



**Evans-Brant
Central School District
Administrative Compensation
and Benefits, Claims Processing
and Inventories
Report of Examination**

Period Covered:

July 1, 2004 - June 30, 2005

2006M-54



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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. Our goals are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

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

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

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Evans-Brant Central School District¹ (District) is governed by the Board of Education (Board) which comprises seven 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. Some administrators perform multiple tasks for the District. The prior Superintendent served as the claims auditor and the administrator of the payroll. The current Superintendent maintains the payroll duties but does not serve as the claims auditor. The business administrator authorizes District purchases by serving as its purchasing agent. He also serves as the Board's clerk.

For the school year ending June 30, 2005, general fund instructional salaries totaled approximately \$18.4 million and non-instructional salaries totaled approximately \$6.4 million. Expenditures for other than personal services, employee benefits, debt service and interfund transfers totaled approximately \$6.5 million for the school year ending June 30, 2005. Of that amount, purchases made on four bank credit cards totaled \$27,921.

Reported fixed assets for equipment totaled over \$19 million at June 30, 2005. Reported fixed asset purchases for the 2004-05 school year totaled approximately \$1.5 million.

The District maintains certain consumable inventories at various locations to supply its day-to-day operations. The District has inventories of supplies that are used by teachers and staff. At November 22, 2005, the computerized system reported that over \$300,000 in central stores inventory were on hand.

Scope and Objectives

The objective of our audit was to evaluate internal controls over the District's claims, purchasing and payroll processing functions and inventories of fixed and consumable assets. Our audit initially addressed the following related questions for the period from July 1, 2004 through June 30, 2005. However, we expanded our scope for certain administrative payroll to July 1, 1995 through August 31, 2005 and our scope for credit cards purchases to July 1, 2002 through June 30, 2005:

- Are internal controls for administrative employee payments and compensation appropriately designed and operating effectively?

¹ Also referred to as the Lake Shore Central School District.

- Are internal controls over the claims processing function and related purchasing activities appropriately designed and operating effectively?
- Are internal controls over selected fixed asset and consumable inventory items appropriately designed and operating effectively?

Audit Results

We found the District overpaid certain former and current administrators because the Board did not provide for the establishment of policies and procedures to ensure administrative employees are compensated only for authorized salary, benefits and related separation payments. As a result of the District's lack of controls over administrators' compensation, taxpayer resources were misused to improperly enrich these individuals. We found the District inappropriately paid the former Superintendent \$60,885 in salary and benefits. These payments were made in excess of his employment contracts. The former assistant superintendent, former business administrator, and former crew chief also received compensation in excess of their contracts of approximately \$1,600, \$6,300, and \$12,000, respectively. In addition, the treasurer paid herself a \$2,000 stipend without Board authorization.

We also found District officials do not effectively control the processing and payment of claims. We found that the claims auditor's duties were not adequately segregated from the business operations. The former Superintendent served as the claims auditor in addition to his duties initiating certain purchases and approving claims as Superintendent. Our review of claims disclosed deficiencies in departmental approval, purchasing agent authorization and itemization. We tested a sample of 62 claims paid without purchase orders, and found 28 lacked a proper authorizing signature. Of the \$27,921 charged on credit cards during the 2004-05 school year, transactions totaling \$5,190 (19 percent) lacked documentation or involved questionable charges. We found similar problems with credit card purchases in the 2002-03 and 2003-04 school years. Further, current Board policies concerning travel do not establish limits on lodging expenses incurred while traveling. Of the 14 trips we reviewed, lodging for 12 of the trips exceeded federal guidelines by a total of \$5,200.

Although the business administrator maintained fixed asset records, several assets listed on the records could not be located. Two laptop computers and two digital cameras were determined to be stolen from the District. A District supply clerk maintained a computerized perpetual inventory of various supplies, but officials indicated the program did not work correctly and could not be relied upon to account for the value of supplies currently on hand.

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 take corrective action. *Appendix B* includes our comment on one issue raised in the District's response letter.

Introduction

Background

The Evans-Brant Central School District² (District) is located in the Towns of Evans, Brant and Eden, all of which are located in Erie County. The District is governed by the Board of Education (Board) which is comprised of 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.

Certain administrators perform multiple tasks for the District. The business administrator also serves as the purchasing agent and as the Board's clerk. The Superintendent serves as the administrator of the payroll. The former Superintendent also served as the claims auditor during our audit period. Even though it is not within the law to have a superintendent also be the claims auditor, several Board members indicated to us that they were told by the former Superintendent that all school districts appointed their superintendents as claims auditor. Beginning in November 2005³, an individual who does not have another position within the District was appointed claims auditor by the Board.

There are seven schools in operation within the District, with approximately 3,100 students and 600 employees. The District's budgeted expenditures for the 2004-05 school year were approximately \$43 million, funded primarily with State aid, real property taxes and grants. The major expenditures are employee salaries and related fringe benefits. For the school year ending June 30, 2005, general fund instructional salaries totaled approximately \$18.4 million and non-instructional salaries totaled approximately \$6.4 million.

Expenditures for other than personal services, employee benefits, debt service and interfund transfers totaled approximately \$6.5 million for the school year ending June 30, 2005. Of that amount, purchases made on four bank credit cards totaled \$27,921. The cards were assigned to the former Superintendent, an assistant superintendent and two Board members. Although they were assigned to those District employees, other District employees would also use them on occasion as needed. The Board adopted a credit card use policy on November 15, 2005. However, District officials indicated to us that the credit cards are currently not being used.

² Also referred to as the Lake Shore Central School District.

³ The interim Superintendent also served as the claims auditor.

Reported fixed assets for equipment totaled over \$19 million at June 30, 2005. Reported fixed asset purchases for the 2004-05 school year totaled approximately \$1.5 million. The District maintains certain consumable inventories to supply its day-to-day operations by teachers and staff. At November 22, 2005, the computerized supply inventory totaled about \$300,000.

Objectives

The objective of our audit was to evaluate internal controls over the District's claims, purchasing and payroll processing functions and inventories of fixed and consumable assets. We focused our audit on the following questions:

- Are internal controls for administrative employee payments and compensation appropriately designed and operating effectively?
- Are internal controls over the claims processing function and related purchasing activities appropriately designed and operating effectively?
- Are internal controls over selected fixed asset and consumable inventory items appropriately designed and operating effectively?

Scope and Methodology

During this audit, we examined internal controls over administrative payroll processing, claims processing and certain related purchasing functions, and inventories of fixed and consumable assets for the period July 1, 2004 through June 30, 2005. We extended the testing for certain administrative payroll to July 1, 1995 through August 31, 2005, and our scope for credit cards purchases to July 1, 2002 through June 30, 2005.

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

Comments of District Officials and Corrective Action

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board

should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within ninety 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.

Administrative Compensation and Benefits

To ensure District administrative employees receive the compensation and benefits to which they are entitled, the Board must clearly define and authorize the payments the District makes, and develop a means of verifying that employees receive only authorized payments. If the Board enters into an individual employment agreement with an employee who is not covered by a collective bargaining agreement, the agreement should specify the salary and benefits authorized for that employee. However, the District's former Superintendent received unauthorized compensation and benefits totaling almost \$61,000, and other administrative employees received thousands of dollars in pay and benefits they had not earned. We also found the District's treasurer was able to access and change payroll data for herself and other administrative employees without specific authorization, and without formal documentation of the changes that were made. As a result, taxpayer resources were misused to inappropriately enrich District officials. These employees were overpaid because the Board did not ensure they were paid according to authorized contracts and agreements. Further, the Board did not adopt a policy for verifying administrative payments; ensuring the Superintendent developed related procedures; and monitoring whether District payments to administrators consistently complied with the policy. The Board also demonstrated weak governance because it did not foster a control environment in the District that promotes conformance to ethical standards.

Former Superintendent Kenneth J. Connolly

At a special Board meeting on March 29, 2005, the Board authorized the "retirement" of former Superintendent Kenneth J. Connolly on July 15, 2005. Connolly was actually leaving the District to take another job, specifically as Superintendent in the Lakeland Central School District in Westchester County. Since this was just a change in employment, Connolly should have resigned his position. However, Connolly wanted to "retire," since doing so would enable him to inappropriately access his contract's retirement benefits. Those benefits included a payment of \$8,797 for his unused sick leave, and full health, dental and optical insurance coverage from the District until he reached age 65.⁴ Several Board members who attended the March 29, 2005 meeting said they had reservations about classifying Connolly's departure as "retirement," but that Connolly told them

⁴ In a letter dated March 22, 2005, Mr. Connolly indicated to the President of the Board of Education that, "Since I am receiving health insurance from the Lakeland Central School District I will not seek coverage from Lake Shore. Should coverage from Lakeland cease, I will reinstate my coverage with Lake Shore."

all superintendents word their resignations this way. According to these Board members, who say they feel duped by their former Superintendent, Connolly pressed them to approve his retirement that night, even though the Board's legal counsel was not present.

During their annual audit, the District's external auditors questioned whether the District was legally obligated to pay for Connolly's health insurance, since he was not retired, but working for another school district. The District's attorney responded it was "unfortunate" that the agreement was drafted without legal counsel, but that the impact of the agreement was the District's acceptance of Connolly's "letter of resignation for the purpose of retirement."

Although the former Superintendent was on the payroll through July 15, 2005, he was not conducting District business. According to his time records, he was on vacation between June 30 and July 15, 2005. Since Connolly's contract with the Lakeland Central School District required him to begin duties there on July 1, 2005, he was paid by two districts during this two-week period.

Connolly's benefits from "retirement" included more than \$13,500 for unused vacation, personal and sick leave days. Given the dollar amount of the inappropriate separation payments made to Connolly, and how Connolly manipulated these unearned benefits, we extended our testing to cover his entire period of contracted employment which was February 1, 1996 through June 30, 2005. Our tests determined that, including his separation payments, Connolly received a total of \$60,885 in inappropriate payments. Details of these overpayments, on a year-by-year basis, are shown in *Appendix D*. Of the \$60,885 Connolly received, \$32,530 relates to unused leave overpayments, and \$28,355 relates to salary overpayments, as described below.

Connolly's unused leave overpayments include:

- \$8,797 upon "retirement" for all his unused sick leave; Connolly was not eligible to receive this payment, since he did not, in fact, retire;
- \$4,707 upon "retirement" for the balance of a full year of vacation and personal leave for 2005-06 (less the 10 days of leave Connolly used in July 2005), even though he was on the payroll for just 2 weeks in this year; if Connolly's leave benefits were prorated, as they were for other administrators who resigned or retired mid-year, he would not have received this payment;

- \$9,077 overpayment for leave sell-back; during his employment period, Connolly was paid \$6,406 for 13.5 vacation leave days he sold back to the District; when he left the District, he sold back the same 13.5 days – only at a higher rate – for \$9,077;
- \$6,051 overpayment upon “retirement” for vacation days Connolly accrued, but did not earn, during his employment period;
- \$2,082 overpayment at “retirement” for 44 days of unused leave time at higher daily rates than his contract allowed; and
- \$1,816 in overpayment during the employment period when Connolly was paid for leave time buy-backs at higher rates than his contract allowed.

Of the total \$28,355 in salary overpayments Connolly received, \$6,723 related to inappropriate payments for the period July 1 – 15, 2005; \$4,851 was attributable to unauthorized salary increases; \$7,266 related to retroactive pay Connolly was not entitled to receive; and the remaining \$9,515 involved other various overpayments Connolly received over the course of his tenure as Superintendent.

Connolly should not have been paid \$6,723 in salary for the period July 1 – July 15, 2005. He started his new job in Westchester County on July 1, 2005, and was clearly unavailable to perform any services at the District during these two weeks. Further, the District appointed an interim superintendent to start work in the District on July 1, 2005.

Connolly was also paid \$4,851 in unauthorized salary increases during the employment period. His most recent contract provided for a base salary, with annual percentage increases. Even though this provision would require Connolly’s salary to be calculated each year, the contract presented to us showed a salary schedule with fixed amounts. The business administrator told us he had received this copy of Connolly’s contract from Connolly himself, and had paid the former Superintendent’s salary based on the incorrect fixed salary schedule. A page had been substituted in the contract that allowed Connolly to improperly obtain extra compensation from the District.

Connolly was also overpaid \$7,266 in retroactive pay. In March 2002, the former Superintendent, along with other District administrators, received compensation for retroactive pay. All three of Connolly’s

contracts (May 1997, May 1999 and May 2001) stated Connolly would receive the same financial benefits provided to other District administrators and collective bargaining units. However, there was no documentation to show any of the administrators should have received this retroactive pay benefit, since it was not provided for in their individual contracts or in the collective bargaining agreement.

Furthermore, the Education Law specifically prohibits boards of education from tying the superintendent's salary or benefits to the terms of collective bargaining agreements. Since the school board may be represented by the superintendent in contract negotiations, basing the superintendent's salary on contract terms would give rise to a potential conflict of interest. Connolly should have formally requested and negotiated any additional compensation separately. The Board should have discussed any such a request, and authorized extra compensation, if warranted, by Board resolution and formal amendment to his employment contract.

We also found that Connolly may have been paid for more unused leave time than he actually had at "retirement," apart from unearned leave discussed earlier. In reviewing calling records for Connolly's District-issued cell phone for the 2004-05 school year, we identified 20 days when Connolly made calls from outside his "home area," even though there was no indication on his timesheet that he was out of town on District business or using leave time. We suspect Connolly was not at work in the District on these days, even though he did not report using leave time.

Other District Administrators

We extended our testing of the propriety of administrative payroll and/or separation payments to include other administrators, some of whom left the District between June 1, 2002 and July 1, 2005. We found the District paid unearned salary and benefits to the following individuals: the former assistant superintendent; the former business administrator; the former crew chief; and the treasurer. We found these administrators received inappropriate payments totaling approximately \$22,000. Some overpayments were authorized by the Board; others were unauthorized payments given to administrators by the treasurer, who could access the payroll program and make changes at her discretion. The remaining overpayments were due to improper leave usage and calculation or allocation errors that were not detected because no one verifies that payments are accurate.

Former Assistant Superintendent — The former assistant superintendent, Kenneth Keipper, Jr., who retired effective June 30, 2005, was improperly compensated \$1,584 for "retroactive pay" in March of 2002. This benefit was not provided by his contract, and there was no documentation to show it was authorized by the Board.

Former Business Administrator — The former business administrator, Carter Town, who retired effective January 3, 2003, received \$6,290 to which he was not entitled. In lieu of receiving compensation for “retroactive pay,” Town was paid at his daily salary rate for 11 days after his last actual working day (October 13, 2002), without charge to accruals, and for an additional 3 days he was not entitled to.

Former Maintenance Crew Chief — At a November 1, 2004 Board meeting, the Board accepted the retirement of the former crew chief, James Stearns, and authorized increasing his salary by \$7,866. In advance of a November 16, 2004 Board meeting, the former Superintendent issued a memo to the Board proposing a method of increasing this employee’s final salary - and lifetime pension benefit - at no cost to the District. A memo from the business administrator, attached to this meeting’s minutes, explained that the employee would receive a \$7,866 raise rather than an equivalent amount for selling back unused vacation days at retirement. Stearns’ pay raise was inappropriate, since it was done expressly to increase his pension benefit.

When asked to justify the \$7,866 pay raise for the former crew chief, District officials informed us that Stearns assumed additional duties involving the supervision of snow removal. However, according to his time records, the former crew chief worked only about one week per month during snow season (January, February and March). When we asked how Stearns would have performed \$7,866 worth of extra tasks working this limited schedule, especially during months when there was no snow, we were told he sometimes “worked from home,” and performed undescribed “other duties.” We also questioned why the former crew chief was paid the whole \$7,866, since this raise was not approved until November 16, 2004, when almost five months of the school year had elapsed. A review of payroll records showed that, while this former employee had received \$4,538 by the end of the school year, the treasurer inappropriately adjusted the payroll and simply paid him the additional \$3,328. The treasurer said she did this because she noticed Stearns had not received the full \$7,866.

By participating in this scheme to increase the former crew chief’s final average salary, the Superintendent and Board members cost District taxpayers more than \$8,000 in payroll and payroll taxes. If Stearns had worked and then sold back his vacation time instead of receiving an equivalent raise in addition to using his vacation, the District would have received the benefit of the additional work time. It is unconscionable that the Superintendent and the Board would participate in such a sham at the taxpayers’ expense.

At the time of his retirement on August 1, 2005, the former crew chief was also improperly compensated for a full year of vacation and personal leave benefits for 2005-06, rather than the prorated amount he should have received. As a result of this and other allocation errors, the District paid this employee \$4,308 in separation payments to which he was not entitled.

Treasurer — The treasurer, Paulette Degenaaars, routinely adjusted salaries, since she has complete access to all parts of the computerized program the District uses to maintain its financial records. When we reviewed her activity related to the payroll portion of the program for June and July 2006, we found she had adjusted payments or personal information about herself and 21 other employees, including the former crew chief. On two occasions during this period, the treasurer adjusted payments to herself: in one instance, removing federal and State taxes from a payment for a health insurance buy-out, and in another, adding a \$2,000 stipend to her salary. The treasurer had no documentation to support most of these changes, and there was no authorization of a \$2,000 stipend in the Board minutes. The business administrator told us he knew certain changes were made, but he did not know it was the treasurer who was making the changes.

By endorsing certain improper payments and not adequately monitoring other improper payments, the Board has not adequately safeguarded District assets and has therefore failed in its governance responsibilities.

Recommendations

1. The Board should assume greater governance responsibilities by establishing and maintaining a control environment that supports ethical behavior and conformance to controls.
2. The Board should take appropriate steps to recover improper payments made to prior employees.
3. The Board should ensure that employee compensation is based on properly authorized employee contracts, collective bargaining agreements or Board policies.
4. The Board should adopt a policy for verifying and approving administrative payroll and separation payments and ensure that the Superintendent, or his/her designee, develops adequate procedures to implement the policy.
5. The Board should periodically monitor employee compensation and benefit payments to ensure that they are consistent with applicable Board policies, employment contracts and/or collective bargaining agreements.

6. District officials should restrict the treasurer's access to the payroll program and develop a compensating control procedure to verify that all payroll changes are authorized and properly documented.

Claims Processing

The Board and District management are responsible for ensuring that District purchases are for reasonable and necessary expenses. To carry out this responsibility, District officials must establish and maintain a system of internal controls that works effectively to verify that purchases are documented, appropriate, approved and made in compliance with District policies. However, we found the District had inadequate controls over the processing and payment of claims. The former Superintendent inappropriately performed the claims auditor function, which enabled him to initiate, approve and authorize payment for purchases. We also found the District had little or no documentation for several paid claims, including credit card bills. As a result, the District may have paid for unauthorized, excessive or unnecessary expenses.

Controls over claims processing are intended to ensure that every claim contains enough supporting documentation to determine that it complies with District policies, and that amounts claimed represent actual and necessary District expenses. The claims auditor, who assumes the Board's powers and duties with respect to auditing claims, fulfills a critical control function by ensuring all claims are proper and legal before authorizing payment. To obtain this assurance, the claims auditor should verify purchases are approved by checking for proper signatures; confirm that claimed amounts are accurate; and ensure that all necessary documentation (e.g., signed receiving slips) is attached to the claim. The District's purchase order process requires that purchase orders be signed by a department head to indicate approval of the purchase, and that both purchase orders and claim forms requesting reimbursement be signed by the purchasing agent. The signed purchase order, along with relevant receipts, invoices or receiving slips, should be attached to the claim, and be available for the claims auditor's review. To provide for proper segregation of critical duties, the claims auditor should be independent of the District's purchasing and accounting functions, and should not be the Superintendent or other official responsible for business management. In addition, a claims auditor should have a clear understanding of the Board's expectations and his or her responsibilities.

We found the District's claims auditor's duties were not segregated from the District's purchasing function. The former Superintendent, whose duties included initiating and approving claims, also served as the claims auditor until he left District service. Therefore, he

could initiate and approve purchases as Superintendent, and then approve payment as claims auditor. Having the Superintendent serve as the claims auditor seriously weakens this control function, and increases the risk that the Superintendent or other employees could make inappropriate purchases that would not be detected. The Board appointed an independent claims auditor in November 2005. However, in interviews we conducted in January and February of 2006, six Board members reported they had never met the claims auditor, who is supposed to report to them, or received any reports from her. We also interviewed the claims auditor, who told us she reported to the business administrator. It is the Board's responsibility to develop guidance for the claims auditor and ensure this employee understands the guidance. Board members should then monitor the claims auditor's performance to verify this essential control function is working effectively.

We also found that claims were often paid even though they lacked authorizing signatures, as well as related purchase orders and claim forms. During an initial review of claims processing, we noted two instances in which there was no purchase order or claim form attached to the claim. Given the control weakness we identified in the claims audit function, we requested a print out of all claims without purchase orders. The resulting list contained 1,638 claims. We examined 62 of these claims, totaling more than \$187,000, all of which had been approved for payment by the former Superintendent, to determine if these purchases were properly authorized, itemized, documented and appropriate. We found one or more exceptions in many of these claims, as noted below.

- Twenty-eight of the 62 claims lacked an authorizing signature by the purchasing agent. These claims included purchases made with a home improvement store credit card and a gasoline credit card; two purchases of transportation department items; and one purchase at a grocery store.
- Another 18 claims, although authorized by the purchasing agent's signature on attached documentation, were missing one or more of the following: a claim form; itemized receipts; documentation of departmental approval; and/or documentation of employee receipt.

We also found that the District paid charges for District-issued credit cards in the absence of supporting documentation. The failure to obtain and retain itemized receipts and invoices for reconciliation with credit card statements prior to paying claims is a serious internal

control weakness that could result in the District paying inappropriate expenses. We attribute the lack of control over credit card use to the fact that the Board did not develop a policy regarding the use of District credit cards until November 15, 2005. District officials informed us that District credit cards are not currently used.

Of the \$27,921 in credit card charges paid during the 2004-05 school year, charges totaling \$25,887 were those made on the card assigned to the former Superintendent. As with any other type of claim, credit card transactions should contain enough information to properly allow for an audit of the claim. We tested these transactions to determine if they were documented, itemized, and were proper expenditures of the District. Of the \$27,921 charged on credit cards, transactions totaling \$5,190 (19 percent) lacked documentation or involved questionable charges. The examples below account for the majority of these purchases.

- Eight transactions (including five hotel bills, two airline bills and one flower shop bill), totaling \$2,812, had no supporting documentation.
- Eighteen transactions, totaling \$1,327, were for restaurant charges that were supported by receipts, but were not sufficiently itemized to show who ate the meals and why the District paid for the meals.
- Seven transactions, totaling \$869, were non-District purchases charged to a District credit card. Although most employees subsequently reimbursed the District for these personal charges, two of these purchases, totaling \$45, were not reimbursed. We do not recommend allowing personal use of District credit cards.

Due to the number of undocumented and insufficiently itemized credit card transactions, we expanded our scope to include the 2003-04 and the 2002-03 school years. We tested the transactions to determine if they were documented, itemized and appropriate. We found that \$7,526 of the \$21,176 (35 percent) in purchases charged during the 2003-04 year, and \$7,338 of the \$19,091 (38 percent) in purchases charged during the 2002-03 year, were not adequately supported or did not have a District purpose, as shown on the following page:

School Year	Total Charges	Lacked Documentation		Lacked Itemization		Non-District Purpose — Not Reimbursed		Non-District Purpose — Reimbursed	
		# trans	Amount	# trans	Amount	# trans	Amount	# trans	Amount
2003-04	\$21,176	26	\$2,831	4	\$360	2	\$108	22	\$4,227
2002-03	\$19,091	21	\$3,892	2	\$248	0	\$0	11	\$3,198

District employees also used District credit cards to pay for many of the District’s travel expenses. We reviewed charges related to 14 trips for conferences and training that occurred during the 2004-05 school year to determine whether the traveler requested and received approval for the trip, and whether meal and lodging expenses exceeded federal guidelines. We found the District did not exert adequate control over employees’ travel and related expenses. For example, we found that:

- Eleven of the fourteen trips did not have a travel request form on file;
- Ten of the trips were not approved by the Board or Superintendent; one additional trip was approved after the registration for the conference was already made;
- Lodging for 12 of the 14 trips exceeded federal guidelines⁵ by a total of \$5,200; the former Superintendent and two Board members stayed in San Diego, California, (where the federal lodging rate is \$129 per night) for four nights at an average of \$275 per night; since Connolly audited his own credit card bills, no one questioned this extravagance;
- Meals for four of the trips exceeded federal guidelines by an aggregate \$489.

We found the Board had not adopted policies concerning travel expenses until November 15, 2005. We further note that, while the 2005 travel policy does limit meal expenses to the federal guidelines, it does not provide any guidelines for lodging expenses. Without any guidelines for lodging costs, there is a risk the District could continue to pay for unreasonable or unnecessary expenses.

⁵ Although the District policy limiting meal expenses to the federal guidelines was not in place at the time of the travel we reviewed, we used these guidelines to give perspective on the travel expenses that were incurred by District employees or officials.

Finally, we identified a control weakness in the current process for approving audited claims. With certain exceptions, the treasurer should pay only those claims that have been audited and authorized for payment, and are listed on a warrant signed by the claims auditor. We found that the claims auditor compares the check register to the claims she approved for payment. However, no one compares the checks to the claims before the checks are sent to vendors. Without this comparison, the treasurer cannot be sure that checks are being issued only as approved for payment.

Recommendations

7. The Board should establish comprehensive written guidance for the claims auditor. The policy should require the claims auditor to verify that a claim: contains adequate itemization and documentation to determine that it is a proper District charge; complies with applicable District policies (e.g., is accompanied by a purchase order or claim form signed by the purchasing agent); and is approved by the department as actually being received.
8. The Board should inform the claims auditor of its expectations in implementing the policy, and monitor the claims auditor's compliance with the policy. The claims auditor should report directly to the Board.
9. The District should revise its travel policy to establish limits for lodging expenses, with the requirement that District officials obtain prior approval for incurring expenses that exceed these limits.
10. The claims auditor should provide a signed warrant to the treasurer documenting that the claims listed have been approved for payment. The treasurer should compare the checks to the signed warrant to ensure that only claims listed as approved for payment are paid.

Fixed Asset Inventories

The Board and District officials are responsible for managing inventories of fixed assets to properly account for and protect District assets from loss and misuse. We found, however, that inventory items we tested were not properly accounted for: some could not be located timely; others were lost or stolen; and one item, a \$1,225 digital camera, was in the home of Mark Higgins, a District employee. These problems occurred because the Board did not establish comprehensive inventory management policies and District officials did not implement inventory control procedures designed to account for and protect its fixed assets. Unless District management acts to correct these control weaknesses, these District assets will continue to be at risk of loss, misuse or theft without detection.

To safeguard the District's investment in fixed assets, District officials need to establish policies and procedures to adequately account for and protect these items from loss and misuse. Such policies and procedures should address the following:

- Maintaining written inventory records of the assets;
- Setting a minimum cost threshold for the items that must be maintained on a list of fixed assets;
- Placing permanent identification numbers on the assets;
- Keeping assets in secure locations;
- Conducting periodic physical inventories; and
- Assigning responsibility for the maintenance of records to individual(s) who do not have direct access to the assets.

We found that District officials have not established or implemented comprehensive policies⁶ and adequate procedures to control inventories. During our initial review of inventory management, we tested 16 fixed assets acquired during the 2004-05 school year, and found records for two of these assets were incorrect. Specifically, a musical instrument (bassoon) was not added to the inventory and a fax machine was listed at an incorrect amount.

⁶ District officials included a copy of the District's accounting of fixed assets policy in their response.

Due to weaknesses in the design and operation of controls over fixed assets, we selected a sample of 63 items (small electronics or musical instruments) from District records and attempted to verify their physical existence. Of the 63 items, 22 items were properly accounted for. However, we encountered the following problems with regard to the remaining 41 items.

- District officials had difficulty finding two of the four laptop computers in our sample. Officials determined the other two computers had been stolen. The loss report for one of the stolen laptops, discovered missing in April 2004, was prepared in December 2005. The stolen computer was replaced by another laptop, which was also stolen in June 2005. There is no indication that police were notified of the thefts.
- District officials had difficulty verifying the existence of 31 desktop computers. District officials checked various departments in the high school and the middle school before finally locating these computers in various classrooms at the middle school and at the elementary schools.
- One digital camera costing \$1,225 was brought in the day after our initial inquiry by Mark Higgins, a District employee who said he kept it at home so he could take photos of District equipment. We find this explanation difficult to believe, since Higgins is not authorized to maintain District equipment in his home.
- Five digital cameras had no identifying numbers; three were located, but two cameras were determined to have been stolen. The internal loss reports for both cameras were filed many months after the loss was detected, and there is no indication police were ever notified. One of these reports listed the camera, as well as a printer, as “missing.”
- District officials could not document that any of the stolen property noted during our audit was reported to the police or to the business administrator who is in charge of maintaining inventory records.

The District’s inability to locate or account for fixed assets, and loss of assets in some instances, is due to the District’s inadequate control over these inventories. District administrators have not developed procedures to identify and track individual assets so they readily know how much inventory they have, where it is located or to whom it was issued.

In addition, District officials do not ensure that District fixed assets records are accurate and up-to-date by timely updating asset records for additions and deletions, by performing periodic physical inventories, and by following up on any discrepancies identified during inventory counts. For example, the business administrator, who is in charge of tracking inventory, updates his inventory records annually. He obtains a list of new assets from purchases applied to equipment appropriation line items, and identifies inventory removals based on Board minutes. District officials should update the asset records to reflect acquisitions and disposals in a more timely manner. We also found the last physical inventory was performed in September 2002 by a third party vendor. District information technology personnel told us that no one has inventoried individual information technology equipment in at least ten years.

We also noticed that District officials do not maintain physical security over their fixed assets. For example, during our audit, we noticed that computers were piled and left unattended in the basement hallway of the high school. District personnel indicated that these computers were left there because they were waiting to be upgraded and distributed for classroom use. District assets left unprotected in this manner are subject to theft.

Recommendations

11. The Board should adopt more comprehensive written inventory policies to properly safeguard assets and monitor compliance with these policies.
12. District officials should establish procedures to ensure complete and accurate inventory records are maintained and periodic physical inventories are conducted. Officials should follow up on any discrepancies identified during the physical inventories.
13. District officials should ensure that assets are physically secured and safeguarded.

Central Supplies Inventories

District officials are also responsible for safeguarding inventories of consumable goods, such as day-to-day supplies used by teachers and staff. However, we found that District officials were not properly safeguarding their consumable inventories, and did not have reliable figures about the value of their supplies on hand. Officials could not account for consumable items because they did not maintain perpetual inventory records of consumables or maintain the results of inventory counts. As a result, these District assets are subject to loss, waste or theft.

To safeguard consumable inventories, District officials should adopt inventory control procedures that include maintaining written inventory records; keeping inventories stored in a secure location; conducting periodic physical inventories; and assigning recordkeeping responsibility to an individual who has no physical access to the inventories. However, we found District officials did not develop and implement such control procedures.

- Our review of the District's central supply store operation revealed that the supply clerk, who has access to inventories, also maintains and updates the inventory records; performs the annually physical inventory count; and adjusts the records to account for any discrepancies between the physical inventory count and the inventory records.
- The supply clerk claimed the District conducted an annual physical inventory count most recently in 2004. We were told the results of this count were discarded.
- A report from the District's computerized recordkeeping system dated November 22, 2005, indicated the District had supplies on hand valued at more than \$300,000. However, District officials told us they did not place much reliance on that figure, or on the system itself, since the system does not accurately reflect usage.
- District officials did not routinely perform any analytical reviews of purchase and usage trends to detect any unusual activity that could indicate pilferage or other misuse.

The District is in the process of installing a new system which District officials hope will address the usage recording problems of the old system. While it was not practical or feasible for us to determine the value of District inventories of supplies, District officials can inventory value and track usage through a combination of perpetual inventory records and regular physical counts.

Recommendations

14. District officials should establish and maintain perpetual inventory records for central supply items. Once established, officials should reconcile the perpetual inventory records periodically to a physical inventory and follow-up on any material differences.
15. The business administrator should perform analytical reviews of financial data to help reveal unusual items or trends requiring further investigation.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Telephone - All Schools 716-549-2300
FAX 716-549-6228

On Beautiful Lake Erie

SENIOR HIGH
959 BEACH ROAD
ANGOLA, N.Y. 14006-9782
FAX 716-549-4033
716-926-2307

MIDDLE SCHOOL
8855 ERIE ROAD
ANGOLA, N.Y. 14006-9274
FAX 716-549-4374
716-926-2400

JOHN T. WAUGH
100 HIGH STREET
ANGOLA, N.Y. 14006-1300
FAX 716-549-2380
716-926-2370

WILLIAM T. HOAG
42 SUNSET BOULEVARD
ANGOLA, N.Y. 14006-1000
FAX 716-549-4391
716-926-2480

ANTHONY J. SCHMIDT
9455 LAKE SHORE ROAD
ANGOLA, N.Y. 14006-9400
FAX 716-549-4428
716-926-2350

HIGHLAND
6745 ERIE ROAD
DEPUE, N.Y. 14047-9698
FAX 716-927-9269
716-926-2600

BRANT 1
1272 BRANT N. COLLINS RD
BRANT, N.Y. 14027-0247
FAX 716-549-4439
716-926-2450

TRANSPORTATION
8740 N. STATE STREET
ANGOLA, N.Y. 14006-9600
FAX 716-549-4384
716-926-2740

August 15, 2006

Office of the State Comptroller
Buffalo Regional Office
295 Main Street – Room 1050
Buffalo, NY 14203

Dear Sir/Madam:

We are in receipt of your draft report of the State Comptroller's Office audit of the Evans-Brant Central School District for the July 1, 2004 – June 30, 2005 fiscal year. We are writing to provide you with the District's response to the findings contained in your report, and to provide you with the District's intended actions in response to the findings and recommendations. We will address the findings and our related intended actions in the same order that the findings and recommendations appear in your report.

Administrative Compensation and Benefits

Response to Findings-

After the completion of the District's 2004-05 external audit, the District contacted the former superintendent because the District's external auditor had questioned the issue of the former superintendent's resignation letter. The District received written communication from the former superintendent that stated he would not be accessing health insurance through the District as he had previously indicated. Additionally, the District, through its legal counsel, has contacted Mr. Connolly and he has responded with a letter dated August 11, 2006 (attached). In this letter he indicates that he is "more than willing to promptly respond to and make reimbursements of monies that should not have been paid to me to the full extent required by law". Today, with the prior consent of the State Comptroller's Regional Office, the District's legal counsel responded to Mr. Connolly with a letter providing him detailed information from the preliminary audit report regarding overpayments paid to Mr. Connolly. The District will continue to work with its legal counsel to recoup the overpayments.

The findings relative to the former Assistant Superintendent for Instruction and the former Business Administrator both pertain to the payment of "retroactive pay", that was paid when the District finalized a contract with its administrators and supervisors bargaining unit. Neither of these individuals were members of the bargaining unit because they were central office administrators. They were appropriately covered by separate employment contracts. The District had an established practice of

giving its central office administrators the same salary percentage increase that it gave to the other District administrators through the collective bargaining process. What caused the problem with this practice, was the fact that the Board did not take specific action to award the additional salary increase to these individuals after the bargaining unit's contract was settled, and both person's employment contracts with the District were silent on this issue. In the future, the Board will act to specifically approve all salary increases. The District will consult its legal counsel to determine what course of action, if any, is appropriate for this finding.

The finding and comments relative to the former maintenance crew chief pertain to a Board approved increase in pay that he received for additional duties assumed in his final year of employment. The Board authorized a salary increase for this individual, with the stipulation that he use a number of vacation days that would have been bought back from the District at the end of his employment in accordance with his collective bargaining agreement. The District felt that since this person was a salaried employee, he would still be responsible for the completion of his duties even though he would be using vacation time throughout his remaining employment. The District did authorize the Treasurer to pay this person the remaining salary increase at the end of the fiscal year when it was determined that he had not received the full increase. The District had a practice of noting in the Board minutes when a salary or increase was to be prorated for a portion of the year. The Board approval on this item did not state that it was to be prorated, so the remaining amount was paid at the end of the fiscal year in order to avoid crossing fiscal years. The District agrees with the finding that vacation and personal leave benefits should have been prorated for the 2005-06 year and were not. The District will consult its legal counsel to determine what course of action, if any, is appropriate for this finding.

The District's treasurer served as a payroll clerk for the District prior to her appointment as treasurer. Subsequent to that time, the District has replaced the payroll clerk twice and the treasurer assisted the District in training each new clerk. In reviewing this finding with the auditors, the business administrator acknowledged that he was aware that the treasurer assisted the new payroll clerk in making corrections to errors in payroll on multiple occasions. The District acknowledges that it created an internal control weakness by continuing the former payroll clerk's access to the payroll program when she became treasurer. However, it was done so that she could train the new payroll clerk. District officials have since removed her access to the payroll program. The \$2,000 stipend that was paid to the treasurer was the same amount that was paid to the District's former treasurer. Minutes from the District's Board of Education meetings reflect the approval of a \$1,100 per annum stipend for the treasurer in July 1996. Payroll records indicate the stipend was increased to \$2,000 in July 2002. While the Board did not take specific action to approve the stipend for the new treasurer at the time of her appointment, the Board believed that the prior resolution was adequate to approve the stipend. The Board approved the stipend at its Annual Reorganization Meeting in July 2006, and will continue to approve this along with any other such stipends each year. Additionally, District officials have instructed payroll clerks that no changes may be made to employee withholdings including taxes, without properly completed tax withholding certificates or other documentation such as signed 403(b) agreements.

Recommendations

1. The Board is working to establish and maintain an ongoing control environment that supports ethical behavior and conformance to District controls. For the past year, the Board has been working to revise and adopt a new policy manual. Once the new policy manual is completed, the Board is looking to compile and adopt a procedural (administrative regulations) manual. The Board has also created of an internal audit function for the District, with District officials spearheading a cooperative Request For Proposals (RFP) for Internal Audit Services along with twenty-five neighboring school districts. Once the internal audit process is functioning within the District, the Board will look at making areas identified in the internal audit risk assessment areas to be examined by the District's internal auditor and possibly also the external auditors.
2. As discussed above, the Board will consult legal counsel in an effort to seek reimbursement for payments deemed to be improper.
3. The business administrator now receives the original District copy of all employment contracts and collective bargaining agreements. Since the business administrator is responsible for entering the District's salary schedules into the financial software, the practice will insure that the Board approved compensation levels are the amounts entered into the software. The Board will expand future amendments to contracts or agreements that are made to cover additional duties, to include a clear description of the duties to be performed or services to be provided in exchange for the additional compensation.
4. The District has implemented a procedure requiring all administrators to properly account for their attendance. This involves the completion and submission of an administrative time record to the superintendent, for each bi-weekly pay period. Additionally, separation payments are now calculated by the District, reviewed for accuracy with the employee who is retiring, and given to payroll for processing only when verified and complete.
5. The District has expanded the duties of its Claims Auditor to include random tests of payroll transactions. This was done to help insure that payments are consistent with applicable Board Policies, employment contracts and/or collective bargaining agreements.
6. The District took steps to remove the treasurer's access to the payroll program after its initial discussion with the auditors. Additionally, it will work to develop procedures to insure that payroll changes are properly documented, including documentation of authorization. Copies of Board Meeting agendas containing appointment and salary changes that are furnished to the payroll clerks by the District Clerk will be maintained and compared against payroll changes for verification.

Claims Processing

Response to findings-

The District began taking steps to segregate the Claim's Auditor's duties from the District's purchasing function during the beginning phase of the audit. It hired an independent person to function solely as the Claims Auditor for the District. Since the point in early January 2006, when the auditors were told by Board members that they had never met the claims auditor nor had they received any reports from her, the reporting function has been changed. The claims auditor now submits her weekly audit reports to the District. The reports are provided to the District audit committee and Board of Education members. They are also then shared with the District administrators. The claims auditor has also stated that she is willing to meet with the Board and/or audit committee at any time to discuss her function.

The District has also reviewed its claims payment processing procedures, and now takes additional steps to insure that all paid claims contain the necessary authorizations and signatures. It is important to note that many of the payments included in this finding were for credit card purchases for fuel, for the District's bus fleet late in the 2004-05 school year. The District was in the middle of a capital construction project that involved an addition to the District's bus garage facility. As part of this project, the District's bus fueling station was removed and replaced. During the point in time when the old system was being removed and the new system was not yet in place, the District had to make provisions to fuel its bus fleet. The District was able to have a vendor bring a tank truck to the District and fuel its diesel buses, but was not able to make this sort of arrangement for its gasoline-powered buses. For this reason, the District made arrangements to send buses three or four at a time to a gas station and purchased gasoline through the use of District fuel credit cards. This temporary practice ended with the installation of the new fuel facility, which now utilizes a computerized system to track fuel inventory and usage by vehicle.

In response to the auditors' findings relative to paid charges for District-issued credit cards, the District discontinued the practice of using District-issued credit cards. The sole exception is the use of fuel credit cards for approved out of district student travel. The regular District-issued credit cards were returned to the District, and cancelled during the audit period. The District will not revert back to the practice of utilizing credit cards, but instead prefers to reimburse employees for appropriate costs incurred that are substantiated by a detailed receipt and claim form for reimbursement. This practice will also serve to insure that no personal expenses will be paid by the use of District funds.

Recommendations-

7. The Board will work with District officials to establish written guidelines for the claims auditor, and will look to include the guidelines in its Administrative Regulations (procedural manual). The procedures will detail the steps to be taken to verify that each and every claim submitted for payment include itemization and details of all charges to evidence that the claim is a proper District expenditure that complies with all applicable District policies, and that it contains signatures from both department personnel and the purchasing agent.
8. As detailed above, the claims auditor now reports directly to the Board. Once the above-mentioned guidelines are established, the Board or its audit committee will meet with the claims auditor to review the guidelines and also make certain that its expectations of the claims auditor relative to the guidelines are understood by both parties.

9. The District will look into a revision of its travel expense reimbursement policy, relative to placing limits on lodging expenses. This can be accomplished while the current policy manual is being reviewed.
10. The claims auditor receives the Warrant Report bearing the signature of the purchasing agent as the officer giving rise to the claims, and the treasurer. The claims auditor will be instructed to sign the warrant Report at the completion of the claims audit, and return the warrant to the treasurer. The treasurer will likewise be instructed to compare the printed checks against the signed warrant to insure that only claims listed and approved on the warrant are being paid.

Fixed Asset Inventories

Findings-

The District agrees with the findings of the auditors in this area, with the exception of the finding relative to the fixed asset policy. The District has a policy #5521 titled "Accounting of Fixed Assets" (copy enclosed) that requires a written record of assets be kept, and establishes a minimum cost threshold for both recording of the assets and the capitalization (depreciating) of assets. The policy also requires the business administrator to update the inventory on an annual basis, which is the practice that was being followed. The current policy does not require the tagging of items or the conducting of periodic physical inventories. The Board will include these requirements in its revised policy manual.

See Note 1 Page 36

In your report, you note that the auditors encountered problems in locating a number of equipment items. The majority of these items were computer equipment that were being relocated from the District's middle school to its elementary schools, due to the temporary relocation of the District's sixth grade students for the 2005-06 school year. The District located the sixth grade classes in the elementary buildings for one year to vacate a whole floor in the middle school to make it available for construction. The District's technology staff was able to locate the equipment, after sorting through the moved equipment.

The District had contracted with an outside service in 2002 for a physical inventory of its assets. The inventory was completed, but many like items purchased at the same time were combined in the record keeping process. For accounting purposes this practice is adequate, but the District agrees that following this practice makes it more difficult to track and therefore safeguard individual assets. The District has since contracted with another vendor to complete a detailed physical inventory of District-owned assets, tag the assets with tamper-proof bar coded labels, and provide the District with detailed reports of the assets for accounting, inventory and insurance purposes. This service is being completed at a cost of \$9,500. The new service will provide the District with the ability to purchase a single user license for the software that will allow the business official the ability to update the asset inventory on more than an annual basis. The online reports available through this service will also streamline the District's ability to perform periodic physical inventories.

Recommendations-

11. As discussed above, the District will include the recommended items in the new policy for accounting of fixed assets.
12. The District will establish procedures for the conducting of periodic physical inventory of fixed assets at the completion of the current physical inventory. It is estimated that the physical inventory will be completed by the end of July 2006, and that on-line reports for the District will be available by mid to late August 2006.
13. The tagging of assets including cameras, computers and musical instruments will help the District insure that portable assets are further physically secured, safeguarded and more easily tracked.

Central Supplies Inventories

Findings-

The District did have its central supplies inventories stored in a secure location. The central supplies area is a separate area, which is locked when store clerks are not present. Additionally, the District has a motion-based security system in the area that requires an access code in order to disarm. The central supply personnel are the only District employees who have a code to disarm the system. The District employees did conduct an annual inventory, but as the auditors noted they discarded the inventory records. The records had sustained significant moisture damage from a water leak, and were discarded.

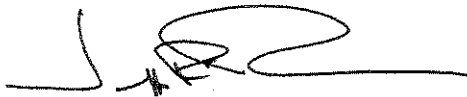
As explained to the auditors, the District recognized the shortcomings in the system and began looking for new inventory software over two years ago. In February 2004 after looking at several software programs it was determined that the District would be better suited by having a software program designed and written, specifically to address its needs. District officials contacted a software developer and outlined the requirements and functionality that the District required. At the time of the audit, the District was working with a software developer to design and write the inventory program. The inventory program was implemented on July 1, 2006. While it is not totally complete as yet, the software as it currently functions does track the perpetual inventory, and provides reports detailing the inventory levels. This provides the District the information that it needs to conduct regular physical counts. Once completed, the software will not allow central supply staff to edit current quantity of inventory on hand, but will require the staff to report the discrepancies to the purchasing agent. This will alert the purchasing agent to any problems and allow him to look for any unusual patterns or trends that would require investigation.

Recommendations-

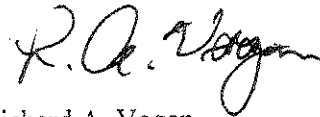
14. As detailed above, District officials have established and are maintaining perpetual inventory records through the implementation a new software program. The District will establish procedures that require periodic physical inventory taking, and the reconciliation of any differences.
15. As detailed above, the business administrator will review inventory records to determine if there are any instances of unusual patterns or trends including the adjusting of quantities on hand, that would indicate the need for investigation and possible changes in the control environment.

We wish to thank your office for the professional manner in which your audit was conducted. If you have any questions or require any additional information, please contact our offices.

Sincerely,



Jeffrey R. Rabey
Superintendent



Richard A. Vogan
President, Board of Education

POLICY

2003

5521

Non-Instructional/Business
Operations

SUBJECT: ACCOUNTING OF FIXED ASSETS

The Business Administrator shall be responsible for the accounting of general fixed assets according to the purposes outlined by the NYS Uniform System of Accounts for School Districts. These accounts will serve to:

- a) Maintain a physical inventory of assets;
- b) Establish accountability
- c) Determine replacement costs; and
- d) Provide for appropriate insurance coverage.

Procedures employed shall comply with all applicable laws, and the requirements of the New York State Department of Audit and Control, which are issued pursuant to Section 36 of the General Municipal Law. All fixed assets carrying a minimum value as established by the Board (see below) that have a useful life of one year or more and physical characteristics which are not appreciably affected by use or consumption shall be inventoried and recorded on an annual basis. Assets shall be recorded at initial cost, or if not available, at estimated initial cost; gifts of fixed assets shall be recorded at estimated fair value at the time of the gift. Fixed assets shall include land, land improvements, buildings, building improvements, construction in progress, machinery & equipment, vehicles and infrastructure (if any).

For financial reporting in accordance with Governmental Accounting Standards Bulletin #34 (GASB-34), capitalization and depreciation thresholds, depreciation methods and estimated useful lives of assets will be as follows:

	<u>Tracking & Inventory</u>	<u>Capitalize & Depreciate</u>	<u>Depreciation Method*</u>	<u>Estimated Useful Life</u>
Land	\$ 1	Capitalize Only	N/A	N/A
Land Improvements	\$ 1	\$ 25,000	Straight Line	20 yrs.
Buildings (orig. Construction)	\$ 1	\$ 50,000	Straight Line	40 yrs.
Building Additions & Improvmts.	\$ 1	\$ 50,000	Straight Line	20 yrs.
Construction in Progress	\$ 1	Capitalize Only	N/A	N/A
Machinery & Equipment	\$ 500	\$ 5,000	Straight Line	10 yrs.
Vehicles	\$ 500	\$ 5,000	Straight Line	10 yrs.
Infrastructure	\$ 50,000	\$ 25,000	Straight Line	40 yrs.

* No depreciation expense shall be charged in the year of asset acquisition.

Adopted: 6/17/03

APPENDIX B

OSC COMMENTS TO DISTRICT OFFICIALS' RESPONSE

Note 1

Based on information provided by District officials we have clarified our Fixed Asset Inventory finding to focus on the comprehensiveness and adequacy of Board adopted written policies.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board of Education minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its database(s). Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected payroll processing, claims processing and related purchasing activities, and fixed asset and central supply inventories for further audit testing.

Within payroll processing, we focused our attention on compensation made to administrative employees. We extended our testing to include payroll contracts between the District and the former Superintendent since 1996 and certain other administrative employees who left the District since 2002. We interviewed officials, observed the processing of transactions, tested the accuracy of transactions, and examined the following records to determine if the payments were properly authorized:

- Earnings Summaries
- Claims
- Contracts
- Attendance Summaries
- Minutes of the proceedings of the Board
- Payroll Register
- Cell Phone Records

Within claims processing, we focused our attention on the approval of purchases and the approval for payment for various types of goods and services acquired, including special attention to claims for reimbursement of expenses for officials and employees. We also focused on claims without purchase orders and claims for credit cards. We extended our testing to also include the prior two school years' credit card claims. We interviewed officials, observed the processing of transactions and examined

the following financial records to determine the effectiveness of internal controls pertaining to these functions and any associated effects of deficiencies in those controls:

- Vendor History Reports
- Conference Request Forms
- Employee Reimbursement Forms
- Purchase Orders
- Claims
- Checks

Within fixed asset inventories, we focused our attention on musical instruments, computers, cameras and other small electronics. We interviewed officials and examined the following to determine if inventories were properly safeguarded:

- Fixed Asset Inventory
- Outside Inventory Appraisal List
- Individual Department Inventories
- Invoices
- Inventory Change Sheets
- Minutes of the proceedings of the Board
- Assets

Within consumable inventories, we focused our attention on central supplies inventories. We interviewed officials, observed the processing of transactions and examined the central stores inventory report to determine if inventories were properly safeguarded.

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

INAPPROPRIATE SALARY AND BENEFIT PAYMENTS TO FORMER SUPERINTENDENT CONNOLLY

School Year	Actual Compensation	Compensation Per Audit	Salary Overpayments	Unused Leave Overpayments	Total Overpayments
1995-96	\$38,334	\$38,333	\$1	\$0	\$1
1996-97	96,000	95,680	320	0	320
1997-98	104,050	100,000	4,050	0	4,050
1998-99	110,207	105,317	4,772	118	4,890
1999-00	114,802	114,419	152	231	383
2000-01	118,531	118,304	220	7	227
2001-02	133,267	125,967	7,266	34	7,300
2002-03	148,750	147,414	0	1,336	1,336
2003-04	147,813	147,338	385	90	475
2004-05	154,620	150,154	4,466	0	4,466
2005-06	64,937	27,500	6,723	30,714	37,437
Total	\$1,231,311	\$1,170,426	\$28,355	\$32,530	\$60,885

APPENDIX E

INAPPROPRIATE SALARY AND BENEFIT PAYMENTS TO OTHER DISTRICT ADMINISTRATORS

FORMER ASSISTANT SUPERINTENDENT KEIPPER					
School Year	Actual Compensation	Compensation Per Audit	Salary Overpayments	Unused Leave Overpayments	Total Overpayments
2001-02	\$115,330	\$113,746	\$1,584	\$0	\$1,584

FORMER BUSINESS ADMINISTRATOR TOWN					
School Year	Actual Compensation	Compensation Per Audit	Salary Overpayments	Unearned Leave Usage	Total Overpayments
1999-00	\$78,524	\$78,499	\$25	\$0	\$25
2002-03	61,876	55,611	-482	6,747	6,265
Total	\$140,400	\$134,110	\$-457	\$6,747	\$6,290

FORMER CREW CHIEF STEARNS					
School Year	Actual Compensation	Compensation Per Audit	Salary Overpayments	Unused Leave Overpayments	Total Overpayments
2004-05	\$59,716	\$51,850	\$7,866	\$0	\$7,866
2005-06	15,051	10,743	0	4,308	4,308
Total	\$74,767	\$62,593	\$7,866	\$4,308	\$12,174

APPENDIX F

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

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