



Gowanda Central School District School Resource Officers and Claims Processing

Report of Examination

Period Covered:

July 1, 2004 - March 13, 2006

2006M-93



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

December 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. 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 Gowanda Central School District — School Resource Officers and Claims Processing.

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 Gowanda Central School District (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.

The Business Administrator plays an important role in the day-to-day functions of the Business Office. She authorizes District purchases by serving as the Purchasing Agent. The Business Administrator can also initiate a purchase and, in the absence of the District Treasurer, sign checks. The Board annually appoints a claims auditor.

The District's operating expenditures for the 2004-05 school year totaled \$18.9 million for the general fund. The District paid a total of \$42,000 to three individuals who served as school resource officers (SROs) in the 2004-05 school year.

Scope and Objectives

The objectives of our audit were to evaluate internal controls over the District's payments to the SROs and its claims processing function. Our audit addressed the following questions for the period July 1, 2004 to March 13, 2006:

- Are payments to the SROs proper, accurate and supported?
- Are internal controls over the claims processing function appropriately designed and operating effectively?

Audit Results

Payments made to SROs were not properly supported or accurate. Furthermore, the Board does not have an adequate service contract with the SROs. The District did not clearly define job responsibilities and did not make payments for services in accordance with the written agreement on file. In addition, the District paid one of the officers \$1,377 for time not worked and two other officers \$3,902 for their services with no documentation on file to support the payments. Furthermore, because of the manner in which the District paid the SROs, the District may incur additional future costs.

The Board has not established adequately designed internal controls over the audit, processing and payment of claims. Incompatible duties are not sufficiently segregated and the purchase order system is not operating effectively. We tested 110 claims totaling \$286,754 and found 37 claims were paid prior to audit, seven claims showed no indication of being audited, and 17 instances where no acknowledgement of the receipt of the goods or services was indicated on the claim or supporting documentation. In addition, the Board has not adopted clearly defined purchasing policies that would provide employees the proper guidance in carrying out their duties. For example, their purchasing policy states “the Purchasing Agent limits the issuance of confirming orders” but there is no other written documentation stating what criteria the Purchasing Agent should use (e.g., situational or type of purchase).

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 Gowanda Central School District (District) is located in Cattaraugus, Erie and Chautauqua Counties. The 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.

The District operates three schools with enrollment of approximately 1,500 students and has 250 employees. The District's operating expenditures for the 2004-05 school year totaled \$18.9 million for the general fund,¹ \$596,405 for the school food service program and \$1.7 million for the special aid fund. These expenditures were funded with revenues from local taxes, State and Federal aid. The major expenditures are employee salaries and related fringe benefits.

The District paid a total of \$42,000 to three individuals who served as school resource officers (SROs)² in the 2004-05 school year.

The Board annually appoints a claims auditor to carry out the claims audit function. The high school attendance records clerk serves as the claims auditor, reviewing and approving the District's claims for payment.

The Superintendent and other administrative staff have the responsibility for overseeing and managing the District's daily operations. The Business Administrator plays an important role in the day-to-day functions of the business office. She authorizes District purchases by serving as the Purchasing Agent. The Business Administrator can also initiate a purchase and, in the absence of the District Treasurer, sign checks.

District officials notified us during the entrance conference that the District had recently experienced a financial loss in the student activity fund. An employee involved with the student activity fund had noticed some unusual financial activity and notified District officials

¹Included in the operating expenditures were \$2,038,935 for debt service and \$26,871 in interfund transfers.

²School resource officers are Village of Gowanda police officers who work at the school district providing various services concerning school safety issues.

of her concerns with a particular student advisor (teacher) that was overseeing several different accounts. Once notified, District officials reviewed the activity in question and identified unsupported cash advances and suspect vendor invoices. In an attempt to identify the extent of the potential loss, the District engaged its external auditors to perform more extensive work with the student activity fund than what was included in the annual financial audit. The review focused on activity in several accounts from 1996 through 2004. The external auditors identified approximately \$106,000 in funds that they could not account for. The District subsequently terminated the teacher. District officials met with the Cattaraugus County District Attorney to discuss their options but indicated to us that the District Attorney has chosen not to pursue any further action. District officials filed a report with their insurance carrier and recovered \$81,249.

Because the District contracted for its own investigation prior to our site visit, we did not audit the student activity fund, but limited our involvement to discussions with District officials concerning the issue. The information mentioned above is the result of those discussions and is included in this report to inform the reader of the related events.

Objective

The objective of our audit was to evaluate internal controls over the District's payments to the school resource officers and the claims processing function. Our audit addressed the following questions:

- Are payments to the school resource officers proper, accurate and supported?
- Are internal controls over the claims processing function appropriately designed and operating effectively?

Scope and Methodology

During this audit, we reviewed payments associated with the school resource officers for the 2004-05 school year and examined internal controls over claims processing for the period July 1, 2004 to March 13, 2006.

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

School Resource Officers

Contractual agreements with employees or vendors should be written in clear and concise terms. The contract should include all necessary information including the length of the agreement, method of payment and a reasonably precise description of the services to be provided. The contract should be approved by the Board of Education, and be periodically reviewed to determine if payments are made in accordance with its terms.

Starting with the 2004-05 school year, the District signed a memorandum of agreement (MOA) with the Village of Gowanda (Village) to provide school resource officer (SRO) services. A school resource officer is a school-based law enforcement officer who provides community-tailored services to reduce crime, drug use, violence, and provide for a safe school environment.³ Prior to the 2004-05 school year, the Village police department provided these services at no cost to the District. District officials indicated that these services are an important component of the District's "school safety plan," and chose to allocate \$42,000 to obtain the services of two⁴ SROs. Typically, in a contractual arrangement such as this (i.e., costs shared between two local governments), the District would pay the Village, who would then compensate the police officers who serve as SROs.

During our audit testing, we identified improper, inaccurate and unsupported payments to SROs. Furthermore, the District paid these individuals directly as contractors. Had the District properly paid the Village, the officers serving as SROs would have been paid through the normal Village payroll process and the necessary withholdings made (e.g., FICA). In addition, the Village would have reported salary paid to the New York State Police and Fire Retirement System. Consequently, the District and the Village may incur additional payroll-related costs.

Although the MOA is between the District and the Village, the District paid the SROs directly as consultants (i.e., contractors) rather than paying the Village to provide services. The MOA states that the SRO workday will be consistent with the student instructional day and school year in each building. The SROs are guaranteed a

³National Association of School Resource Officers

⁴The District subsequently paid three different SROs for services rendered in two school buildings because one SRO only worked part of the year.

six-hour workday. The MOA also states that the SROs must submit a timesheet to the building principal in a timely manner. However, the MOA indicated that the SROs would not be school employees and would be compensated according to regular accounts payable schedule of payments.⁵ Further, the MOA indicates that any work performed by the SROs beyond the six-hour work day, even if related to a student case, will be the financial responsibility of the Village. In addition, the agreement states that in emergency situations, the Village Police Chief will have the authority to remove the SRO from a school in cooperation with the building principal. However, the MOA does not stipulate specifically under what conditions the SRO could be reassigned to other duties, if needed elsewhere. Nor does the MOA indicate whether the District would receive reimbursement for the time spent away from their SRO duties, in the event that the SRO was reassigned by the Police Chief. Even though the MOA is confusing and contradictory as what the SROs employment status is, we view these SROs as Village employees working at the District. As such, the District should have directly compensated the Village for its share of the costs of providing the SRO services.

We reviewed the payments made to the SROs for the 2004-05 school year and noted that the MOA is not adequately written to help ensure that payments for SRO services are proper, supported and accurate. During our testing, we identified unsupported and inaccurate payments. Furthermore, because of the manner in which the District paid the SROs, the District may incur additional future costs. The specific deficiencies identified are as follows:

- There are no written job duties for the school resource officer. According to the MOA, the officers report directly to the building principals. When contacted, one principal indicated that she did not have any type of reports detailing SRO activities.
- The MOA indicates that the workday will be consistent with the student instructional day and school year. However, when we reviewed the actual payments, we determined that the officers received payment for days that school was not in session. We asked the District's Business Administrator about these payments and she stated that the District paid the school resource officers (at the officers' request) a constant dollar amount every ten days whether or not they worked the entire ten days. The Superintendent indicated that he approved the

⁵In addition, there are no signed agreements with these individuals. As such, there is no basis to pay these individuals directly.

officers' request. The SROs received payments until the annual amount was exhausted. Once exhausted, the officers were still required to report to work but would no longer receive any compensation. Because they no longer received any type of payment, the officers no longer submitted timesheets. When contacted, two of the three school building principals did not think the SROs worked through the entire school year after the payments ended and the third principal thought the SROs worked but did not have any documentation to support this assertion. In addition, one of the officers only worked a partial year. Because of the manner in which they compensated the officers, one of the SROs was "pre-paid" \$1,377 for time not worked and did not "make up" that time at the end of the year. Since there is no evidence to support that the other two officers worked during the period after the MOA amount was exhausted, the District may have overpaid them a total of \$3,902.

Subsequent to the completion of our fieldwork, District officials informed us that they had abolished the position of SRO.

Recommendations

1. Should the Board reestablish the position of SRO, the District should discontinue paying them as contractors and take the necessary action to amend the MOA so that the District pays the Village directly for the services provided by its police officers.
2. The Board, or its designee, should work with appropriate Village officials to determine what payroll and retirement reporting adjustments need to be filed.
3. If the Board decides to reinstate the position of SRO, then it should clearly define SRO job duties and responsibilities and should monitor the work performed.
4. District officials should ensure that contractual agreements include clearly stipulated payment schedules and should make payments in accordance with those schedules.

Claims Processing

An internal control system, which is established by management and implemented by District officials, is the integration of activities, plans, attitudes, policies and efforts of the people in an organization to provide reasonable assurance that the organization will achieve its goals and objectives. The foundation of any effective control environment is competent managers with integrity who attentively monitor operations. Having a good control environment helps ensure that all employees follow District policies and procedures.

In general, the objectives of internal controls over claims processing are to ensure that every claim contains enough supporting documentation to determine that it complies with District policies and that the amounts claimed represent actual and necessary District expenses. This process helps the District ensure that it spends taxpayer dollars in the most efficient manner. When internal controls are not designed appropriately or operating effectively, it increases the risk that employee errors and irregularities may occur and not be detected and corrected.

As part of a good internal control system, the Board should establish policies that clearly define procedures to provide employees a solid basis for carrying out their duties.

The District uses a purchase requisition and purchase order system as part of their purchasing function. A purchase requisition is an internal document prepared by District personnel at the departmental level to initiate the request for goods or services. Departmental supervisors forward the requisitions to the Business Office. The Business Office then creates a purchase order and enters it into the District's accounting system. This purchase order ultimately serves as a source document during the claims audit process. However, District staff can also request confirming purchase orders from the District's Purchasing Agent after they place verbal orders with vendors. According to District policy, the Purchasing Agent should limit the issuance of confirming orders. However, the policy gives no clear instructions on what types of purchases, or in what situations, the Purchasing Agent should enforce this directive. Good business practice would dictate that confirming purchase orders be issued only where goods or services are needed immediately. These types of purchases are generally made outside of the normal purchasing process and, therefore, there is limited assurance that these purchases are made at the best price and quality, and are for legitimate and authorized District purposes.

Auditing the District’s bills before they are paid is the responsibility of the Board. However, the Board may adopt a resolution establishing an office of claims auditor and annually appoint an individual who holds this position subject to the pleasure of the Board. A claims auditor serves a critical District function since the individual assumes the Board’s powers and duties with respect to auditing claims. The claims auditor must ensure that proper original documentation is attached and the payment is for a legal purpose and was properly authorized. In addition, a claims auditor must have a clear understanding of the Board’s expectations and his or her responsibilities. Written job descriptions, Board policies and/or regulations provide detailed instructions and expectations for a claims auditor. Further, except for a few statutory exceptions, the Treasurer should pay vendors only after receiving a warrant of the claims approved by the claims auditor.

We reviewed the job description of the claims auditor and noted that it did not clearly define his/her responsibilities. We interviewed the claims auditor and she informed us that she does report directly to the Board. In addition, we interviewed Board members to determine if they clearly understood the claims auditor’s duties. Five of the seven board members were unsure of those responsibilities.

We examined 110 claims totaling \$286,754 to determine if the purchases were authorized, approved, had the appropriate supporting documentation and were in accordance with adopted policies. We found numerous exceptions including the following:

- Of the claims tested, the District paid 37 totaling \$93,052 prior to audit.⁶ Although eventually audited, the following chart indicates the length of delay:

Number of Claims	Range of Days Delayed
15	<10
13	10-20
3	21-30
5	31-40
1	49

⁶According to Education Law Section 1724 (1) certain items can be paid prior to audit if the Board has passed a resolution stating such. During our audit period, the District had not passed any type of resolution allowing advance payment of claims. Therefore, we included any type of payments in our testing.

- The appropriate departmental supervisor did not approve 11 requisitions totaling \$23,710. However, the Purchasing Agent issued purchase orders despite the fact that these requisitions had no evidence of approval. Examples included \$711 paid to a home improvement store for a band saw and sander and \$239 for film. The Business Administrator initiated and approved eight of the 11 purchases without any other authorization. Therefore, the Business Administrator was able to request and approve purchases without any type of oversight.
- Eleven claims totaling \$15,796 did not have a purchase order on file. Included were two payments totaling \$375 to an employee for video coordinator services, a \$375 payment to a vendor providing a set design and \$2,438 for financial advisory services. Without a purchase order on file, we were unable to determine whether the Purchasing Agent approved these 11 expenditures.
- One travel expense reimbursement for \$475 was paid to the Business Administrator, but there was no supporting documentation attached to indicate that it was approved by anyone else. According to the Business Administrator, this travel expense reimbursement should have been approved by the Superintendent. The Business Administrator is also the Purchasing Agent, who would have approved the initial purchase order. In this situation, the same person requested and approved this transaction.
- We noted 17 items totaling \$51,160 that did not have signatures acknowledging the receipt of the services or goods purchased. Included were \$13,370 spent on paving and sealing services and \$2,376 to purchase a radio system.
- There was no indication that the claims auditor had audited, by virtue of her signature, seven items totaling \$7,620.
- We identified 10 claims totaling \$4,396 that had confirming purchase orders. However, there was no indication that these purchases required immediate action for which a confirming order would commonly be used. Examples included the aforementioned radio system and instructional services provided to the District for a theatrical production. The District's purchasing policy states, "The Purchasing Agent limits the issuance of confirming orders." However, the policy does not clarify the circumstances for which confirming purchase orders should be used.

The deficiencies noted above could lead to errors and irregularities, which the District may not detect and correct in a timely manner.

Recommendations

5. The Board should establish comprehensive written policy guidance for the claims auditor. Further, District management should design and implement written procedures to ensure that the claims audit function complies with Board policy, statutory requirements, and general standards of good internal control.
6. The claims auditor should ensure that every claim contains adequate itemization and documentation to demonstrate that it is a proper District charge, approved by the department, certified as received, and complies with District policies, including prior authorization by the Purchasing Agent.
7. The Board should monitor the activities of the claims auditor to ensure that she complies with Board policies and procedures, statutory requirements and good internal control.
8. The Treasurer should not pay claims prior to audit by the claims auditor.
9. The Board should clearly define its policy regarding the use of confirming purchase orders.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The District's response letter makes reference to attachments that support the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.



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November 15, 2006

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██████████
██████████ Local Government Services and Economic Development
Office of the State Comptroller – Buffalo Regional Office
295 Main Street, Room 1050
Buffalo, New York 14203

RE: Response to Gowanda Central School District Audit Report
for the Period: July 1, 2004 – March 13, 2006

Dear ██████████

Enclosed please find the Gowanda Central School District's official response to the Draft Report of Examination provided to the Board, Superintendent and Business Administrator and related attachments. Additionally, we are enclosing a copy of the Utica Mutual Insurance Company settlement check for the fraud in the student activity fund so that your report can be changed to reflect this fact.

Should you have any questions regarding this response, you can reach Superintendent Charles Rinaldi at (716) 532-3325 ext. 6301 or Business Administrator Tana Troke at ext. 6306. Thank you.

Sincerely,

Mark Nephew
President
Board of Education

c: Charles Rinaldi, Superintendent
Tana Troke, Business Administrator

Enclosures: Gowanda Central School District's Response to the Report of Examination & Related Attachments

Gowanda Central School District
Response to Office of the State Comptroller's Report of Examination
For the Period: July 1, 2004 – March 13, 2006

This response is broken into the two categories cited in the report, School Resource Officers and Claims Processing. The responses to the bulleted items listed in both sections are in the same order as those in the report. Responses to recommendations are listed at the end of each section.

School Resource Officers

- On October 19, 2004, the Superintendent and Village of Gowanda Chief of Police attended 3 days of training at the National Center for Missing and Exploited Children in Washington D.C. This training and related expenses were paid for by a grant secured by the Gowanda Police Department. The Center specializes in the nationwide training of both school officials and school resource officers. On October 29, 2004, the Superintendent met with the principals and School Resource Officers (SROs) to review the regulations and case law regarding the role of an SRO in a school setting. Pertinent regulations, case law and job descriptions were distributed to all meeting attendees. In order to efficiently utilize the SROs, it was decided that they should be in the hallways working with students rather than in their office writing a report. Therefore, no regular reporting by the SROs was required.
- The SROs were paid a salary based upon the 183 days of student attendance. They were initially paid only for days when school was in session. The SROs complained to the Business Administrator that they were to receive a biweekly salary, whether school is in session or not. The Business Administrator consulted with the Superintendent, who explained that he had not adequately informed the Business Administrator that the SROs were to be paid a bi-weekly salary, until the annual salary was exhausted, even though they were expected to work until the last day of student attendance. The Superintendent directed that future payments be made in accordance with this biweekly agreement. The principals were not privy to the financial arrangements between the SROs, Village of Gowanda Police and the Superintendent. It was the District's expectation and belief that the SROs worked until the last day of school in 2005.
- School Resource Officers - Recommendations:
 - 1-4) In light of the above concerns, the District eliminated the SRO positions in 2006-07. Should the District reinstate these positions in the future, they will abide by each of the recommendations in the audit report.

**Gowanda Central School District - Response to Office of the State Comptroller's Report
of Examination - For the Period: July 1, 2004 – March 13, 2006**

Claims Processing

During the period of this audit, 7/1/04 – 3/13/06, the Business Office processed 1,866 claims in all funds. This audit examined 110 or 5.9% of all claims. Additionally, it is important to note that some of the items noted in the categories below were counted more than one time as they fell into more than one of the categories in this report. Also important to note is the fact that the Board of Education has delegated responsibility for review and approval of all claims to the Claims Auditor.

- Of the 110 claims examined, 37 were found to have been paid prior to review by the Claims Auditor, which represents 2% of all claims during the period of review. During the course of this audit, the District learned that claims cannot be paid in between warrant reports unless they are approved by the Claims Auditor in advance or fall within very specific categories stated in law and resolved by the Board. The District officials were not at all aware of this law and upon learning about it, immediately changed processes so that only claims that fall within the scope of the law are paid prior to Claims Auditor approval. Additionally, the Board passed the necessary resolution to comply with the law at its March 1, 2006 regularly scheduled Board meeting, while this audit was still taking place. The 37 claims noted in the report were due to this oversight. All of these claims were eventually reviewed by the Claims Auditor and found to be legitimate.
- There is currently no Board policy or related regulations requiring dual signatures on requisitions. Therefore, the Business Administrator/Purchasing Agent was working within Board policy and existing regulations when she approved the requisitions/purchase orders without the relevant supervisors' signatures. However, the Business Administrator, who is also the Purchasing Agent, has always operated under the philosophy that the department supervisor should sign off on all requisitions so that he/she knows what is being ordered in his/her department. As a result, requisitions will almost always contain both the signature of department supervisor and the Business Administrator/Purchasing Agent.

Given the fact that there is not a policy or regulation requiring both signatures, there have been occasions where urgent requisitions have been submitted directly to the Business Office, or are replacements for previously approved requisitions, and the Business Administrator's signature process is waived in lieu of a phone call to the department supervisor. The two cases cited in the report fall into both categories listed above; one was a replacement for a previously approved requisition and the other was of a more urgent nature that was processed based on the Business Administrator's verbal discussion and approval from the department supervisor. As a result, both of the cited requisitions were processed without the dual signature. To remedy the recommendation contained in this audit, the current purchasing regulation has been modified to specify which requisitions require both the department supervisor and purchasing agent signatures. Additionally, any replacement requisitions will have the original requisition attached to show dual signature approval.

**Gowanda Central School District - Response to Office of the State Comptroller's Report
of Examination - For the Period: July 1, 2004 – March 13, 2006**

- There are some purchases that do not require a purchase order. The District's purchasing regulation will be modified in order to specify which items do not require a purchase order, such as health and welfare costs and tuition payments, as they are not known in advance. However, some of the claims cited are related to the last finding in this report and pertain to "confirming orders" where no paperwork is completed and approved prior to commencing the service. The District has been and will continue to eliminate confirming orders unless there is an emergency or health and welfare need that requires immediate action. The comments in the last bullet apply in this situation as well.
- This travel claim was approved by the Superintendent long before the expense was incurred. The District's process requires that the employee first complete a conference request form (and associated requisitions) and have it approved by the department supervisor, Business Administrator and Superintendent, in that order. Next the employee attends the conference and then returns with receipts. In order to get reimbursed, the employee then submits a claim form for reimbursement. This claim form is not typically signed by the department supervisor. The only time a department supervisor would be required to sign a claim form is if the employee's claim for reimbursement is higher than that approved on the initial conference request form. In the case cited, there was not a deviation from the originally approved expenditures and therefore the department supervisor (Superintendent in this case) was not required to sign the claim form. However, there were two claims submitted for this one conference request and only the final claim included the approved conference request form, thereby appearing as though there was not approval for the travel expense. The one cited here was the first claim paid and therefore did not include either a copy of or the original conference request form as was the process at that time. The District's process has now been modified so that a copy of the conference request form is attached to all claims.
- It is been the District's process to have all materials checked in at the department level and the packing slip signed to indicate that all materials were received. However, our procedure did not include a signature on invoices for services that were received, such as the ones cited in this report as we knew they were received (i.e., paving, telephone service, electricity). However, as a result of our conversations with the auditors during the course of the audit, we began requiring the appropriate person to sign all service related invoices to confirm that the service was adequately received.
- The Business Office is not aware of any claims that were not sent to the Claims Auditor for review. As was noted in the first bullet in this report, all claims were eventually reviewed by the Claims Auditor. The Claims Auditor spoke with the Comptroller's auditors when they were on site and recalls reviewing the claims cited in this section and stating that she remembers auditing them, but must have forgotten to sign and date them. All claims will continue to be audited according to policy and law; extra attention will be given to verify that the Claims Auditor has appropriately initialed and dated each claim.

**Gowanda Central School District - Response to Office of the State Comptroller's Report
of Examination - For the Period: July 1, 2004 – March 13, 2006**

- Although the Business Administrator has repeatedly discussed with department supervisors the requirement that all orders must be approved in advance unless there is an emergency situation, occasionally there is non-compliance with this directive. This communication has been ongoing for at least 3 years, long before Comptroller's Audits were a reality. This continues to be an issue that is slowly improving. The District will both clarify what types of confirming orders are allowed in the purchasing regulation and also communicate to all department supervisors that deviations from this regulation will not be paid for by the District, unless extenuating circumstances apply, and may result in disciplinary action.

- Claims Processing - Regulations:
 - 5) The Board already has a comprehensive written policy that outlines the responsibilities of the Claims Auditor. The policy #2230 was revised with final Board approval on January 18, 2006. The policy is attached to this response. Additionally, District management is in the process of developing regulations to accompany policy# 2230 that will further detail written procedures for the Claims Auditor.

 - 6) These expectations will be outlined in the regulation mentioned in item #1 above.

 - 7) The Board recently met with the Claims Auditor and requested a quarterly report that will detail any rejected or problem claims, as well as details regarding total claims approved during the reporting period.

 - 8) As noted in the 3rd bullet above, this process has already been modified and implemented. The only exception will be those claims allowed by law and Board resolution (passed on 3/1/06 for the 2005-06 school year and 7/5/06 for the 2006-07 school year – copies are attached).

 - 9) As stated in the 7th and last bullet above, the purchasing regulation will be modified to specifically state when a confirming order is allowed.

See Note 1 Page 23

APPENDIX B

OSC COMMENTS TO THE DISTRICT'S RESPONSE

Note 1

While we recognize that the Board has adopted a claims auditor policy, the Board should ensure that the policy is sufficiently comprehensive to address claims processing deficiencies cited in this report.

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, capital assets and consumable inventories.

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected the school resource officer's memorandum of agreement and claims processing for further audit testing.

Concerning the school resource officers, we examined the memorandum of agreement and reviewed vendor history reports and timesheets. We also interviewed various officials and employees.

Within claims processing, we focused our attention on the approval of purchases and payment for various types of goods and services. We also focused on whether certain claims processing duties were adequately segregated. We interviewed officials, observed 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
- Requisitions
- Conference Request Forms
- Employee Reimbursement Forms
- Purchase Orders
- Claims
- Checks

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.

APPENDIX D

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