



Geneva City School District Separation Payments, Capital Assets and Food Inventories

Report of Examination

Period Covered:

July 1, 2004 - August 24, 2005

2006M-41



ALAN G. HEVESI

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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

August 2006

Dear School District Officials:

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

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Geneva City School District — Separation Payments, Capital Assets and Food Inventories.

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

EXECUTIVE SUMMARY

The Geneva City School District (District) is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Board is also responsible for establishing a strong control environment in the District by adopting effective policies that guide the overall direction of the District. 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.

Scope and Objective

The objective of our audit was to evaluate the internal controls over separation payments made to District officials, capital assets and food inventories to ensure that District assets were properly safeguarded. Our audit addressed the following question for the period July 1, 2004 to August 24, 2005:

- Are internal controls over separation payments, capital assets and food inventories designed appropriately and operating effectively?

Audit Results

The District should ensure that employees receive separation payments upon leaving District employment only when such payments are stipulated in the employees' contracts or authorized by a Board resolution. We found the District overpaid the assistant superintendent for curriculum and the coordinator of special education a total of \$13,904 for unused leave balances upon retirement, although neither their employment contracts nor Board action entitled these individuals to separation payments. The payroll clerk was unaware of the fact that no current District employment contracts authorize these payments. The overpayments occurred because the Board had not established and implemented policies and procedures for payroll processing, including payments for unused leave at separation.

The Board did not establish adequate reporting and monitoring procedures to ensure capital asset records are accurate, complete and up-to-date. Even with help from the various building administrative assistants, we could find only 10 of 32 recently purchased electronic equipment items during our initial attempt to verify the existence of these items. Of the ten items we found, three items were in different locations from the locations noted in the records. During a second attempt at locating the remaining 22 items, the audiovisual coordinator, who had a listing of assets that was different from the

list maintained by the administrative assistant, was able to locate all but 5 of the 22 items. The five missing items were calculators that were apparently stolen, even though no one had reported the theft. In addition, we found that none of the electronic equipment items we viewed were tagged to identify them as District assets. Given the state of District records and the lack of oversight of the capital asset inventory, these District assets are at risk of loss, misuse or theft without detection.

We also found the Board and District management did not establish policies and procedures that clearly assign responsibility for inventory control, and describe how officials should effectively safeguard food stores and maintain accurate records. Although the cafeteria manager has inventory management software to use, she did not maintain usage records or a perpetual inventory record for food supplies. The manager told us that maintaining the perpetual inventory system was time consuming and too much work. We determined that the District's monthly physical inventory counts excluded certain food items; that no one maintained food usage records; and that physical security over food items was inadequate. Our limited tests of five food items stored at the central receiving facility revealed differences between the amounts on hand and recorded amounts (using available District data) for every food item we tested. Since food inventories are so poorly controlled, the District is at risk of overspending on food.

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 noted in Appendix B, District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Introduction

Background

The Geneva City School District (District) is located in Ontario County and has an enrollment of approximately 2,400 students. The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District has four educational buildings, an administrative office, and a central services facility that accommodates food services, central receiving, maintenance, and the bus garage. During the 2004-05 school year, the District had operating expenditures of approximately \$34 million. The major revenue sources for the District are real property taxes and State Aid, and the major expenditures are employee salaries and related fringe benefits, accounting for 60 percent of total expenditures.

Thirty-two people, whose benefits were governed by various employment contracts, ended their employment with the District during the 2004-05 fiscal year. In addition, since February 2005, the District has experienced turnover in its management, hiring a new Superintendent, assistant superintendent of curriculum, information technology director, and human resource director. The assistant superintendent of business also resigned recently. Some officials received payments when separating from District service.

Annually, an independent appraisal company updates the District's capital asset inventory records based on information provided by District officials. The administrative assistant in the administration building obtains copies of capital asset purchase orders in excess of \$100 from the claims auditor. She records capital asset additions on the 'inventory change report,' a form provided by the appraisal company, and forwards the report to the company on a quarterly basis. On April 27, 2005, the appraisal company conducted the District's most recent physical inventory of capital assets, which it valued at approximately \$98 million.

The District serves breakfast and lunch each school day. Approximately 1,900 students, plus staff members, eat their meals daily in the cafeterias. The cafeterias also cater various District functions, conduct special events, host a free summer feeding program for children up to

age 18, and work with classroom staff regarding nutrition education as requested. During the 2004-05 school year, the District spent approximately \$1.2 million on its cafeteria operations.

The cafeteria manager prepares the monthly lunch menus and orders the majority of the food purchases online through New York State Contract providers. All food items are received at the central receiving facility, where the receiving clerk inspects the goods and compares the amounts to the packing slip. The cafeterias requisition food items monthly from the central receiving facility to prepare meals.

Objective

The objective of our audit was to evaluate the District's internal controls, which are designed to help ensure that District assets are properly safeguarded. We focused our audit on the following question:

- Are internal controls over separation payments, capital assets and food inventories designed appropriately and operating effectively?

Scope and Methodology

During this audit, we examined internal controls over employee separation payments, selected capital assets and food inventories for the period July 1, 2004 to August 24, 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 noted in Appendix B, District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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

Separation Payments

District-wide policies, collective bargaining agreements and/or individual employee contracts should stipulate employees' entitlement to the accrual, use and payment of leave time. Payments for unused leave upon separation from employment should occur only when authorized by the Board in the above policies, agreements or contracts, or by Board resolution. It is the Board's responsibility to ensure the District makes separation payments only when they are required.

During the 2004-05 school year, 32 people, including 8 administrators, terminated their employment with the District. We reviewed the relevant collective bargaining agreements, as well as the terms of individual employment contracts a number of the employees held with the District, and found that none of these agreements or contracts provided for separation payments. However, when we reviewed the final payrolls of the eight former administrators, we found the District made separation payments to two of these eight people (the assistant superintendent for curriculum and the coordinator of special education). The remaining six administrators did not receive separation payments. The District overpaid the two former administrators by a total of \$13,904, as detailed below.

- On April 12, 2005, the Board accepted the assistant superintendent for curriculum's resignation, effective June 30, 2005. Although her last day on the job was May 19, 2005, she used up her accrued sick leave (she called in sick every Monday in June) and vacation leave to make June 30, 2005 her official last day of work in the District. This former administrator should have received her last full paycheck on June 24, 2005, and a final paycheck of \$1,444 for the 4-day period from June 27 to June 30. Instead, the District paid her \$7,757: the \$1,444 plus \$6,313 for 20 days of vacation leave to which she was not entitled. Even if her contract had authorized payment for unused leave – which it did not - this former employee had actually used all her accrued leave time. The District overpaid this individual \$6,313.
- On December 13, 2004, the Board accepted the coordinator of special education's resignation, effective January 3, 2005. At the time of his resignation, he had accrued 23.5 days of vacation leave. The District paid this former administrator, in addition to his regular salary, a total of \$7,591 for all 23.5 days of leave in 2 paychecks: 12 days of leave on December 10, 2004,

and 11.5 days of leave on December 23, 2004. Therefore, the District overpaid this former employee \$7,591.

The payroll clerk told us she calculated separation payments for the two former administrators the same way she calculated the payments for non-instructional non-supervisory employees who are represented by a different employment contract. The clerk stated she had always done the calculations this way, and she was not aware that current contracts did not provide for separation payments.

These overpayments occurred because the Board and District officials did not establish and implement policies and procedures for payroll processing, including ensuring that District personnel who process payrolls are aware of current contract terms. Further, the Board did not designate a District official, such as the claims auditor, to review proposed separation payments to confirm they are justified by contract terms or Board resolution before the payments are authorized. Unless the District corrects these control weaknesses, it is at risk of continuing to pay employees who leave the District for benefits they are not entitled to receive.

Recommendations

1. The Board should adopt policies and District officials establish procedures for payroll processing and making payments for unused leave upon separation of employment.
2. District officials should only make separation payments when specifically authorized by the Board through resolutions, policies or employment contracts.
3. The Board, or its designated representative such as the audit committee, claims auditor or internal auditor, should monitor separation payments and authorize only those payments that conform to District policies and procedures.
4. The Board should take the appropriate steps to recover the \$13,904 in improper separation payments made to the two former District officials.

Capital Assets

The Board is responsible for safeguarding its capital assets, since they are essential to the performance of instructional tasks, and represent a significant investment of District resources.

Capital assets are those assets with a useful life of more than one year, and include such things as land; buildings and building improvements; furnishings; vehicles; and electronic equipment, such as computers and audio-visual equipment. The value of the District's inventory of capital assets totaled \$98 million as of April 2005, according to the District's independent appraiser.

However, we found the District does not adequately track its capital assets, or maintain reliable records about their acquisition, location in the District or disposal. For example, the District's administrative assistant reported to the appraisal company that it had added 32 capital assets, costing \$17,406, during the first quarter of 2005. However, in reviewing District purchasing records for this period, we found the District had purchased an additional 18 capital assets, costing \$107,864, which District personnel had not recorded and reported to the appraisal company. These assets, which included digital cameras, computers, a vehicle, furniture and bleachers, were not added to inventory records because the District does not have a mechanism to prompt the recording of new assets upon acquisition. In addition, the administrative assistant told us she does not record and report any dispositions or deletions.

Because we judged that the District's capital asset inventory records were incomplete and outdated, we decided to verify the physical existence of 32 electronic equipment items, costing a total of \$12,500, that were purchased between July 1, 2004 and December 31, 2004. These items included digital cameras, scanners, calculators, printers and a software package. The administrative assistants from each building could find only 10 of the 32 items; of the 10 items found, 3 items were in locations different from those listed on the quarterly report sent to the appraisal company. During a second physical inventory, the audiovisual coordinator, who kept a list of item locations that was different from the list maintained by the administrative assistant, was able to locate another 17 items. None of the 27 assets we found had a tag with an inventory number to identify the item as a District asset. District staff could not find the remaining five assets (calculators). A teacher told us the five calculators, with a total value of \$445, were "lifted" from her desk. However, the teacher did not know to whom she should report the theft, so she simply purchased more calculators on her own.

Given the state of District records and the lack of oversight of capital asset inventory, District assets are at risk of loss, misuse or theft without detection. The District's lack of accountability for its capital assets is because the Board did not establish adequate reporting and monitoring procedures to ensure capital asset records are accurate, complete and up-to-date. In addition, the District' capital asset policy should set valuation limits, describe how to report thefts of assets, and how to record asset disposals.

Recommendations

5. The Board should establish a comprehensive capital asset policy and the Superintendent, or his or her designee, should then develop adequate procedures to ensure that all capital asset acquisitions, dispositions and transfers are accurately recorded on change reports and given to the appraisal company.
6. District officials should assign an official who is independent of the acquisition and storage of capital assets, or related recordkeeping functions, to conduct a physical inventory of capital assets to account for all significant items and their locations. Discrepancies should be thoroughly investigated. District management should approve any resulting adjustments to inventory records.
7. District officials should implement procedures to ensure that all capital assets have a tag affixed to them identifying them as District assets.
8. District officials should develop procedures that instruct District personnel how they should report suspected thefts of District capital assets.

Food Inventories

To safeguard food inventories, the Board and District management need to establish policies and procedures that clearly assign responsibility for inventory control, and describe how officials should acquire, store and use the food in day-to-day operations. In addition, the District should require that cafeteria officials keep food stores physically secure, and maintain accurate usage records. Further, the assistant superintendent for business, internal auditor, or someone designated by the Board, should conduct periodic analytical reviews of the food inventory records to disclose any unusual items or trends that might require investigation.

The cafeteria manager stated that she used a FIFO¹ inventory system to manage food inventories and has the software to maintain the system on her computer. With this system, the manager should be able to maintain perpetual inventory records, including accounting for quantities purchased and ordered by the three school cafeterias. Each cafeteria is required to complete an inventory each month and estimate the food inventory needed for the following month by preparing an inventory/order sheet. The receiving clerk in the central receiving facility uses this information to ship supplies to the three cafeterias using a District delivery truck. The cafeteria manager said she conducts physical inventories of food supplies in the central receiving unit every month.

We found the District's inventory system is unreliable, and that food inventories are virtually uncontrolled. Examples of deficient inventory practices include the following:

- The cafeteria manager does not use the inventory management software to maintain a perpetual inventory record for food supplies. The manager said maintaining the perpetual inventory system was time-consuming and too much work.
- Monthly physical inventory counts do not include counting open cases, or food items such as milk, bread, produce and \$.50 items given to children as bonuses.
- No one maintains records of how much food the three cafeterias use.

¹ FIFO = First In, First Out inventory method in which inventory purchased first is used first.

- The cafeteria manager does not retain the monthly order sheets from the three cafeterias. She told us she does not need the order sheets and no one wants to see them.
- We observed several open doors, unlocked freezers and unrestricted access to food inventories during tours of the central receiving facility and a District cafeteria.
- Since the inventory records do not reconcile to physical counts, the cafeteria manager simply ‘zeros out’ the ending inventory each month and replaces those numbers with the results of the physical counts from each cafeteria and central receiving.
- No one performs periodic analytical reviews of food inventories in the District to identify unusual food purchases, trends in food usage at schools, etc.

We also found that, on several occasions, District employees (the cafeteria manager and receiving clerk) purchased food items and supplies from the District at cost. Although the employees paid for these items, allowing this practice is a serious control weakness because there is a risk that employees could take food and not pay for it. Further, the District does not have the authority to sell consumable items to employees. The function of the cafeteria is to provide meals to students, and not to provide low-cost food supplies to employees.

Therefore, even though the District appears to have established certain inventory control measures, such as an automated inventory management system and monthly inventory counts, these measures do little to protect food inventories, since both system data and counts data are unreliable.

We performed a limited test of selected items in the inventory at the central receiving facility to determine the extent to which discrepancies existed between District system records and actual quantities on hand. The inadequate state of District records did not allow us to recreate a perpetual inventory record for food items and compare it to the balances on hand. Therefore, to do our test, we compared available system data for quantities on hand (i.e., August 31, 2005 physical inventory counts; September 2005 purchase information; and September 2005 cafeteria order sheets, which were saved at our request) to the results of our physical count, done on September 30, 2005, for five food items in the central receiving facility. We noted discrepancies in all five food items tested at the central receiving facility. *Table 1* illustrates the discrepancies (both overages and shortages).

Table 1: Discrepancies Between District Records and Physical Inventory Counts					
Item (cases)	Cheese – Sharp White	Shrimp Poppers	Tuna	Cream Cheese	Fruit Gushers
8/31/05 Inventory Count	0	0	0	0	0
9/05 Purchases	2	28	2	8	2
9/05 Cafeteria Order Sheets	3	21	4	0	0
9/30/05 Inventory Count	0	0	0	0	0
Unaccounted for Food Items	(1)	7	(2)	8	2

The cost of these items per case ranges from between \$12 to \$33. These amounts may be relatively immaterial in the context of the District’s annual food budget of \$1.2 million. However, it is important to note that we found these discrepancies in all 5 items over just a 30-day period. Given that the controls the District has established over food supplies are not operating as intended, and the lack of security over food storage, the District could experience shortages in certain food items, and/or spend more than it should on food. The District could be purchasing more food than it should because of inaccurate records of quantities on hand; lack of information about what foods cafeterias use most often; unaccounted for loss or waste; or theft.

The District’s controls over food inventories are inadequate because District management has not instructed the cafeteria manager in the proper maintenance of inventory records; ensured the cafeteria manager used the District’s software to manage food inventories; separated incompatible duties in managing food inventories; or required adequate security for food stores. It is essential that District management provide good stewardship of taxpayers’ resources by establishing systems of internal control that work effectively to protect District assets. Unless the Board and District management take these steps, District food inventories, as well as other District assets, are at risk of loss, waste and misappropriation.

Recommendations

9. The Board and District management should assume responsibility for safeguarding food assets by establishing comprehensive policies for effective inventory management, as well as control procedures designed to carry out the policy. The policy and procedures should specifically assign responsibilities for purchasing, storing and tracking the use of food stores. Control procedures should segregate duties so that no one person can authorize transactions, maintain records and access food inventories.

10. The Board and District management should work with the cafeteria manager to set up and maintain a perpetual inventory system that

completely and accurately records all food items received by the District and used by cafeterias.

11. The Board and District management should require an individual who is not involved in inventory purchasing, storing or record management to conduct periodic physical inventories of food items on hand and to reconcile records with inventory counts. Differences should be investigated thoroughly and District management should approve any resulting adjustments.
12. District officials should improve the physical security over food items stored at the central receiving facility and the cafeterias by locking doors and restricting access to food inventories to authorized persons.
13. The assistant superintendent for business, or the Board's designated representative such as the audit committee or internal auditor, should perform periodic analytical reviews to reveal any unusual food inventory items or trends that might require further investigation.
14. The District should cease the practice of allowing employees to purchase bulk food at cost.

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

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



Geneva City School District

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August 11, 2006

██████████
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614

Re: Report of Examination, July 1, 2004 through August 24, 2005
2006M-0041

Dear ██████████

I am in receipt of your letter dated July 6, 2006, concerning the above-referenced matter. We are pleased to have an opportunity to respond to the draft report included with that correspondence.

As you know, our Board of Education met with representatives of your office, ██████████, on July 24, 2006, at 4:30 p.m. Also present were the undersigned and the Assistant Superintendent for Business Services, Lauren Poehlman.

The report of examination identified three areas of concern and offered suggestions for remediation. I will describe our response and course of action in addressing the identified concerns.

Separation Payments, Pages 8 and 9

The separation payment made to the former Assistant Superintendent for Curriculum was made in error. Our investigation reveals that inaccurate training methods resulted in the error. The District has contacted this individual, seeking repayment.

The separation payment for the former Director of Pupil Personnel Services was made consistent with the practice of the District in the past. Though not stated in the employment agreement, payment of unused vacation in the following year had been consistent with instances of administrator separation in the past. The District has recovered these funds.

The mission of the Geneva City School District is to provide an environment in which all children will learn. The organizational structure will possess the resources and personnel to establish high standards of achievement, to foster respect and dignity for each individual, to offer varied learning opportunities, and to equip all students with the skills necessary to become productive, contributing members of the world community.

Recommendations

1. The District will adopt policies and establish procedures for payroll processing associated with payment for unused leave upon separation. This will be accomplished during the months of September through December 2006.
2. See #1 above.
3. The aforementioned policy will include elements to ensure review by the audit committee, internal auditor and Assistant Superintendent for Business Services.
4. As stated above, the District has sought to recover the funds paid to the Assistant Superintendent for Curriculum and has recovered the funds paid to the Director of Pupil Personnel Services.

Capital Assets, Pages 10 and 11

The District had completed a comprehensive inventory of the capital assets using Industrial Appraisals, Inc. That inventory identified capital assets of \$100 or greater in value. In addition, the technology department maintains its own inventory of capital assets associated with that program area. District Policy #5621 provides for the conduct of an inventory of capital assets, though it does not specify a threshold amount. The policy calls for the Board of Education to take action to establish a threshold amount for the purpose of addition of capital assets. On August 14, 2006, the Board of Education will pass a resolution detailing a \$5,000 threshold for additions to capital assets.

Recommendations

5. We agree that the existing policy should be amended to reflect the \$5,000 threshold. This will be accomplished during the months of September through December 2006. The Business Services Office has developed adequate procedures to ensure that all acquisitions, dispositions and transfers will be accurately recorded.
6. As stated earlier, the District had retained the services of Industrial Appraisals to conduct physical inventory of capital assets. District management will thoroughly investigate discrepancies and adjustments.
7. We agree that all capital assets should have a tag affixed to them identifying them as District assets. District officials will ensure that tags are affixed to District assets, where appropriate.

8. We agree that the District should develop procedures to advise District staff about procedures for reporting of theft of capital assets. District administrators will ensure that these procedures are developed, communicated, implemented and evaluated.

Food Inventories, Pages 12, 13 and 14

Our Food Service program should be considered exemplary when compared with those of other school districts across the state. We have consistently provided outstanding nutritional offerings to our students, staff, parents and community, while ensuring that the program operates in a self-sustaining manner. We operate a food service program that repairs and replaces all of its own equipment without the assistance of capital projects funds.

In the course of our monthly physical inventory, open cases are identified as partial and individual items are not counted in all instances. Perishable items are ordered on a daily basis, consumed and disposed of as appropriate.

Food orders placed by school units are reviewed by the supervisor for consistency with our past experience. In cases where unusual orders are sought by a school unit, the supervisor makes inquiries as to rationale and appropriateness. This is done on a weekly basis.

Monthly order sheets will now be retained for future inspection.

The examination further comments about open doors, unlocked freezers and unrestricted access to food inventories. Our Central Services Facility building is a secure location, monitored by the supervisor, administrative assistant and store room clerk. Security cameras monitor the exits and hallways throughout the building 24 hours a day. All freezers and inventories are secured at the end of the working day.

The District maintains a periodic, not perpetual inventory system. The changes in inventory are monitored by the supervisor and the physical inventories are taken on a monthly basis. The current controls are appropriate for the level of operations for this District. We maintain food costs that are stable and between 32 and 38 percent of revenues. This is a clear indicator that the District is not overspending on food costs, as the standard is 40 percent of revenues.

The District does indeed review food inventories identifying unusual food purchases and trend data in our planning practices. The District will expand the review to include District Office personnel. Surplus inventory inspections are conducted twice annually by representatives of the Office of General Services, without comment or exception.

August 11, 2006

Recommendations

9. Our current practice for safe guarding the food inventory, including adherence to the HACCP standards for receiving, storage and safety of food. As stated above, we will maintain written records of the distribution of food on a weekly basis. We will take the appropriate steps to ensure that District policies are developed and adopted during the months of September through December 2006. The Food Service Supervisor authorizes transactions. The administrative assistant, store room clerk and supervisor maintain records and have access to food inventories. Further, food service staff in each of our units maintains inventories in addition to those maintained at the commissary located in the Central Services Facility. Purchase orders for all food and supplies are approved by the Assistant Superintendent for Business Services.

10. As stated earlier, the District maintains a periodic inventory and will continue to do so. Parenthetically, a survey of food service supervisors at a recent statewide leadership conference meeting in Schenectady, revealed that fewer than five of sixty food service programs represented engage in the practice of perpetual inventory. The perpetual inventory is not cost effective when compared to benefits associated with the maintenance of a perpetual inventory.

See
Note 1
Page 23

11. The District will appoint an individual outside of the food service program to assist in the periodic inventory counts.

12. Additional physical security over food items, stored in the Central Receiving Facility and cafeterias, would hamper efficient food service operations. As stated above, the facility is monitored by security cameras on a 24-hour basis, and all doors are secured at the close of the business day.

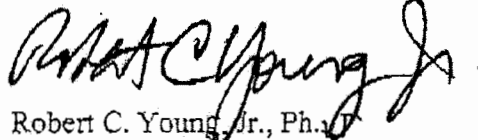
13. As stated previously, the Central Office will be involved in periodic analytical reviews in the future. Once the District retains the services of an internal auditor, consistent with the directives of the Comptroller, this individual will report to the Board's audit committee on a periodic basis.

14. The draft report references instances of allowing employees to purchase bulk food at cost. We agree that this practice should be terminated, but would note that in prior instances, a 10 percent premium had been charged to employees. Our records indicate that this has occurred infrequently. We agree that this practice should be terminated and we will take steps to ensure that this is the case.

August 11, 2006

We are pleased to have the opportunity to respond to the items raised by [REDACTED] [REDACTED] [REDACTED]. Though we do not agree entirely with all of the findings, we will ensure that appropriate adjustments to our policies, regulations and administrative procedures are instituted, consistent with the recommendations and mandates of the Office of the State Comptroller.

Sincerely,



Robert C. Young, Jr., Ph.D.
Superintendent of Schools

RCY:jhc

c: Lauren Poehlman, Assistant Superintendent for Business Services
Janet H. Chalker, Board Clerk
Board of Education

APPENDIX B

OSC COMMENTS TO THE DISTRICT'S RESPONSE

Note 1

We agree that any internal control should be cost effective. If District officials have determined that a perpetual inventory system is not cost effective, they need to ensure that adequate compensating controls are in place such as those mentioned in the District's responses to recommendations 11, 12 and 13.

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 planning, we discussed where weaknesses exist and the potential risks that fraud, theft and/or professional misconduct could occur. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected separation payments, capital assets and food inventories for further audit testing.

Within payroll, we focused our attention on the approval of separation payments to employees. We obtained a listing of 32 individuals who left the employ of the District during the period July 1, 2004 through June 30, 2005 and reviewed any corresponding collective bargaining agreements or individual contracts for these employees to determine if the employees were eligible for such payments. We judgmentally selected eight employees to review further and then examined the payroll records for them to determine the effectiveness of internal controls pertaining to separation payments and any associated effect of deficiencies in those controls. We also interviewed the Superintendent, assistant superintendent for business and payroll clerk about the operating policies and procedures pertaining to the processing of payroll, and separation payments in particular.

Within capital assets, we interviewed appropriate District officials and employees to obtain an understanding of the District's process for recording and accounting for capital assets. We reviewed the District's financial records to determine if capital assets were properly recorded. We then narrowed our scope to electronic equipment and reviewed the 'inventory change sheets' prepared by the administrative assistant for the administrative offices, property inventory and accounting cost record prepared by an outside consultant (IAC), and individual asset listings prepared by the audiovisual coordinator to determine if all electronic equipment assets were recorded and accounted for. We also conducted a physical inventory of electronic equipment purchased during the period July 1, 2004 through October 31, 2004 on two separate occasions, October 6, 2005 and October 13, 2005.

Within food inventories, we conducted interviews with the cafeteria manager and a walk through of the central receiving facility and the combined middle school/high school cafeteria to determine the District's controls over food inventories. We noted the lack of a perpetual inventory system and unlocked access to the food inventories in both areas and assessed a high risk that the District's controls over food inventory were inadequate. We attempted to prepare a reconciliation of food inventory for five items to determine the ineffectiveness of the controls. We examined the District's inventory records for amounts on hand for the months ended August 31, 2005 and September 30, 2005. We also reviewed vendor food invoices for purchases and 'inventory/order sheets' for the school cafeterias from the central receiving facility during the above period.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and conduct our audit to assess adequately those school district operations within our audit scope. Further, those standards require that we understand the school district's management controls and those laws, rules and regulations that are relevant to the school 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.

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