



# Coxsackie-Athens Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2004 - December 31, 2005

2006M-65



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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

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 Coxsackie-Athens 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 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*



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The Coxsackie-Athens Central School District (District) is located in the Towns of Coxsackie, Athens, Cairo, and New Baltimore, Greene 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.

The Chief Fiscal Officer (CFO) is responsible for the supervision of Business Office personnel, who play an integral role in the fiscal management function of the District. The District Clerk is responsible for maintaining accurate leave time accrual and usage records and the District Treasurer is responsible for preparing separation payments for unused leave time based on those records.

The Board delegated its claims audit and approval duties and responsibilities to an Internal Claims Auditor. The Internal Claims Auditor is required to report regularly and directly to the Board. In 2005, the Board adopted policies related to the reimbursement of travel expenses and use of District credit cards.

### **Scope and Objectives**

The objective of our audit was to determine if controls over selected financial activities are appropriately designed and operating effectively. Our audit addressed the following related questions for the period July 1, 2004 through December 31, 2005:

- Has the District established adequate internal controls over employee time accrual records and separation payments to protect District assets against fraud, abuse, and professional misconduct, and are those controls operating effectively?
- Has the District established adequate controls over purchasing and claims processing to protect District assets against fraud, abuse, and professional misconduct, and are those controls operating effectively?
- Has the District established adequate internal controls to protect capital assets and inventories against loss, waste, and misuse, and are those controls operating effectively?

## **Audit Results**

We determined that, over a five-year period, the District inappropriately paid the former Superintendent a total of \$20,820 for vacation days that were not available and for unused vacation days exceeding the contractual annual limit of 12 days. Additionally, the District inappropriately paid the former Director of Technology \$5,442, upon retirement, for 22 unused vacation days. The District has not established adequate controls over payments for unused leave time made to administrators. As a result, the District inappropriately made payments to former administrators that were not in compliance with their employment contracts.

The District does not have procedures to ensure annual leave is credited and leave time balances are maintained in accordance with collective bargaining or individual employment contracts. The District does not have procedures to ensure that leave usage is properly charged against leave accruals. As a result, some employees were credited with more leave than they were entitled to; others had leave usage charged against leave accruals without documentation to support the usage; and some employees used leave that was not charged against their leave accruals.

The District made payments totaling \$168,522 for physical therapy, occupational services, and computer consulting services during the 2004-05 and 2005-06 fiscal years without the solicitation of requests for proposals as required by their procurement policy.

The District has not established adequate controls over claims processing. As a result, the District made payments for claims that were not sufficiently itemized and did not include adequate documentation to determine if the charges were legitimate, reasonable, and proper District charges.

District officials have not established adequate controls to protect capital assets and inventories against loss, waste, and misuse. The Board has not officially designated a property control manager to be responsible for tracking District assets and maintaining accurate and complete inventory records. We found that the District's inventory records are incomplete and inaccurate. We found that 18 of 65 items tested, with a value of over \$24,000, were missing. Finally, despite having a written asset disposal policy, on several occasions, District personnel did not adhere to the policy.

## **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. Except as indicated in Appendix A, District officials generally agree with our findings and recommendations. OSC comments to the District's response are in Appendix B.

# Introduction

## Background

The Coxsackie-Athens Central School District (District) is located in the Towns of Coxsackie, Athens, Cairo, and New Baltimore, Greene 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 school buildings in operation within the District, with 1,593 students attending these schools during the 2004-05 fiscal year. The District has a workforce of approximately 274 employees. The District's budgeted expenditures for the 2005-06 fiscal year were approximately \$21 million, funded primarily with State aid, real property taxes and grants.

The Chief Financial Officer (CFO) is responsible for the supervision of Business Office personnel, who play an integral role in the fiscal management function of the District. The Board delegated its claims audit and approval duties and responsibilities to an Internal Claims Auditor. The Internal Claims Auditor is required to report regularly and directly to the Board. In 2005, the Board adopted policies related to the reimbursement of travel expenses and use of District credit cards.

The District Clerk is responsible for maintaining accurate leave time accrual and usage records and the District Treasurer is responsible for preparing separation payments for unused leave time based on those records.

## Objectives

The objective of our audit was to determine if controls over selected financial activities are appropriately designed and operating effectively. Our audit addressed the following related questions:

- Has the District established adequate internal controls over employee time accrual records and separation payments to protect District assets against fraud, abuse, and professional misconduct, and are those controls operating effectively?

- Has the District established adequate controls over purchasing and claims processing to protect District assets against fraud, abuse, and professional misconduct, and are those controls operating effectively?
- Has the District established adequate internal controls to protect capital assets and inventories against loss, waste, and misuse, and are those controls operating effectively?

**Scope and Methodology**

During this audit, we examined internal controls related to employee time accrual and usage records for the period July 1, 2004 through June 30, 2005; separation payments for the period July 1, 2004 through October 19, 2005; and purchasing, claims processing, capital assets and inventories for the period July 1, 2004 through December 31, 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. Except as indicated in Appendix A, District officials generally agree with our findings and recommendations. OSC comments to the District’s response are in Appendix B.

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.

## Payments For Unused Leave

A primary objective of the internal controls designed to process payments for salary-related benefits is to ensure that officers and employees are provided with only those amounts to which they are entitled. Collective bargaining agreements, individual employment contracts, and written policies and procedures provide guidance regarding employee entitlements. To ensure that separation payments are made in accordance with employment contracts and are based on accurate leave time accrual and usage records, the Board and District managers must establish and maintain an internal control structure that ensures District assets are safeguarded against fraud, abuse, and professional misconduct. Important components of any internal control system are management oversight and proper segregation of duties; ensuring that no one person controls all phases of a transaction.

The Board must, among other things, ensure that appropriate controls are established to prevent and detect errors and irregularities in District payroll and personnel transactions. Such controls should ensure that separation payments for unused leave time are made in accordance with employment contracts and/or District policies. The payments should be based on available leave time, supported by leave accrual and usage records.

Although various District employment contracts and policies contain guidance about employee benefit provisions, the Board did not provide sufficient oversight to ensure that administrators received only the amounts to which they were entitled. Controls related to payments for unused leave time made to administrators were not adequate and the District did not have written policies and procedures relating to the verification, approval and monitoring of unused leave time. Also, there was no oversight to ensure that accrued leave time balances were accurate and payments were made in accordance with employment contracts. As a result, the District made \$26,262 in payments to former administrators that were not in compliance with their employment contracts and therefore not appropriate.

### **Payments to Former Superintendent**

The former Superintendent's initial employment contract with the District, covering the period November 1989 through June 1993, provided 22 days of annual vacation leave. According to the Board President, this contract was renewed annually through Board action without a new written agreement being drawn up. The former Superintendent's final employment contract with the District, dated

October 2003, provided for 24 days annual vacation leave for the 2004–05 and 2005–06 fiscal years. It is unclear at what point in time the Board increased the former Superintendent’s annual vacation day allocation from 22 to 24 days. Therefore, to be conservative, we used a 24 vacation day allowance for our analysis of payments made to the former Superintendent. Both contracts, the initial and final, allowed the former Superintendent to carry over up to 12 days of unused vacation leave to be used in the succeeding year or be paid as salary calculated at the per diem rate.

For the fiscal years 2000-01 through 2004-05, the District paid the former Superintendent \$56,931 for unused vacation leave time. For some of these payments, the former Superintendent signed Notification of Payroll Action forms authorizing payment of unused vacation days to himself. Since the former Superintendent did not complete leave request forms and made only verbal declarations to his Administrative Assistant (who also serves as the District Clerk) of the vacation days he had actually taken, we relied on balances recorded in the attendance records to determine the appropriateness of the payments made to the former Superintendent for unused vacation days. Based on these records, we found payments totaling \$4,928 for vacation days that exceeded the contractual annual limit of 12 days, and payments totaling \$15,892 for vacation days that were not available for buyout, as follows:

School Year	Number of Unused Vacation Days Available	Number of Unused Vacation Days Paid	Amount Paid	Date Paid	Payment in Excess of 12 Day Limit	Payment For Days Not Available
2000-01	16	15	\$6,377	7/20/01	\$1,275	
2001-02	19	10	\$4,464	10/12/01		
	-9	15	\$6,696	6/7/02		\$10,267
2002-03	11	11	\$5,156	6/13/03		
	0	12*	\$5,625	7/11/03		\$5,625
2003-04	20	16*	\$8,174	6/11/04	\$2,044	
2004-05	16	15*	\$8,047	6/10/05	\$1,609	
2005-06	22	22	\$12,392	9/30/05		
<b>TOTAL</b>			<b>\$56,931</b>		<b>\$4,928</b>	<b>\$15,892</b>

\* Former Superintendent authorized payment for unused vacation days to himself.

For example, payments totaling \$10,267 for the 2001-02 fiscal year included 23 vacation days that were not available for buyout. The attendance records showed the former Superintendent was credited with 24 vacation days on July 1, 2001 and that he carried-over one day from the previous school year. As of October 10, 2001, the former Superintendent had a balance of 19 unused vacation days available when he submitted his request to be paid for ten of those days (\$4,464 payment on October 12, 2001). The former Superintendent submitted a second request for payment for unused vacation days on June 4, 2002. He was paid for 15 days (\$6,696 on June 7, 2002). However, from October 11, 2001 through June 4, 2002, the former Superintendent had taken 11 vacation days which resulted in a negative balance of two days. Furthermore, after this latter request, the attendance records show the former Superintendent had used an additional seven vacation days and carried one forward (valued at \$3,571). Thus, based on the records examined, we determined that the former Superintendent was overpaid for vacation days totaling \$10,267 for the 2001-02 fiscal year.

### **Payment to Former Director of Technology**

The employment contract between the District and the former Director of Technology provided an annual vacation allowance of 20 days to be accrued on July 1. This contract explicitly states that additional payments would not be made in lieu of unused vacation days.

On July 1, 2005, the District Clerk inaccurately credited the former Director of Technology with 25 vacation days, instead of 20 days. On August 5, 2005, the District paid the former Director of Technology \$5,442, upon her retirement, for 22 unused vacation days. The 22 days paid were based on the July 1st allocation of 25 days less three days used prior to retirement. Although this payment was supported by a Notification of Payroll Action form, signed by the former Superintendent, there was no authority for the District to make this payment pursuant to the employment contract.

### **Recommendations**

1. The Board should establish policies and procedures to ensure that all payments for unused leave time are made in accordance with employment agreements and are supported by accurate records of unused leave time. Also, the Board should establish policies prohibiting District officials from authorizing payments to themselves.
2. The Board should require all District employees to submit documentation of leave time taken. This documentation should be provided to and used by the District Clerk to record leave time usage and should be kept on file.

3. The Board should further investigate and take appropriate actions to recover overpayments to former administrators.

## Leave Accrual and Usage Records

Paid leave time is an employee benefit generally granted to District employees pursuant to collective bargaining or employment contracts. Generally, employees earn a fixed number of days each year for vacation, illness, bereavement and personal use. Districts often provide cash payments to employees for all or a portion of their accrued leave time when they leave service. Therefore, it is important to maintain accurate leave accrual and usage records.

The District does not have procedures to ensure annual leave is credited and leave time balances are maintained in accordance with collective bargaining or individual employment contracts. Also, the District does not have procedures to ensure that leave usage is properly charged against leave accruals. The failure to maintain accurate leave accrual and usage records has resulted in payments to District employees that they are not entitled to. Some employees were credited with more leave time than they were entitled to; others had leave usage charged against leave accruals without documentation to support the usage; and some employees used leave that was not charged against their leave accruals.

The District has a Request for Leave/Report of Absence form that employees are supposed to use to request leave and report an absence. Although requests for personal leave and vacation leave are required to be sent to the Business Office for approval by the Superintendent, the approved leave forms are not retained by the Business Office. Instead, the forms are returned to the employee. The employees are supposed to submit the completed form when they return to work. However, these forms are not always used to record leave charges. Instead, attendance worksheets completed by building secretaries and/or department heads are used to record leave usage, without any comparison to the actual leave forms. This process contributes to errors and discrepancies in leave accrual records.

To determine the accuracy of employee attendance and accrual usage records, we tested the beginning leave balances and annual leave accruals for 24 District employees against their respective collective bargaining or employment contracts. We found that 4 of 24 employees tested were allowed to maintain annual leave balances, totaling 24.5 days, that were not in accordance with their collective bargaining or employment contracts. Contracts for two of these employees did not allow unused vacation days to be carried forward to subsequent years,

and contracts for the other two employees only permitted unused vacation leave to be carried forward under extenuating circumstances, with the approval of the Superintendent. However, there was no documentation showing the Superintendent's approval for these two employees.

Additionally, annual leave credited to six employees was not accurate. Three employees were credited with a total of ten days more vacation leave than their agreements provided for. Three other employees were not credited with three days of bereavement leave that they were entitled to in accordance with their agreements.

Finally, we identified 115 instances of recorded leave usage without an approved leave request form for nine of the 24 employees in our sample. Of the 115 instances, 102 instances were recorded on the attendance worksheets. However, in 13 cases the leave usage was not recorded on an approved leave request form or on the attendance worksheets. Also, we found ten Request for Leave/Report of Absence forms (seven requests for leave and three reports of absence) showing leave requests and usage on 23 dates for six employees that was not recorded on any of the employees' attendance records for these days. This amounted to 13.5 days and 16 hours of leave that was taken but not charged against employee leave accruals.

## **Recommendations**

4. The Board and District managers should establish procedures to ensure that leave time provided to District employees is accurately recorded in accordance with negotiated contracts, and all leave usage is accurately charged against leave accruals.
5. District officials should enforce their policy requiring employees to use the Request for Leave/Report of Absence forms to request leave time. These forms should be used by the District Clerk to record leave usage.

## Purchasing and Claims Processing

A good system of internal control consists of policies, practices and procedures that allow a school district to provide reasonable assurance that it is using its resources effectively (i.e., prudently and economically) and that it is complying with applicable laws and regulations. The Board is responsible for ensuring that internal controls exist that help safeguard the District's assets and ensure the prudent and economical use of its moneys when procuring goods and services. Adequate internal controls need to be established to meet these responsibilities and to protect against favoritism, extravagance, fraud and corruption. Certain controls are designed to prevent errors and irregularities from occurring. Other controls act to detect errors and irregularities timely. The objectives of a procurement process are to obtain services or materials, supplies and equipment of the desired quality in the quantity needed at the lowest price in compliance with applicable Board and legal requirements. This helps ensure that taxpayer dollars are expended in the most efficient manner.

Another component of the District's internal control system relates to policies, procedures, and practices governing the processing of claims against the District. An effective claims processing system ensures that every claim contains enough supporting documentation for District personnel to determine whether it complies with statutory requirements and District policies, and that the amounts claimed represent actual and necessary District expenses.

While the District has adopted a procurement policy, it has not adhered to its own policy requiring the solicitation of requests for proposals (RFPs) for certain professional services. The District made payments totaling \$168,522 for physical therapy, occupational services, and computer consulting services during the 2004-05 and 2005-06 school years without the solicitation of RFPs. Also, the District has not established adequate controls over claims processing to protect District assets against fraud, abuse, and professional misconduct. As a result, the District made payments for claims that were not sufficiently itemized and did not include adequate documentation to determine if the charges were legitimate, reasonable, and proper District charges.

### **Professional Services**

According to the District's procurement policy, goods and services that are not required by law to be procured by the District through competitive bidding will be procured in a manner as to ensure the

prudent and economical use of public moneys, in the best interests of the taxpayers. Quotations or proposals must be secured by written or verbal quotations or RFPs. Professional services must be secured through the use of RFPs.

The District did not solicit RFPs for certain professional services for the 2004-05 and 2005-06 school years as required by its purchasing policy. We found that payments for physical therapy, occupational services and computer consulting services totaling over \$168,000, from July 1, 2004 through January 31, 2006, were made even though no RFPs were solicited for these services. District officials could not explain why RFPs were not used to obtain these professional services. The failure to solicit RFPs could result in the District paying more for these services than necessary.

## **Claims Processing**

Claims should not be paid unless a properly itemized voucher, approved by the officer or employee whose action gave rise to the claim, has been audited and ordered paid. The audit and approval of a claim is the Board's responsibility. The Board, however, may appoint an Internal Claims Auditor to perform this function. In so doing, the Internal Claims Auditor assumes the Board's powers and duties for approving and disapproving claims against the District. In either case, documentation evidencing the conduct of a thorough and deliberate review of the claims to determine that proposed payments are proper and valid District charges and that they are incurred by appropriate District officials should be sufficient to show that the related payment was made in accordance with applicable laws and regulations and that the claim was properly audited and approved for payment.

The Board delegated its claims audit responsibilities to an Internal Claims Auditor. The Internal Claims Auditor is required to report regularly and directly to the Board and is required to sign a warrant, listing each individual claim, and certifying that all the listed claims were audited and approved for payment.

The Internal Claims Auditor did not conduct a proper audit of claims. We found that 33 of 47 claims, totaling \$73,506, were paid prior to audit. Six claims, totaling \$21,188, did not contain sufficient information to explain the services provided. These claims were not signed by the employee who gave rise to the claim, and did not include dates and services provided and the Internal Claims Auditor did not sign the related warrants.

The failure to conduct a proper audit of claims could result in the District making payments and reimbursements for goods that are not received and services that are not rendered and/or payments for claims that are not legitimate, reasonable and/or for a proper District purpose.

**Travel and Conference Expenses** — The Board’s travel and conference policy allows reimbursement for travel-related expenses that are authorized and incurred while traveling for school related activities. The policy includes maximum meal reimbursement limits but does not address maximum lodging reimbursement limits.

We reviewed five travel-related reimbursement claims totaling \$1,627 submitted by District employees during the period July 1, 2005 through December 31, 2005. We identified deficiencies in three of the five travel claims:

- Two claims, submitted by a school principal and a teacher, did not include sufficiently itemized receipts for meal reimbursements. These receipts only contained the total dollar amount and did not show any detail.
- One claim, submitted by a school principal for expenses incurred for a two-day conference (Monday and Tuesday) in Providence, Rhode Island, included food and lodging expenses for the Saturday night preceding the conference. While arriving the day before the start of a conference and/or leaving the day after a conference may be acceptable, expenses for travel extending beyond the dates required for the conference attendance are personal costs. Furthermore, documentation provided to support these expenses was not sufficiently itemized, nor was the hotel bill on official letterhead.

In addition to these deficiencies, we found that the District paid a claim for conference registration fees totaling \$1,400 for three teachers and one principal (\$350 each) to attend a conference. Attached to the claim packet was a memo from the former Superintendent to the principal noting the contractual limit of \$250 for conference registration fees for the teachers. The principal noted that the teachers would assume the additional expense. However, the three teachers have not reimbursed the District \$100 each for their share of the conference registration cost and the District has not sought reimbursement.

**Credit Card Charges** — The District did not have a policy governing the use of District credit cards for the majority of the 2004-05 school year. During the 2004-05 school year, the former Superintendent charged \$13,050 to the District's credit card.

We reviewed 40 credit card charges and found 11 charges were not supported by a receipt or invoice. Six of 11 charges, totaling \$2,443, were for lodging. In addition, we found two credit card charges, \$36 to a grocery store and \$88 to a parking garage, were not supported with sufficient documentation to determine if the charges were legitimate, reasonable and for a proper District purpose. Five charges included payment of sales tax.

On June 21, 2005, the Board adopted a *Credit Card Policy* requiring itemized receipts for all credit card purchases. The policy explicitly states that if a credit card is used to pay for meals for District-related purposes, the purpose of the meeting, those in attendance, and an itemized bill must be provided. We reviewed credit card charges after the adoption of the policy and found the District paid the full amounts claimed on the credit card statements even though four charges listed on the statements, totaling \$1,270, were not supported by receipts or invoices. Two of these purchases included charges of \$626 at an electronics/appliance retailer and \$398 at an adult education organization.

The failure to obtain itemized receipts and/or invoices to support all credit card purchases, and then to reconcile same against the monthly credit card statement prior to paying it is an internal control weakness that could result in the District paying for purchases that are not proper or prudent.

## Recommendations

6. The Board and District managers should comply with the District procurement policy by periodically soliciting RFPs as a basis for awarding contracts for professional services.
7. The Board and District managers should monitor and enforce compliance with adopted policies for travel and credit card use.
8. The Board should consider establishing reasonable maximum rates for lodging which cannot be exceeded without approval.
9. The Board should ensure that the Internal Claims Auditor is fully aware of all Board policies regarding the audit of claims, conducts a proper and thorough audit of claims in accordance with laws, regulations and District policies, and signs and dates warrants as evidence that the claims listed were audited and approved for payment.

## Capital Assets and Inventory Records

Capital assets are those assets that have a useful life of more than one year and include things such as land, buildings, and equipment (e.g. computers). A comprehensive capital asset policy sets forth procedures and criteria for the protection of assets and establishes minimum dollar values for assets to be maintained on a property inventory list. The District should have a property control manager who is responsible for tracking assets and maintaining inventory records and asset custody should be assigned at the departmental level. Individual property records must contain sufficient descriptive information for each inventory item. An annual physical inventory is an important control for monitoring the accuracy of the inventory records and for determining the existence and condition of the District's assets. In addition, the Board should provide District officials with guidelines as to when and how capital assets should be disposed.

District officials have not established adequate controls to protect capital assets and inventories against loss, waste, and misuse. The Board has not officially designated a property control manager to be responsible for tracking District assets and maintaining accurate and complete inventory records. During the audit period, we found that capital assets were not tagged with the District's inventory tags upon receipt. Instead, inventory tags are placed on the assets during the last two months of the school year when the inventory records are being updated. The District's inventory records are incomplete and inaccurate. Our tests identified assets that were not recorded in the District's inventory records, and assets recorded in the District's inventory records that were missing. Finally, on several occasions, District personnel did not adhere to the written disposal policy.

To verify the existence of assets listed on the District's inventory record, we randomly selected 43 assets and attempted to verify the existence and location of each item. We also selected 22 technology-related equipment assets from the Technology Department's inventory list for verification. Our tests disclosed the following:

- Twelve of the 43 assets (drill press, printers, computers, and a monitor), with a total value of \$21,610, were missing. District staff indicated that several assets had been removed from service without following the proper District asset disposal procedures.

- Six of the 22 technology-related assets (monitors, printers, and a central processing unit (CPU)), totaling \$2,525, were also missing. District officials could not provide us with any explanation as to why these assets could not be found.

**Inventory Records** — We also reviewed capital asset purchases made during our audit period to determine whether they were recorded in the inventory record. We found that four of 157 items, valued at \$1,400, were not recorded in the District’s inventory record.

**Disposal of Assets** — The District’s asset disposal policy assigns responsibility to building administrators and staff supervisors for identifying obsolete or surplus equipment. The policy requires that District officials dispose of equipment in the following manner:

- If possible, sell the items using bid procedures to the highest bidder,
- Reassign the items, as needed to various locations within the District,
- Centralize the storage of items of potential usefulness,
- Discard the items that are deemed to be of no further use or worthless.

The District has a written disposal policy, but District staff did not adhere to the policy on several occasions. The absence of a property control manager to communicate the policy objectives to personnel involved in the control and inventory of assets has contributed to breakdowns in the asset disposal process. For example, according to the CFO a public auction has not been held since 2002.

We reviewed seven capital asset disposals authorized by the Board and found that none of the items were recorded on the District’s property inventory record as deletions. We also reviewed 15 capital asset deletions from the property inventory record and found three disposals valued at \$471 each were not authorized by the Board. We were unable to determine how these 15 items were disposed of or if they were disposed of as prescribed in the District’s disposal policy.

As a result of these control weaknesses, District personnel are unable to accurately identify and monitor the District’s capital assets, which creates an opportunity for theft, fraud, and misuse of District property.

## **Recommendations**

10. The Board should adopt a comprehensive capital asset policy that addresses, at a minimum, the dollar value of assets to be tracked for inventory control purposes, the thresholds for financial reporting purposes, identification of assets, storage of assets, and the conduct of periodic physical inventories.
11. The Board should designate a property control manager who is responsible for tracking capital assets and maintaining accurate and complete inventory records.
12. Each capital asset that meets the criteria for inclusion in the inventory record should be identified through the use of a District asset tag when it is received, and the asset should be included on the District's inventory record as soon as practicable.
13. District officials should require a District-wide physical inventory be conducted periodically and compared to the inventory records. Any discrepancies should be investigated and resolved promptly.
14. District officials should monitor and ensure compliance with its asset disposal policy.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

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September 25, 2006

Office of the State Comptroller, Albany Regional Office  
Division of Local Government Services  
22 Computer Drive West  
Albany, New York 12205

Dear [REDACTED]:

The Coxsackie-Athens School District was subject to an audit by the New York State Comptroller's office from October 2005 through February 2006. The audit began with an extensive survey of our operations. The results of that survey launched a much more targeted, intensive audit of district records. The audit examined internal control structures within the district and will be used to refine and improve internal controls to safeguard district assets from fraud or misuse. It was not an audit that examines or reports on the district's financial condition which is and always will be a priority for our administration, our Board of Education and our staff. Coxsackie-Athens prides itself on being proactive and thorough regarding financial recordkeeping and will continue to do so. Our external audit consistently provides the district with unqualified opinions attesting to the accuracy and validity of our record keeping. Nonetheless, any findings from the Comptroller's audit will be promptly addressed to the extent they have not been addressed already.

The draft report was issued on August 25<sup>th</sup>, 2006. On September 12, 2006, the Comptroller's office conducted an exit conference in which two members of the Board of Education's audit committee, the Superintendent and the Chief Financial Officer attended. The written report was reviewed and certain items were clarified as well as additional support provided for findings in the draft report. The district is hopeful that these items will be corrected in the final report but in the event that is not possible, the district's response will illustrate the support provided.

### Disagreements with Auditor's Findings

- The district found errors in the calculation of vacation leave payments to the former superintendent.
- Documentation was provided at the exit conference providing support and refuting several material findings within the purchasing and claims processing portion of the report.
- Documentation was provided for a conference in Rhode Island which correctly outlined the district's obligation to fund \$350 for conference registration as limited in the contract with the teachers. The teachers attending the conference do not owe the district \$100.
- Support was provided at the exit conference for many of the credit card charges questioned including:
  - \$626 for televisions purchased from Best Buy.
  - \$398 for conference registrations.

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- \$1,537.25 for Forestry Suppliers representing supplies purchased for the environmental science program through a grant.
- Computer supplies purchased online in the amount of \$235.74.
- Support for \$88 parking fee for a conference was attached but difficult to read. This was determined to be "insufficient".

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Note 2  
Page 26

**Response to Recommendations**

1. The district has already made changes to improve the recordkeeping and the flow of documents relating to unused leave. The district will take the steps necessary to document employee entitlement to be paid for unused vacation upon retirement. The Treasurer and Board Clerk will be instructed to obtain proper authorized signatures prior to remuneration of unused leave.
2. Request for leave records will be retained by the District Clerk when they are initiated and signed by the Superintendent. All district employees will be required to submit timely leave records.
3. The Board disagrees with the Comptroller's accounting of overpaid vacation days to the former Superintendent. We are thoroughly investigating this issue, and will take appropriate action upon completion of our investigation. The former Superintendent has been cooperative and very helpful in our investigation and has indicated a desire to make restitution to the District. Based on preliminary findings, the overpayments appear to be a result of several factors, including honest record keeping errors and Board-authorized payments, and not a result of culpable conduct on anyone's part.
4. The district will develop a chart to use as a tool to award annual leave allowances and will strictly adhere to the contract provisions regarding the award and carryover of unused leave. Request for leave forms will be retained by the Business Office and posted to employees leave balances on a weekly basis.
5. District officials have always pursued completed Request for Leave/Report of Absence forms. Retaining the forms at the Business Office will insure more accurate and timely recording of used leave. In instances where sick leave is used, building secretaries will include sick days taken on summary sheets for the week with completed forms attached for posting by the District Clerk.
6. The district will continue to adhere to the procurement policy and will periodically solicit RFPs for professional services as the Board of Education deems necessary. During the summer 2006, the district solicited RFPs for Speech, Physical Therapy and Occupational Therapy services.
7. The Board and District managers will continue to be diligent in monitoring and enforcing compliance with adopted policies for travel and credit card use.

See  
Note 1  
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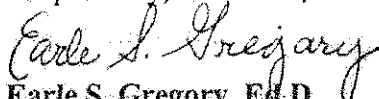
## COXSACKIE-ATHENS CENTRAL SCHOOL DISTRICT

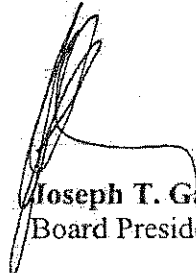
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8. The Board will review the recommendation for establishing reasonable maximum rates for lodging and if desired by the Board of Education, incorporate these limits in policy.
9. The Internal Claims Auditor has and will continue to audit claims as required. Previously, warrants were signed monthly by the Internal Claims Auditor. Warrants are now signed by the Internal Claims Auditor on the date the checks are generated as an attestation that the claims listed were audited and approved for payment.
10. On September 19, 2006, the Board of Education adopted comprehensive capital asset policy #6910 which will address the issues cited in the comptroller's audit. This policy establishes thresholds for capitalizing fixed assets and inventorying sensitive items such as computers and electronics.
11. The Board will designate a property control manager during the fall 2006.
12. Immediately upon conclusion of the audit, the Secretary to the Chief Financial Officer began tagging and recording fixed asset additions and inventoriable items as soon as they are received by the district. If possible, inventoriable items are delivered to a central area in order to facilitate this process.
13. The district does conduct fixed asset inventories periodically and will continue to do so in the future. The Board will determine the frequency of such inventory by weighing the benefit of the inventory against the cost to conduct it.
14. The Board will review the fixed asset disposal policy. Given the lack of storage space, an annual disposal is not always practical since there is little area to store items waiting for disposal. Nonetheless, the district will adhere to the policy in effect. Additionally, the district will review the process for fixed asset disposals at least annually with selected staff members.

We are pleased to have the opportunity to respond to the items raised by the Comptroller's auditor. Though we do not agree with all of the findings, we will take appropriate action to ensure that policies, regulations and administrative procedures are instituted, consistent with recommendations and mandates of the Office of the State Comptroller.

Respectfully,

  
Earle S. Gregory, Ed.D.  
Superintendent of Schools

  
Joseph T. Garland  
Board President

## APPENDIX B

### OSC COMMENTS TO THE DISTRICT'S RESPONSE

#### Note 1

We do not agree with the District's position that they found errors in the calculation of vacation leave payments to the former Superintendent. The District's response relates to how we calculated the overpayment for the 2001-02 fiscal year. The CFO told us that, although she is aware of the condition of the records and agrees with the finding that, based on the District's records it could not be determined if vacation days were used or paid out, she is confident that the former Superintendent received a buyout payment for 15 unused vacation days in May and June 2002 even though the District's records indicate these vacation days were used. In addition to her verbal declaration, the CFO provided us copies of calendars for the months of May and June 2002 from the former Superintendent's Palm Pilot showing that he had appointments scheduled on the 15 days in question; thereby providing evidence that he was not on vacation. However, we do not believe this additional information (the CFO's declaration and calendar printouts that note appointments) provides sufficient documentary evidence to make a reliable determination between vacation days used and vacation days bought out by the former Superintendent.

#### Note 2

We do not agree with the District's position that documentation provided at the exit conference refutes several material findings within the Purchasing and Claims Processing section of the report. While the District provided verbal explanations, copies of requisitions, purchase orders, Internet confirmations, conference registration forms, and an inter-office memorandum, none of this documentation suffices to meet the requirement of the submission of an original invoice or receipt for audit by the Internal Claims Auditor prior to the payment of a claim. Further, while we were provided copies of invoices and receipts for four of the purchases cited in our report, there is no evidence to indicate that this documentation was provided to the Internal Claims Auditor to conduct a proper audit.

## 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, with the help of District personnel, 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. 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 payroll, purchasing and claims processing, capital assets and inventories for further audit testing.

We interviewed appropriate District officials and employees regarding operating policies and procedures. These discussions allowed us to analyze the District's internal control structure governing the processes for maintaining leave time accrual and usage records, making payments for unused leave time, procuring professional services, paying claims, and safeguarding and tracking capital asset and inventory items.

To determine if payments for unused leave times were proper, we selected two District employees, the only District employees receiving payments during the period July 1, 2005 through October 19, 2005. We reviewed pertinent documents including employment contracts, minutes of the proceedings of the Board, attendance records, payroll earnings registers, and Notification of Payroll Action forms. To determine if beginning leave balances and annual leave accruals were accurate, we selected 24 District employees, representing approximately 10 percent of all District employees reported on the Employee Sick, Personal, Vacation, and Comp Summary for the period July 1, 2004 through June 30, 2005. To verify that leave usage was accurate, we selected nine of the 24 employees tested and traced leave usage recorded on employee attendance records to approved Request for Leave/Report of Absence forms and attendance worksheets. We also traced from approved leave forms to the employees' attendance records.

We assessed the District’s internal controls as they relate to the procurement of goods and services and claims processing. We focused on adherence to District policies and procedures, as well as pertinent laws and regulations, related to procurement of professional services and claims processing. We focused our attention on the audit and payment of various claims including those claims for reimbursement of expenses for officials and employees, travel and conference expenses, credit card charges, and meals and refreshments. We examined the following records to determine the effectiveness of internal controls relating to the claims processing function and to identify any associated effect of deficiencies found in those controls: Warrants, Vendor Payment History Reports, PO Claim Packets, and Conference Attendance Request Forms.

Within the capital assets and inventories area, we focused our attention to current purchases and “highly vulnerable” items based on the perceived risk associated with those items. To verify capital asset purchases were recorded in the District’s records, we selected 11 purchases, representing 157 items, and traced these assets to the District’s inventory records. To verify the existence of assets listed in the inventory records, we selected a total of 43 assets from the District’s inventory records and 22 assets from the Technology Department’s inventory list. We also verified authorization for disposal of District property. To accomplish this, we selected 15 deletions from the inventory records and traced these assets to the Board minutes.

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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