$5.7 million in employee benefits. Voters approved a \$32.6 million budget for the 2005-06 fiscal year.

The District's business office experienced significant turnover in key personnel during our audit period. In January 2006, Business Manager Ron Clamser replaced Associate Superintendent for Operations, Finance and Management, James Christie, who had served the District in various business office related capacities from June 2004 through January 2006. His predecessor resigned in February 2005 after being employed approximately nine years. The District also employed a new Treasurer in December 2004 and a new payroll clerk in March 2005.

### **Scope and Objectives**

The objectives of our audit were to determine if the District had established effective internal controls over its capital assets, payroll process and budget process for the period July 1, 2004 through January 31, 2006. Our audit addressed the following specific questions:

- Are internal controls over the preparation, approval and adoption of the annual budget adequate?
- Are internal controls over capital assets appropriately designed and operating effectively?
- Are internal controls over payroll appropriately designed and operating effectively?

## **Audit Results**

The District levied taxes in excess of the amount needed to fund the budget approved by District voters. Although the 2005-06 voter-approved budget appropriations of approximately \$32.6 million required a tax levy of \$14,235,048, the District actually levied \$14,700,016 or \$464,968 more than was necessary.

There were weaknesses in the District's controls over the tracking and accounting of capital assets, specifically computer inventory. A fixed asset inventory was not maintained in a timely or adequate manner and the Board had not adopted an adequate fixed asset policy and did not follow the asset disposal policy. School officials were not able to locate six computers, worth approximately \$5,000, reportedly purchased during the period covered by our audit.

The District had no formal written policy covering the processing of payroll that resulted in the payroll clerks developing their own informal procedures. We noted instances where unauthorized leave time was taken and employees were paid in excess of contractual allowances. For example, former Associate Superintendent for Operations, Finance, and Management, James Christie was paid for 12 days of compensatory time off, a total of \$4,596, although there was nothing in his contract that allows for the accrual of compensatory leave. There is no segregation of duties for processing payroll and until recently, there was no separate review of payroll performed by someone independent of the payroll preparation process.

## **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 they planned to initiate corrective action.

# Introduction

## Background

The Beekmantown Central School District (District) is located in the Towns of Plattsburgh, Beekmantown, Chazy and Altona, Clinton 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 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.

There are four schools in operation within the District, with approximately 2,000 students and 350 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$32.6 million, funded primarily with State aid, real property taxes and grants.

As of June 30, 2005, the District reported approximately \$35.5 million in capital assets, of which approximately \$33.6 million represents land and buildings, and \$1.9 million equipment. During the 2004-05 and 2005-06 fiscal years the District purchased computer equipment costing approximately \$770,000. Gross payroll costs during the 2004-05 fiscal year totaled approximately \$15.4 million plus \$5.7 million in employee benefits.

The District's business office experienced significant turnover in key personnel during our audit period. In January 2006, Business Manager Ron Clamser replaced Associate Superintendent for Operations, Finance and Management, James Christie, who had served the District in various business office related capacities from June 2004 through January 2006. His predecessor resigned in February 2005 after being employed approximately nine years. The District also employed a new Treasurer in December 2004 and a new payroll clerk in March 2005.

## Objectives

The objectives of our audit were to determine whether the District had established effective internal controls over its capital assets, payroll process and budget process. Our audit addressed the following specific questions:

- Are internal controls over the preparation, approval and adoption of the annual budget adequate?

- Are internal controls over capital assets appropriately designed and operating effectively?
- Are internal controls over payroll appropriately designed and operating effectively?

**Scope and Methodology**

During this audit we examined the District’s control environment and its internal controls over the budget process, capital assets, and the payroll process for the period July 1, 2004 through January 31, 2006.

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 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 they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education and make the plan available for public review in the District Clerk’s office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

## Budgetary Control

School budgets are funded primarily with State aid, real property taxes and grants. On the third Tuesday in May, residents of the District have the opportunity to vote on a budget proposed by the Board. The proposed budget should include an estimate of the amount of tax revenue needed to fund the difference between total proposed appropriations and estimated non-tax revenue. The Board-approved budget submitted to the voters includes the estimated tax levy necessary to fund the appropriations. A tentative tax rate is calculated by dividing the estimated tax levy by the total assessed value of the real property within the District. Generally, the timing of school budgets allows for only a tentative tax rate to be initially presented to the voters because the assessment roll has not yet been finalized. Once the assessment rolls are finalized, and the amount of the tax levy and the tax rate necessary to fund the approved expenditures has been calculated, the tax rate is multiplied by the respective assessed value of each taxable property within the District and the corresponding taxes are determined. The Board is responsible for confirming the newly created tax roll, authorizing the levy and issuing a warrant for the collection of the taxes.

On May 17, 2005, the voters rejected the District's initial 2005-06 proposed budget. A second vote held on June 23, 2005 resulted in the approval of budget appropriations totaling \$32,617,426, and an estimated tax levy of \$14,235,048. On August 9, 2005, the Board authorized a tax levy of \$14,700,016, which was \$464,968 more than the amount needed to fund the budget appropriations approved by District voters. Rather than recalculating the tax rate upon completion of the new assessment roll, the original estimated tax rate was instead inadvertently applied resulting in the excessive tax levy based on the overall increase in the total assessed value of taxable property within the District. We determined that the District collected, deposited and accounted for the entire \$14.7 million.

The Board is responsible for ensuring that the budget approved by the qualified voters of the District is the one used for District operations. This includes verifying that the levy approved for tax collection agrees with the amount in the approved budget. The calculation of the tax rate that is ultimately applied to the final assessment roll should be performed subsequent to the approval of the final assessment roll. If, as is often the case, the roll is approved after the budget vote, the tax rate should be recalculated and applied to the final assessment roll.

The failure to verify this could result in an unnecessary tax burden for District taxpayers, as occurred in this case.

**Recommendations**

1. The Board should ensure that taxes levied do not exceed the amount approved by District voters.
2. The excess \$464,968 should be returned to the taxpayers in the subsequent year's budget.

## Capital Assets

Capital assets are those assets that have a useful life of more than one year and include such things as land, buildings and building improvements, furnishings, vehicles and electronic equipment such as computers. The District's inventory of capital assets represents a significant investment of District resources. As of June 30, 2005, the District reported approximately \$35.5 million in capital assets of which approximately \$33.6 million represents land and buildings, and \$1.9 million equipment. The District purchased approximately \$770,000 of computer equipment from July 1, 2004 through January 31, 2006.

A good system of internal controls over capital assets provides that appropriate staff record all necessary information in capital asset records when acquiring and disposing of the capital assets and affix unique identifying numbers to them when feasible. In addition, a good internal control system provides for staff to regularly perform physical inventories to verify that the capital assets are properly recorded in the detail assets records. A Board-adopted fixed asset policy requiring these procedures would help ensure the accuracy and effectiveness of the system in safeguarding and accounting for those assets.

The District's internal controls were not sufficient to adequately account for and safeguard the District's capital assets. The Board had not adopted an adequate fixed asset policy and the fixed asset inventory records for the District's capital assets were not maintained in a timely and accurate manner. As a result, inventory records did not contain certain computer equipment purchases, while equipment that had been disposed of remained on the inventory records. Because District personnel did not perform periodic physical inventories, District officials were unaware of the inventory deficiencies. District officials are not likely to detect the loss of fixed assets due to the system's weaknesses.

### **Fixed Asset Policy**

District officials are responsible for adopting a written policy for the protection and accountability of the District's fixed assets as part of their oversight function. The fixed asset policy establishes the internal control structure for fixed asset oversight and, at a minimum, should contain the following:

- Designation of a property manager.

- Guidelines for the maintenance of fixed asset records, which require that District personnel record the asset's make, model, serial number, identification number, location, party with custody, and date, amount, vendor, and voucher number of the purchase.
- An assigned equipment identification number and markings.
- Provisions for the maintenance of a perpetual inventory.
- Provisions for periodic physical inventories.
- An annual review of the policy by the Board to ensure it continues to meet the District's objectives.

The Board had not adopted an adequate fixed asset policy to protect and account for the District's fixed assets. The current policy only provides guidelines for the capitalization of assets to include in the financial statements and does not provide procedures for maintaining a fixed asset inventory. Although the Board adopted a written inventory policy on December 9, 2003, requiring an annual inventory of all assets valued at \$500 or more, the policy does not provide any specific guidelines for maintaining records in order to perform an inventory. The Board has not required an annual inventory be performed. The most recently completed inventory was for the fiscal year ending June 30, 2002.

### **Inventory Accountability**

Performing a periodic physical inventory of capital assets and comparing the inventory results to the official inventory records is the traditional way of establishing inventory accountability.

In 2002, the District secured the services of an inventory consulting firm to perform a physical inventory of the District's assets. The consulting firm provided the District with a completed inventory of all District fixed assets as of June 30, 2002. Since that time, however, the District has not maintained any fixed asset records with the exception of computer equipment. Although the Educational Technology (ET) Department has maintained inventory records for computers and related equipment, the recorded information has never been reconciled with a physical inventory. Furthermore, the District's financial records and reports do not include this computer and related equipment information.

We tested the ET Department's inventory records by attempting to trace 100 computers purchased from July 1, 2004 through January 31, 2006 to the records and then to a physical location. The inventory records contained only 59 of the 100 computers. Of the 59 recorded

entries, only 39 listed a physical location. The ET Coordinator subsequently recorded the 41 computers that were not included on the inventory listing and performed a physical inventory of all computers in the District. He was unable to locate six computers on the District's inventory list. The cost of these six computers is approximately \$5,000.

## **Disposition of Computer Equipment**

Computers and related peripheral equipment have become one of the most common assets owned by districts. Computers have many uses; in addition to administrative activities, they are used for computer skills training and as tools in other educational activities. Based on rapid changes in computer technology, computers are constantly subject to impending obsolescence. Due to the relative shortness of their useful lives, it is imperative that Districts develop guidelines for computer replacement and for the disposition of the computers being retired.

Although the District has written guidelines for disposing of its computers, they have not been followed and District employees responsible for computers were unaware they existed. The District had no record of computer disposals during our audit period, although District employees informed us that several had been retired. Based on the lack of written guidelines and supporting documentation, we were unable to determine whether or how many computers were disposed of, and if so, whether the computers should have been discarded (due to obsolescence), or if any of the computers had any residual resale value to the District.

The failure to document the disposal of capital assets, especially computers and computer equipment, exposes the District to the likelihood that possible errors and irregularities, including fraud, could occur and not be detected.

## **Recommendations**

3. The Board should establish and implement an adequate fixed asset policy for the District's capital assets, which properly addresses the accounting and safeguarding of the District's computers and computer-related equipment.
4. The Board should designate a property manager to be responsible for implementing the District's fixed asset policy and ensure that the property manager is responsible for maintaining the inventory records, performing periodic physical inventories, and reconciling the physical inventories with the inventory records.
5. The Board should require that District personnel assign an identification number to all applicable capital assets, especially

computers and computer equipment, record those numbers in the inventory records, and ensure that identification numbers are affixed to the assets using either a metal tag or a decal.

6. The Board should require that a comprehensive inventory record of capital assets be completed and updated as assets are acquired and disposed of. Physical inventories should be conducted at least annually and the results compared with the information on the property records. Any discrepancies, such as the six missing computers, should be promptly investigated and resolved.
7. The Board should review the policy for the disposal of District capital assets and require that sufficient documentation is maintained when disposing of capital assets.

# Payroll

As with all school districts, payroll and fringe benefits represent a significant portion of the District's annual budget. In the 2004-05 fiscal year, these expenditures amounted to approximately \$21.1 million. The District has more than 350 employees located at five buildings (including District offices). The large costs and multiple staff locations highlight the importance of good internal controls in this area.

The District had no formal written policies or procedures for payroll processing, which resulted in the payroll clerks developing their own informal procedures. We noted instances where employees received leave time and were paid in excess of the amounts authorized by the employment contracts. In addition, there was no segregation of duties for processing payroll and no separate review of payrolls performed by someone independent of the payroll preparation process as an added safeguard against the occurrence of errors and irregularities.

## **Policies and Procedures**

Written payroll policies and procedures combined with job descriptions help ensure that payroll is processed consistently and accurately along with providing a framework for employees to understand the Board's objectives and each individual's personal role in the process. Written policies are particularly important when a separation of duties is needed to provide an adequate level of internal controls.

The District did not establish any written policies and procedures for District employees who are assigned to the processing and distribution of District payrolls. Payroll clerks have informally developed the day-to-day payroll related duties with little or no oversight provided by District officials. For example, we noted the payroll clerk employed prior to March 2005 routinely issued separate checks for overtime and stipend pay, such as the payroll dated January 7, 2005 in which 40 employees received two checks. Issuing checks in this manner, while not prohibited, increases the risk that errors and irregularities could occur without being detected by District officials. We noted that the current payroll clerk has recently improved and implemented certain payroll procedures.

The Board's failure to provide specific guidance through well-developed policies and procedures could result in the neglect of key control activities, or key control activities may not be performed in the manner expected.

## **Employee Pay and Leave Benefits**

Documentation of the Board's authorization of salaries, wages and fringe benefits in writing, by resolution, policy document, or negotiated employee contract is an important control over payroll and fringe benefit expenditures. Such documentation clearly communicates the Board's intent and provides a framework for compensating officers and employees so that everyone involved in the process has the same understanding. A good system of internal controls over payroll and employee benefits requires the preparation of payroll information that agrees and is calculated in accordance with the Board-authorized pay scales and benefit packages.

Our test of leave records for the period July 1, 2004 through January 31, 2006 disclosed that six employees had accrued leave activity that did not conform to the benefits authorized in either an employee contract or collective bargaining agreement. For example, James Christie, a former Associate Superintendent for Operations, Finance, and Management (employed June 2004 to January 2006) was paid for 12 days of compensatory time although there is nothing in his contract that allows for the accrual of compensatory leave. At his daily rate of pay of \$383, this equates to an unauthorized payment of \$4,596.

In another case, a teacher was allowed to take four days off in excess of the number of days accrued at the time the leave was charged. While the collective bargaining agreement allows for this, it requires prior approval by the Superintendent and there was no evidence that such prior approval had been granted. We were informed that these days were recouped in the next fiscal year.

In addition, certain employees had been paid in excess of the compensation authorized by their collective bargaining agreements. For example, the District had been paying certain transportation employees at rates not supported by their contract. According to District officials, this practice had been occurring for several years before the current payroll clerk noticed the apparent discrepancies. As a result, at the time of our examination this issue was in binding arbitration.

The failure to compensate officers and employees in accordance with the terms of authorized contracts represents a significant weakness in internal controls over payroll processing and demonstrates the need for the Board to exercise additional oversight in regard to this function.

## **Final Review**

Good internal controls require that someone independent of the payroll preparation process perform a final review of all completed

payrolls. The review should verify that payrolls are based upon the actual hours or days worked, or authorized leave time charged; verify that the governing board authorized the hourly rates or annual salaries used in the calculations; compare the net payroll checks to the payroll journals; and review the payroll for overall reasonableness.

The District has not developed procedures for verifying the accuracy of processed payrolls. According to the Superintendent, he began reviewing a summary of the payrolls only recently. No one else is provided a copy of the report for the purpose of verifying its accuracy. Although the Superintendent indicated that he does perform a meaningful review of the contents of each payroll, he does not compare it to the actual checks that are being distributed.

The Board is responsible for establishing a system of checks and balances so that one person does not exercise control over all or most of the payroll process. The failure to have someone independent of the payroll preparation process perform a final review of completed payrolls increases the risk that errors and/or irregularities will occur and go undetected.

### **Segregation of Duties**

Payroll processing should not be completed by one person without additional oversight or involvement by another District employee or official. The payroll clerk receives payroll information from the departments, enters the data to the payroll accounting system, produces the payroll checks and distributes the checks after the Treasurer signs them. Although optimal separation of duties may not always be practicable, at a minimum, the duties of payroll processing should be separate from entering new employee information into the system.

When payroll duties are not properly segregated, the risk that someone could commit and conceal inappropriate payroll transactions and not be detected, or not be detected in a timely manner, significantly increases.

### **Recommendations**

8. The Board should establish written policies and procedures as guidance for the District employees responsible for the processing and distribution of payrolls.
9. The Board should ensure that employees are paid and receive benefits only as provided for in a collective bargaining agreement or other employment contract.
10. The Board should determine whether the payment to the former Associate Superintendent for Operations, Finance, and

Management was appropriate, if the Board determines the payment was unauthorized and thus inappropriate, the Board should seek repayment from the former Associate Superintendent.

11. Someone independent of the payroll process should review finalized payrolls to verify that they are based on actual hours or days worked, or authorized leave time charged; verify that the hourly rates or annual salaries used are as authorized; compare net payroll checks to the payroll journals; and review the payroll for overall reasonableness.
12. The Board should assign payroll duties to employees in such a manner that the work of one individual independently verifies another's in the course of their regular duties. At a minimum, the duties of payroll processing should be separate from entering new employee information into the system.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



BEEKMANTOWN CENTRAL SCHOOL DISTRICT

37 EAGLE WAY  
WEST CHAZY, NEW YORK 12992-2577

TELEPHONE: (518) 563-8250

FAX: (518) 563-8132



Stanley Kourofsky  
Board of Education President

Ronald T. Clanser, Jr.  
District Clerk

November 20, 2006

[REDACTED]  
[REDACTED]  
Glens Falls Regional Office  
Office of the State Comptroller  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear [REDACTED]:

Enclosed, please find our response to your preliminary draft findings of your recent examination of the Beekmantown Central School District - Internal Controls over Selected Financial Activities.

Sincerely,

Stanley Kourofsky  
Board of Education President

Enclosure

cc: Board of Education  
Mark A. Sposato, Ed.D., Superintendent of Schools

**Beekmantown Central School District  
Board of Education Response (11/20/06)  
Comptroller's Audit Recommendations**

The Board of Education for the Beekmantown Central School District is committed to the long term financial health of the district. The Board appreciates the urgency associated with the findings highlighted in your report and has taken immediate measures to implement your recommendations.

The Board will continue to work closely with the Superintendent of Schools and the District officials to ensure the fiscal stability and long term health of the District. The following responses will provide in detail the District's Corrective Action Plan.

**Budgetary Control Recommendations**

1. The Board should ensure that taxes levied do not exceed the amount approved by District voters.

*Before approving the tax levy by vote, the Board will verify the accuracy of information by comparing the voter approved budget documents against the tax levy before the Board.*

2. The excess \$464,968 should be returned to the taxpayers in the subsequent year's budget.

*The former Associate Superintendent for Operations, Finance, and Management neglected to adjust the tax rate with regards to the updated assessment values released from the Office of Real Property resulting in the Board of Education authorizing an incorrect tax levy. Consequently, the District inadvertently collected \$464,968 more tax revenue than was needed to fund the budget appropriations approved by the District voters. When this mistake was discovered by the auditor from the Comptroller's office the Superintendent immediately informed the Board of Education. During a Special Meeting of the Board on April 17, 2006 the finding was made public in a presentation by the Board President and Superintendent. The following day at a regular Board meeting, the Board of Education voted unanimously to adopt the proposed 2006-2007 Budget which included taking the \$464,968 of excess tax collection from the Fund Balance and transferring it to the designated portion of the budget. By applying the \$464,968 to the designated portion of the budget, the District was able to reduce the amount of tax revenue needed to fund the 2006-2007 Budget and thereby return the money to the taxpayers.*

**Capital Assets Recommendations**

3. The Board should establish and implement an adequate fixed asset policy for the District's capital assets, which properly addresses the accounting and safeguarding of the District's computers and computer-related equipment.

*The current policies on fixed assets and inventory controls have become and are under review and will be revised to incorporate the recommendations of the Comptroller's audit. This will be accomplished prior to the end of this school year.*

4. The Board should designate a property manager to be responsible for implementing the District's fixed asset policy and ensure that the property manager is responsible for maintaining the inventory records, performing periodic inventories, and reconciling the physical inventories with the inventory records.

*The Business Official has been designated and will act as the asset manager and implement the new guidelines outlined in the revised Board policies. To begin the process of updating the physical inventory of District assets, the District has contracted with Professional Underwriters, Inc. to complete an onsite physical inventory and property evaluation to identify and tag all assets. The evaluation is expected to begin in January 2007 and be completed by the end of the school year. The assets will be recorded in a database that the District will maintain regularly. The asset manager will reconcile physical inventories with inventory records and will report to the Board with periodic reports.*

5. The Board should require that District personnel assign an identification number to all applicable capital assets, especially computers and computer equipment, record those numbers in the inventory records, and ensure that identification numbers are affixed to the assets using either a metal tag or decal.

*The initial application of assigned identification numbers will be completed by Professional Underwriters, Inc. (see response #4 above). Additionally purchased items meeting the policy specifications will be identified and tagged by the Purchasing Clerk and recorded into the data base by the Business Manager.*

6. The Board should require that a comprehensive inventory record of capital assets be completed and updated as assets are acquired and disposed of. Physical inventories should be conducted at least annually and the results compared with the information on the property records. Any discrepancies, such as the six missing computers, should be promptly investigated and resolved.

*The revised policy will establish a process by which newly acquired assets will be tagged and recorded (see response #5 above). In relation to the six missing computers, four computers have been located and the other two are under investigation.*

7. The Board should review the policy for the disposal of District capital assets and require that sufficient documentation is maintained when disposing of capital assets.

*The Board maintains an annual contract with the New York State School Boards Association for policy update and review services. The Board will require an annual review of the policy and all documentation pertaining to the disposal of District capital assets.*

#### **Payroll Recommendations**

8. The Board should establish written policies and procedures as guidance for the District employees responsible for the processing and distribution of payrolls.

*New policies and procedures are being written to address the requirements for processing and distribution of payrolls. The Board of Education will adopt the new policy and procedure upon review and completion prior to the end of the school year. A full-time position in the Business Office has been reclassified as an Account Clerk Typist. This position will work with the payroll clerk to process payroll and assist in the separation of duties.*

9. The Board should ensure that employees are paid and receive benefits only as provided for in a collective bargaining agreement or other employment contract.

*The new policy for payroll processing will address the issue of accurate payments and benefits. The primary responsibility for interpretation for collective bargaining agreements and other employment contracts resides with the Superintendent of Schools.*

*In addition, the Payroll Clerk and Business Manager will reconcile payroll data against the official minutes from all Board of Education meetings to ensure that no payments are issued or benefits received that are not provided for in a collective bargaining agreement or other employment contract.*

10. The Board should determine whether the payment to the former Associate Superintendent for Operations, Finance, and Management was appropriate, if the Board determines the payment was unauthorized and thus inappropriate, the Board should seek repayment from the former Associate Superintendent for Operations, Finance, and Management.

*The Board of Education has reviewed the appropriateness of payments to the former Associate Superintendent for Operations, Finance, and Management. The former employee was authorized to work the additional days, although his contract did not specifically address compensatory time. Therefore, the Board of Education will not seek repayment.*

11. Someone independent of the payroll process should review finalized payrolls to verify that they are based on actual hours or days worked, or authorized leave time charged; verify that the hourly rates or annual salaries used are as authorized; compare net payroll checks to the payroll journals; and review the payroll for overall reasonableness.

*Payroll changes will be done by the Payroll Clerk and verified by the Account Clerk Typist. The Account Clerk Typist will enter all attendance under the direction of the Payroll Clerk. All payroll documentation will be received by the Account Clerk Typist and verified for accuracy and inclusion of the supervisor's signatures. The Account Clerk Typist will then enter the data on payroll spreadsheets. Account Clerk Typist must initial and date all documents that have been checked. The Payroll Clerk will double check all work done by the Account Clerk Typist and initial and date all documents. After the data has been verified it will be entered into the payroll system by the Account Clerk Typist. The Payroll Clerk will reconcile the entered data against payroll reports. Any errors noted will be corrected. Payroll Clerk and Account Clerk Typist will oversee the printing of payroll checks. Payroll Clerk will post payroll checks and process Trust and Agency payments. District Treasurer will verify and disburse Trust and Agency payments, as well as, all money transfers for payroll. The District Treasurer is responsible for Federal and State Tax Deposits, Direct Deposit Transfer, accounting journal entries, and deposits for payroll completion. The Business Manager will verify actual payroll checks against the payroll check register. After verification by the Business Manager, the Account Clerk Typist will insert paychecks and any applicable correspondence in envelopes for distribution. The Superintendent verifies and signs the payroll transaction journal for accuracy.*

12. The Board should assign payroll duties to employees in such a manner that the work of one individual independently verifies another's in the course of their regular duties. At a minimum, the duties of payroll processing should be separate from entering new employee information into the system.

*Payroll procedures specify that new hires are entered into the payroll system by the Payroll Clerk. A monthly report of all new hires will be verified by the Business Manager against official minutes from all Board of Education meetings.*

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by District 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 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 databases. 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 reported objectives and scope by selecting for audit those areas most at risk. We selected internal controls over capital assets and payroll processing for further audit testing. We also reviewed District financial information and identified risk related to budgetary procedures.

To accomplish the objectives of this audit, our procedures included the following:

- We interviewed District officials responsible for the purchase and accountability of the District's capital assets, processing of payroll and budgetary oversight.
- We performed, on a test basis, comparisons of computer purchases to the Educational Technology Department's inventory records and to the actual assets located in the school and administrative facilities. We also performed, on a test basis, comparisons of assets located in the schools and administrative facilities to the inventory records.
- We tested employee leave accruals and District payroll records for accuracy by comparing payments and benefits to corresponding employee contracts and collective bargaining agreements.
- We reviewed the preparation, approval and adoption of the annual budget and traced the approved tax levy to the tax roll and accounting records.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). 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 C

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