



Cincinnati Central School District

Internal Controls

Report of Examination

Period Covered:

July 1, 2004 - January 10, 2006

2006M-116



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

November 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 Cincinnatus Central School District — Internal Controls.

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 school district officials.

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*

Introduction

Background

The Cincinnatus Central School District (District) is located in one town in Broome County, five towns in Chenango County, and eight towns in Cortland County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (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 is one school in operation within the District, with approximately 734 students and 196 employees. The District's budgeted expenditures for the 2005-06 fiscal year are approximately \$9.8 million, and are funded primarily with State aid, real property taxes, and grants.

The District contracts with the Broome-Tioga Board of Cooperative Educational Services (BOCES) to provide various financial services for the District through its Central Business Office (CBO). The District Board has appointed BOCES CBO employees to serve as the District's purchasing agent, accounts payable clerk, payroll clerk, accountant, and capital assets accountant. In addition, the District Board appointed a BOCES CBO employee as its Claims Auditor, who has the responsibility to audit and approve or disapprove District claims for payment. The District's financial statements are audited each year by independent auditors.

The District's audited financial statements included capital assets (e.g., furniture, equipment, and computers) with a total historical cost on June 30, 2005 of more than \$10 million dollars. Thus, the District's inventory of capital assets represents a significant investment of resources. Capital assets are subject to the risk of loss, waste, and misuse. District managers must ensure that capital assets are protected from loss, that their value is maintained and that they are used effectively. Assets such as laptop computers, printers, and camcorders are more susceptible to loss or misuse and require stronger internal controls to protect them.

Objectives

The objective of our audit was to determine if District officials have properly safeguarded their assets. Our audit addressed the following related questions:

- Did the Board consider the internal control environment when appointing the Claims Auditor?
- Were internal controls appropriately designed and operating effectively to safeguard capital assets?

**Scope and
Methodology**

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 District’s 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. Based on that evaluation, we determined that, except for the position of Claims Auditor, the District’s controls appeared to be adequate, and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the capital assets area and, therefore, we examined internal controls over capital assets for the period July 1, 2004 to January 10, 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 recommendation and indicated they plan 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*.

Appointment of the Claims Auditor

State Education Department (SED) regulations¹ prohibit school district officials from appointing a BOCES employee as its Claims Auditor.

In June 2004 and 2005, the Board appointed an employee from the Broome-Tioga BOCES CBO to serve as its Claims Auditor for the 2004-05 and 2005-06 fiscal years. Although the District used BOCES services before SED adopted these regulations, this arrangement currently is specifically prohibited by SED regulations.

The BOCES District Superintendent has contacted SED regarding the claims audit function. It is BOCES officials' viewpoint that they can develop procedures to ensure that they perform an independent review of BOCES bills that would allow a BOCES employee to continue to review and approve all of the District's other bills. However, the current practice is in violation of SED requirements and should be discontinued.

Recommendation

1. The Board should ensure that its appointment of the District's Claims Auditor is in accordance with SED regulations.

¹ Amendment of the Regulations of the Commissioner of Education (http://www.emsc.nysed.gov/mgtserv/accountability_regs06.htm)

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, and equipment, such as vehicles, computers, copiers, and other electronic equipment. It is essential that District officials ensure that their capital assets are protected from loss, their value is maintained, and that they are used effectively for their intended purposes. District officials can fulfill this responsibility by requiring that District personnel maintain quality inventory records. When District personnel maintain quality inventory records, it helps District officials safeguard the District's assets; determine the adequacy of insurance protection; provide a means of planning for future replacement; and fix responsibility for the care and safeguarding of equipment and property. An annual physical inventory count of capital assets is an important control for monitoring the accuracy of the asset records and determining the existence and condition of the assets. Ideally one person (the property control manager) should have overall responsibility for tracking capital assets, and for the accuracy of the asset records. Each piece of moveable property should have a record that includes a description of the item (including make, model and serial number); the District's assigned identification number; the date, amount, vendor and claim number for the purchase; the department having custody and the location; and the source of funds used to purchase the item.

To determine whether the District's internal controls over capital assets were appropriately designed and operating effectively, we reviewed 15 items of electronic equipment, including computers, television/DVD/VCR, and camcorders. The District purchased these items during our audit period, and their total cost was approximately \$9,500. These items represented about 7 percent of all capital assets purchased by the District during our audit period.

We found that District officials designed and implemented appropriate internal controls over capital assets; maintained detailed capital asset records; provided adequate insurance protection; conducted physical counts of capital assets; appointed one person to track and maintain capital asset records; and that District staff kept complete, accurate, detailed and up-to-date records. We also were able to trace all the 15 items to the locations recorded on the District's capital asset records, and we determined that District personnel properly recorded all information relating to the purchases.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Sandra Rausa, School Board President
RayeLynn Kurtz, School Board Vice President
Peter Bush, Board Member
Charles Eaton, Jr., Board Member



William Gallerani, Board Member
Debra Kressler, Board Member
Margaret Peri, Board Member

Cincinnatus Central School District
Cincinnatus Board of Education

October 18, 2006

[REDACTED]
Office of State Comptroller
Division of Local Government Services
44 Hawley Street – Room 1702
Binghamton, NY 13901

Dear [REDACTED],

As president of the Cincinnatus Central School's Board of Education, please receive this letter as formal agreement with the Office of the State Comptroller's Cincinnatus Central School District Internal Controls Report of Examination, July 1, 2004 – January 10, 2006, preliminary draft findings, dated October 9, 2006 and received on October 10, 2006.

Specifically, the district will work with the Broome-Tioga BOCES and our Central Business Office (CBO) to "ensure that its appointment of the District's Claims Auditor is in accordance with SED regulations," per the Appointment of Claims Auditor finding, page 6.

Sincerely,

A handwritten signature in cursive script, appearing to read "Sandra Rausa", is written over a light-colored background.

Sandra Rausa
President, Board of Education

cc: Board of Education
Steven Hubbard, Superintendent of Schools
John D. Harvey, C.P.A. Central Business Office Controller
[REDACTED], Office of the Comptroller
[REDACTED]

APPENDIX B

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 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. Based on that evaluation, we determined that except for the position of Claims Auditor, controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit that area most at risk. We selected capital assets for further audit testing.

Within the capital assets area, we focused on the safeguarding and accounting for computer and other electronic equipment.

To accomplish the objective of this audit, we performed the following audit procedures:

- We examined the following records and reports to determine if capital assets were protected against loss, waste and misuse: District capital asset policies, Board of Education minutes, detailed capital asset records, vendor payment history lists, warrants ordering the payment of claims, monthly financial reports, claims, purchase orders, requisitions, receiving documents, and insurance policies.
- We reviewed capital asset records to verify that they were complete, accurate, and up to date.
- We reviewed the locations of assets to verify that they were secure.
- We reviewed insurance policies to verify the assets were adequately insured.

- We determined that assets were actually received and located as indicated on the detailed capital asset records by viewing selected capital assets recorded in purchase documents.
- We traced records of capital asset dispositions to detailed asset records to verify that they were removed in a timely manner.
- We reviewed the capital asset reconciliation process to determine if it was performed in an accurate, complete, and timely manner.

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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Mark P. Pattison, Deputy Comptroller
Steven J. Hancox, Assistant Comptroller
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