



Greene Central School District

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2004 - April 4, 2006

2006M-151



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

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. These reports also may identify positive aspects of school district operations that other school districts may wish to emulate. The following is our report on the Greene Central School District — Internal Controls Over Selected Financial Activities.

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

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

Respectfully submitted,

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

Introduction

Background

The Greene Central School District (District) is located in six towns in Chenango County, two towns in Broome County, and one town in Cortland County. The District is governed by seven elected members who comprise the Board of Education (Board). The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are three schools in operation within the District, with approximately 1,393 students and 276 employees. The District's budgeted expenditures for the 2005-06 fiscal year are approximately \$19.1 million funded primarily with State aid, real property taxes, and grants.

As of June 30, 2005, the District reported approximately \$16.67 million in capital assets of which approximately \$1.04 million was for vehicles and equipment. The District spent approximately \$192,000 on food and \$61,000 on fuel during the 2004-05 fiscal year.

Objective

The objective of our audit was to determine if District officials were properly safeguarding their financial resources. Our audit addressed the following related questions:

- Did the Board appropriately appoint a claims auditor?
- Are internal controls over capital assets and consumable inventories appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories. Based on that evaluation, we determined that the District's controls appeared to be adequate, and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the capital assets and

consumable inventories areas and, therefore, we examined internal controls relating to capital assets and consumable inventories of the District for the period July 1, 2004 to April 4, 2006.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated that 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*.

Appointment of the Claims Auditor

State Education Department (SED) regulations¹ prohibit a school district from appointing a BOCES employee as its claims auditor when the school district has a contractual relationship with that BOCES.

The District appointed an employee from the Delaware-Chenango-Madison-Otsego BOCES Central Business Office to serve as its claims auditor for the 2004-05 and 2005-06 fiscal years. The Delaware-Chenango-Madison-Otsego BOCES provides material and significant services to the District. For example, in the 2004-05 fiscal year, the District paid approximately \$2,098,907 for services provided by the BOCES. This situation results in a conflict of interest. The BOCES employee cannot be considered an independent reviewer of the District's claims because of this significant financial relationship. Therefore, it is not appropriate for a Delaware-Chenango-Madison-Otsego BOCES employee to serve as the District's claims auditor. SED also has articulated this position in its regulations and guidelines.

Recommendation

1. The Board should take action consistent with SED guidelines to provide an independent audit function.

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

Internal Controls Over Capital Assets and Consumable Inventories

Capital assets are those that have a useful life of more than one year and include such things as land, buildings, furnishings, and equipment. Consumable inventories consist of items that have a useful life of one year or less, such as food, transportation supplies and parts, and motor vehicle fuel. It is essential that District officials ensure that their capital assets and consumable inventories are protected from loss, that their value is maintained, and that they are used effectively for their intended purposes. District officials can fulfill this responsibility by designing and adopting internal controls over their capital assets and consumable inventories and by monitoring adherence to these controls. A good system of internal controls consists of policies and procedures adopted by the Board that help ensure that District personnel record all acquisitions and dispositions of capital assets in the accounting records, and that staff affix all capital assets with unique identification numbers that reference back to the records. District officials can ensure that these tasks are carried out by designating a staff member as the District's property control manager. Likewise, to prevent theft or other losses, the Board should adopt policies and procedures that are designed to control access to consumable supplies. Additionally, District staff should perform regular periodic physical inventories (physical counts) of capital assets and consumable inventories to verify the existence of the assets and the accuracy of the accounting records. Finally, it is important that District officials monitor operations to ensure that District personnel adhere to the adopted policies and procedures.

We examined the District's policies and practices relating to capital assets and found that the District's internal controls were inadequate to protect them. As of the end of our fieldwork, the Board had not developed comprehensive internal control policies that described the duties that District personnel must follow, the records that personnel must maintain, and the procedures that personnel must perform to achieve adequate safeguards for the District's capital assets. Nevertheless, we did find that, though not formally adopted, the procedures that District personnel followed to account for consumable inventories were adequate to safeguard these assets.

Capital Assets

To determine whether District personnel properly accounted for District assets, we reviewed 60 District-owned items (30 items on the property listing report and 30 items on the technology asset record) to determine if they were properly accounted for in the District's capital asset records. We found that, in general, the descriptions of the assets' locations listed on the property listing report were so non-specific –

describing just a general location, such as a particular building – that we were unable to determine with any confidence that the assets we located (which did not have any identification tags) were the ones listed on the property listing report. Because the descriptions of the assets’ locations were deficient, we used District purchasing records to track the location of District assets. However, on the technology asset record, the descriptions of the assets’ locations were well-defined.

In our review of the 30 items relative to the property listing report, we found that:

- Ten assets did not have unique identification tags.
- District personnel had not included one asset (a desk) on the property listing report, and personnel had improperly recorded its identification tag number on the property listing report.
- District personnel do not reconcile the property listing report with the technology asset record.

In our review of the 30 assets relative to the technology asset record, we found that:

- We were able to view all 30 assets listed on the technology asset record.
- All 30 assets listed on the technology asset record had unique identification tags.
- District personnel included all 30 assets on the technology asset record, and they properly recorded all 30 identification tag numbers listed on the technology asset record.
- District personnel update the technology asset record in a timely manner.

We also reviewed 10 capital asset disposals to determine whether they had been removed from the property listing report and found that District personnel had not removed from the property listing report a 1992 Chevy Suburban that the District sold at auction in September 2005. However, we did find that personnel removed the vehicle from the District’s vehicle insurance records.

The District’s lack of internal controls over capital assets, especially its incomplete and inaccurate property listing report, results in an increased risk of loss, theft, or misuse of District-owned assets.

However, some of the deficiencies related to the property listing report are mitigated by the merits of the technology asset record, as technology items are a sizeable component of the District's assets and can be more subject to theft.

Consumable Inventories

A good system of internal controls over consumable inventories ensures that controls over cafeteria food and fuel inventories are appropriately designed and operating effectively to safeguard those assets. It is important for staff to maintain inventory records that provide detailed information on all items, including when items are added to and removed from the physical inventories and the inventory records. In addition, good internal controls require staff to regularly perform periodic physical inventories (i.e., view and count the actual items on hand) and to verify that the items have been properly recorded in the consumable inventory records. These internal controls help to ensure the accuracy and effectiveness of the system to safeguard and account for those inventory items.

We found that District officials had not formally adopted internal control policies and procedures over consumable inventories. However, the controls that were in place were properly designed and operating effectively.

Cafeteria Food Inventory – The cafeteria staff maintains a perpetual food inventory record system that includes a running balance of items on hand that should always agree with an actual physical count. Cafeteria staff compares received food orders with the vendors' invoices and purchase orders, and ensure that the amounts and costs of items received agree with what was ordered and billed. They then add information on the received items to the food inventory record. When the staff takes items from the food inventory, they use requisition forms. They verify that the amount and types of items removed from the food inventory agree with the requisition forms, and then they indicate on the food inventory record the types and amounts of items removed from the food inventory, thereby helping to ensure the accuracy of the food inventory record. Cafeteria staff periodically conducts a physical count of the food inventory and match the count total against the food inventory record. This process helps ensure that the food inventory record is accurate and that all food inventory items are fully accounted for.

We reviewed three food items on the food inventory record and found that staff had properly added and subtracted from the food inventory record, and that the ending balances in the food inventory record were appropriately supported and accurate.

Transportation Fuel Inventory – The fuel inventory system is not

a perpetual system. However, the District has other compensating controls in place to safeguard its fuel supplies. Each driver activates the fuel pump through the use of a key, which helps ensure that the pump is secure from unauthorized use. All drivers provide an individual fuel-usage meter reading to the District's Transportation Manager to account for all fuel dispensed. Each week, the Transportation Manager calculates the gallons of fuel used per driver on the basis of individual fuel-usage meter readings that the drivers give to him. He then reconciles the total gallons of fuel used by all drivers to the total fuel usage indicated by the master pump readings, thereby confirming the accuracy of the meter system. The risk of theft of fuel is low because the fuel tank area is under camera surveillance and is lit at night. In addition, subsequent to the start of our field work, the District placed locked caps over the fuel tank systems, thereby eliminating all unauthorized access to the fuel tanks.

We reviewed one week's worth of diesel fuel usage and found that the individual fuel-usage meter readings reconciled to the master pump reading.

Without Board-adopted policies, there is no common standard for employees to follow which can result in misunderstandings by staff and operations not being performed according to management's expectations.

Recommendations

2. The Board should formally adopt written, comprehensive internal control policies and procedures for its capital asset and consumable inventories that address the acquisition and disposition of all capital assets and consumable items, and the maintenance of accurate and timely inventory records.
3. The Board should ensure that District personnel enter all assets into the capital assets inventory system.

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

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



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December 15, 2006

The Greene Central School District prides itself on the quality of the education we provide to our students. This same attitude supports the district's philosophy toward maintaining quality financial controls, systems, and operating procedures over our financial activities. With this in mind, the Comptroller's Audit recommendations for operational improvement are another opportunity for us to improve upon the quality of our district.

I would like to respond to each of the three recommendations in the Comptroller's preliminary Report of Examination.

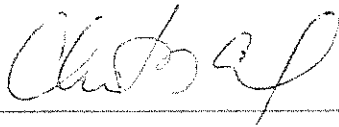
The first recommendation involves the internal claims audit function. Today, this service is provided by DCMO BOCES as part of the business office functions they perform on our behalf. The internal claims audit function is performed by a person who is independent of the staff associated with our daily processing activities. This claims review has proven effective in providing a processing environment that ensures payments are made based on the satisfaction of rules and guidelines. The SED's position toward the use of BOCES for this service has been noted in their rules and regulations. In an effort to comply with the new regulation, Greene CSD will review options for changing this process.

The second recommendation addresses documenting of internal control policies and procedures for capital assets and consumable inventories. The audit highlighted a need for documented processes in the areas of capital assets and consumable inventories, specifically cafeteria food/supplies and transportation fuel. It was noted that the staff executed a consistent process that provided for accurate tracking of inventory, but the process lacked documentation. The areas identified will be reviewed for change, and the subsequent review may be expanded to other areas to ensure this documentation is effectively in place.

The third and final recommendation deals with the need to maintain accurate and timely inventory records for fixed assets. In several instances, inventory tags were not affixed to capital assets and property records were inaccurately recorded on the property system report. The accuracy and ability to track fixed assets within the District requires a defined process that involves a central focal point and timely communication with the

other stakeholders in this process. I am pleased to note several changes were recently implemented within this process, even prior to the Comptroller's preliminary report. We will continue to review, document, and execute a change management process to ensure we accurately account for fixed assets.

In closing, the Greene Central School District believes it maintains a very effective system of internal controls. Again, we support a philosophy of continuous improvement, and we will continue to monitor the quality of our internal financial controls.



Christopher Cox, President Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit that area most at risk. We selected capital assets and consumable inventories for further audit testing.

To accomplish the objectives of this audit, and to obtain relevant audit evidence, our procedures included the following:

- We selected a sample of assets located in the District's buildings and attempted to trace these assets to District inventory records to verify that District inventory records are accurate and up-to-date.
- We traced a sample of assets from invoices of recent purchases and inventory records to their physical locations to verify that inventory records are accurate and up-to-date.
- We traced a sample of asset dispositions as recorded in the minutes to disposal records to verify that assets are properly disposed of and any moneys received were properly accounted for.
- We reconciled diesel fuel usage transactions over a one week period to verify that District fuel inventory records are accurate.
- We reconciled food inventories transactions over a one week period to verify that District food inventory records are accurate and up-to-date.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

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