



# Hinsdale Central School District Employee Separation Compensation and Claims Processing

## Report of Examination

Period Covered:

July 1, 2004 - April 7, 2006

2006M-82



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# State of New York Office of the State Comptroller

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## Division of Local Government Services and Economic Development

November 2006

Dear School District Officials:

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

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

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

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

Respectfully submitted,

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



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Hinsdale Central School District (District) is governed by the Board of Education (Board), which comprises five 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.

During the 2004-05 school year the District had approximately 75 employees and operating expenditures of approximately \$7.3 million. The major revenue sources are real property taxes, State aid and grants, and the major expenditures are employee salaries and related fringe benefits.

The District has written contracts with administrative employees that are amended from time to time. These contracts address terms and conditions of employment such as duties, responsibilities, compensation, insurance and compensated absences, among other things.

During the 2004-05 school year, the District made payments to a bank for credit card usage totaling \$11,300 for general purposes, including travel and conferences. The District's claims auditor is the Superintendent's secretary, who also serves as deputy treasurer.

#### **Scope and Objective**

The objective of our audit was to evaluate internal controls over the District's separation compensation and claims processing to ensure that District assets were properly safeguarded for the period July 1, 2004 through April 7, 2006. Our audit addressed the following related questions:

- Are internal controls for employee separation compensation appropriately designed and operating effectively?
- Are internal controls over the claims processing function appropriately designed and operating effectively?

#### **Audit Results**

We found the District's controls over employee separation compensation were not operating effectively. We found no material exceptions in separation compensation paid to two teachers, but we determined the Board paid Superintendent Dennis Senn \$40,000 in additional separation compensation without

justifying these payments. At its December 14, 2005 meeting, the Board accepted the Superintendent's retirement as of June 30, 2006 and agreed to changes in his contract. The changes increased the Superintendent's salary by \$15,000 and allowed him to remain on the payroll while he was out on sick leave from January 1 through June 30, 2006. The Superintendent did not provide a medical reason for his use of 124 sick days, and the District could not provide adequate records to support the 124 days of sick leave benefit. However, even if the stated leave balance was accurate, the Board paid the Superintendent about \$25,000 more than necessary for these leave days. Had the Board accepted his resignation as of January 1, 2006 and paid for the accrued leave according to the terms of the prior contract, the District would have paid \$26,866 (1/480th of his current annual salary for each day of unused sick leave) for this benefit. However, since the Superintendent was still on the payroll while he used up his accrued leave, these 124 days cost the District about \$52,000 - \$25,134 (94 percent) more than under the prior contract - since the District paid for the days at the Superintendent's full-time annual salary rate of \$104,000.

The Board has not adequately designed internal controls over claims processing. Our review of 52 claims, totaling \$354,204, disclosed deficiencies in 37 claims (29 percent), totaling \$103,939, including a lack of departmental approval or receiving reports. In addition, 44 of the 94 transactions (47 percent) on 17 paid credit card claims lacked proper documentation and/or itemization of expenses. As a result, the District may have paid for unnecessary or inappropriate expenses. The claims processing function did not effectively control payments because the claims auditor was not independent of other District business functions, and reported directly to the Superintendent. Further, the District had not adopted written policies that adequately described the claims auditor's duties or the Board's expectations of the claims audit function.

### **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 Hinsdale Central School District (District) is located in the Towns of Hinsdale, Ischua, Humphrey and Olean, all in Cattaraugus County. The District is governed by the Board of Education (Board), which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is one school building in operation within the District, with approximately 490 students and 75 employees. The District's operating expenditures for the 2004-05 school year were \$7.3 million, funded primarily with State aid, real property taxes and grants.

The District has written employment contracts with its teachers and administrative staff that stipulate the compensation and leave benefits that will be provided to these employees. The teachers' contract for the period July 1, 2005 to June 30, 2009 states that sick leave can be used for the illness of the employee, family member or member of the employee's household. Administrative contracts with the District are silent regarding the use of sick leave. According to the District's business executive, administrative employees follow the teachers' contract when their contract does not address a particular issue.

During the 2004-05 school year, the District made payments to a bank for credit card usage totaling \$11,300 for general purposes, including travel and conferences. The District has policies covering travel, conferences and meals. According to District policies, with the exception of the Superintendent, whose contract authorizes him to travel, all travel requires prior approval from the Superintendent. The policies also state that the District will pay the actual and necessary expenses of any employee who is on official District business, but will not reimburse personal expenses, such as alcoholic beverages and show tickets.

## Objective

The objective of our audit was to evaluate internal controls over the District's separation compensation and claims processing to ensure that District assets were properly safeguarded. Our audit addressed the following related questions:

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

- Are internal controls over the claims processing function appropriately designed and operating effectively?

**Scope and  
Methodology**

During this audit, we examined internal controls over payroll processing and claims processing at the Hinsdale Central School District for the period July 1, 2004 to April 7, 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, 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.

## Employee Separation Compensation

The Board must authorize the separation compensation paid to its employees to ensure these employees receive the payments the District intends for them. The Board may choose to establish District-wide policies, pass annual resolutions or authorize individual contracts concerning compensation and benefits for these employees. Since the Board is responsible for protecting the interests of District taxpayers, such authorization also acknowledges the Board's accountability for such payments.

We reviewed separation compensation made to two teachers<sup>1</sup> and the Superintendent during our audit period. We found no material exceptions with the compensation payments made to the two teachers. However, we determined that the Board paid Superintendent Dennis Senn \$40,134 in additional separation compensation without documenting the need for or reasonableness of these payments. Based on amendments to the Superintendent's contract, the Board gave the Superintendent a \$15,000 raise, and then allowed him to use sick leave to be absent from work, while remaining on the payroll, from January 1 through June 30, 2006. The contract termination date was also changed from June 30, 2008 to June 30, 2006. During the six-month period the Superintendent was out on paid sick leave, the District also paid an interim administrator to perform the Superintendent's duties. Although the Board approved the contract amendments that authorized spending this additional \$40,134, we found these payments were not justified, and did not serve the interests of District taxpayers.

At its December 14, 2005 meeting, the Board unanimously accepted the Superintendent's retirement, planned for June 30, 2006, and agreed to changes in his employment contract. The changes included increasing the Superintendent's salary by \$15,000 through June 30, 2006, and allowing the Superintendent to remain on the payroll while he was out on sick leave from January 1, 2006 until his effective retirement date.

Our review of the Superintendent's amended contract and compensation documentation identified the following:

- There was no documented justification for the \$15,000 increase in the Superintendent's salary.

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<sup>1</sup> Both teachers were paid 60 percent of their final annual salary as a retirement incentive.

- District leave time records did not support the accumulated 124 sick leave days taken. The District did not have procedures that required administrators to maintain records of leave time accruals and usage. Without adequate records, District officials could not verify the accuracy of the Superintendent's sick leave balance.
- Although the Superintendent charged accruals to his sick leave balance to be absent for six months, he did not document a medical reason for his sick leave use. Although the Superintendent's contract was silent about sick leave documentation, the teachers' contract states that individuals indicate personal or household illness when taking sick leave. According to the District's business executive, administrators comply with the requirements of the teachers' contract for issues not addressed in their own contracts.
- Even if the Superintendent did have the 124 days of accrued sick leave, as he claimed, the District paid him \$25,134 more than necessary for this leave. The Superintendent's prior contract (i.e., before December 14, 2005) stated he would be paid 1/480th of his current annual salary for each day of unused sick leave upon separation. Had the District accepted the Superintendent's resignation effective January 1, 2006 and paid for the leave at the above rate, the Superintendent would have received \$26,866 for this unused benefit. However, since the Superintendent was still officially on the payroll between January 1 and June 30, 2006, these 124 days cost the District about \$52,000 — \$25,134 (94 percent) more than under the prior contract — since the District paid for the days at the Superintendent's full-time annual salary rate of \$104,000.

District officials indicated that Mr. Senn wanted to retire. However, since his contract allowed for him to resign (and retire), there was no apparent reason why the District would need to shorten the duration of the employment contract and provide Mr. Senn with additional compensation. By agreeing to the terms of the Superintendent's amended contract, the Board essentially paid the Superintendent \$40,000 to stay home for six months. The Board did not provide us with any formal written justification for these actions.

## Recommendations

1. The Board should establish procedures for tracking administrators' leave time accruals and usage.

2. The Board should adopt a policy, or include a clause in individual administrative contracts, to delineate the proper use of leave by the administrative staff covered by such contracts (i.e., for illness of employee or for the illness of an immediate family member or member of employee's household).

## Claims Processing

The Board and District officials must ensure the District pays for only actual and necessary District expenses. To carry out this responsibility, District management must establish and maintain effective internal controls over payment, including a claims processing function that verifies purchases are documented, appropriate, approved and made in compliance with District policies before payment is made. However, our review of 52 paid claims, totaling \$354,000, found that 37 claims (71 percent), totaling almost \$104,000 (29 percent), lacked either departmental approval or evidence that goods were received. In addition, 44 of the 94 transactions (47 percent) on 17 paid credit card claims lacked proper documentation and/or itemization of expenses. As a result, the District may have paid for unnecessary or inappropriate expenses. The claims processing function did not effectively control payments because the Board-appointed claims auditor was not independent of other District business functions, and reported directly to the Superintendent. Further, the District had not adopted written policies that adequately described the claims auditor's duties.

The objectives of controls over claims processing are to ensure that every claim contains enough supporting documentation to determine that it complies with District policies, and to confirm that the amounts claimed represent actual and necessary District expenses. The claims auditor, who assumes the Board's powers and duties with respect to auditing claims, fulfills a critical control function by ensuring all claims are proper and legal before authorizing payment. To obtain this assurance, the claims auditor should verify that purchases are approved by checking for proper signatures; confirm that claimed amounts are accurate; and ensure that all necessary documentation (e.g., signed receiving slips) is attached to the claim.

The claims auditor should be independent of the District's purchasing and accounting functions. The District's adopted policy affirms this requirement. Recent State Education Department (SED) regulations impose further restrictions by not allowing an individual under the direct supervision of the Superintendent to be the claims auditor. In addition, a claims auditor should have a clear understanding of the Board's expectations, and of his or her responsibilities. Further, except for a few statutory exceptions, the treasurer should pay vendors only after receiving a signed warrant of the claims approved by the claims auditor.

We reviewed 52 judgmentally selected claims paid during the audit period, totaling \$354,204, to determine whether they were properly approved, documented and itemized, and whether they represented appropriate District expenditures. Fifteen of the 52 claims were approved and adequately documented. However, the remaining 37 claims, totaling \$103,939, lacked departmental approval and/or signed receiving slips. For example, there was no departmental approval or signed receiving slips for a \$7,430 claim for computers, and for two claims, totaling \$10,718, for sports equipment. Therefore, these claims lacked evidence to indicate that a District official initiated the purchase or that the goods were indeed received in the quantities and of the quality ordered.

We also tested an additional 17 credit card claims, totaling \$16,525, that were paid during our audit period. As with any other type of claim, credit card transactions should be supported by sufficient information to allow for a proper audit of the claim. Of the 94 transactions on these 17 claims, 52 transactions were charges for supplies and equipment, and 42 transactions were charges for travel expenses. For the 42 travel expense charges, we also tested for compliance with the Board's travel policies. These policies require that travel-related charges be actual and necessary District expenses that have been pre-approved by the Superintendent. The policies further state that personal expenses are not reimbursable.

The results of our tests, as listed below, show the District paid for some expenses that were not properly approved, not itemized, and/or not documented as actual and necessary District costs.

- Of the 52 transactions related to supplies and equipment, 40 transactions were adequately supported. However, 12 transactions, totaling \$2,479, lacked receipts. For example, there were no receipts to document and itemize four purchases, totaling \$1,185, from an office supply store, and one purchase for \$273 from an electronics vendor.
- Of the 42 transactions related to travel and meals, 10 transactions were adequately supported and complied with District policies. The remaining 32 transactions, totaling \$6,162, lacked documentation, such as receipts, and/or itemization to indicate who attended events or were provided meals charged to District credit cards.
  - o A charge for \$1,650 from the New York State School Boards Association had no documentation attached to identify the reason for the charge. When we asked about

this charge, District officials said it was for registration at the Association's annual conference. Other transactions that lacked itemization or receipts included payments of \$874 to another association; \$239 to an airline; and \$187 to restaurants.

- o A total of 10 restaurant charges did not indicate who ate the meal or why the District paid for it. For example, during one trip, the business executive charged meals for three people, totaling \$46. The District should not be paying for meals for non-employees.
- o We found that 14 restaurant charges, totaling \$598, were documented only by signed charge slips. When itemized documentation is not attached to a claim for meals, District officials cannot readily identify what was purchased using the District's credit card, or the District purpose served.
- o Another receipt indicated that the Superintendent's wife accompanied him to a conference where the District paid an additional \$60 per night for two nights for double accommodations. Also included on this credit card claim were transactions for two meals totaling \$135, for which no itemized receipts were available. Although the Superintendent's contract authorizes him to travel, costs associated with his wife's lodging and meals are personal expenses.
- o On a trip to San Antonio, Texas, the hotel bill indicated that the Superintendent's wife accompanied him and the District was billed \$256 per night for five nights of the six-night stay; the District paid \$244 for the sixth night. Charges for meals on this trip totaled \$257, but there was no documentation to show what was purchased. The federal per diem rate, a widely used reimbursement standard for lodging and meals, was \$140 per day in San Antonio (\$840 for the six-day trip) at the time of this travel. Since the District spent \$1,781 for the above travel costs, it paid 212 percent of the federal per diem rate. When compared to the federal per diem rate, the costs charged to the District for this trip appear excessive.

The Superintendent indicated that his practice of turning in receipts for no more than one joint meal (for him and his wife) per day on such trips actually saves the District money. The Superintendent did not support this contention with documentation.

- o Thirteen hotel and meal charges, totaling \$1,403, did not have documentation indicating prior approval for the travel, as required by Board policy.

An effective claims audit function would have identified claims that were not properly approved and/or not supported by adequate documentation to demonstrate they were actual and necessary District expenses that complied with the requirements stated in District policies. The claims auditor plays a key role in identifying and preventing the District's payment of inappropriate charges. However, the District's claims auditor is the Superintendent's secretary, who also serves as the District's deputy treasurer. SED regulations, as well as District policy, prohibits this employee from serving as claims auditor: as secretary, she may be less likely to question the Superintendent's expenses; as deputy treasurer, she can write out checks for expenses she has authorized for payment as claims auditor.

We also found no written evidence, such as a signed warrant, that the claims auditor had audited the claims. Without a signed warrant, the treasurer cannot be sure that the claims listed on the warrant have been reviewed and approved for payment by the claims auditor. We attribute the weaknesses in the claims audit function, at least in part, to a lack of adequate written policies defining the Board's expectations of the claims audit function, describing the duties it involves, and indicating how the Board planned to monitor the claims auditor's performance.

The District also lacked a written credit card use policy until December 28, 2005, when the Board adopted one. On the same date, the Board amended its travel policies to limit meal expenses for overnight travel to federal per diem rates.

## **Recommendations**

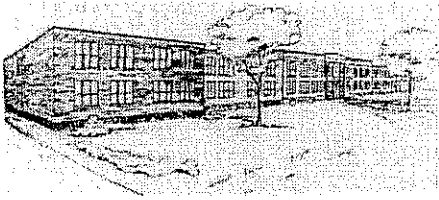
3. The Board should appoint a claims auditor who is independent of District business functions and who is not directly supervised by top District administrators.
4. The Board should establish comprehensive written policies and monitoring procedures to ensure that:
  - expenses for meals and lodging are reasonable;
  - the claims auditor requires that every claim contains enough itemization and supporting documentation to indicate that it is a proper District charge and it complies with District policies, including those for travel and credit card use;

- the claims auditor reviews and signs the warrant to ensure that only those claims approved for payment are listed in the amounts approved; and
  - no money is paid out by the District treasurer, except where statutorily allowed, unless the treasurer receives a signed warrant from the claims auditor.
5. The Board should seek to recover any payments made for other than appropriate District purposes.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Hinsdale Central School

3701 Main St., Hinsdale, NY 14743  
Phone (716) 557-2227 Fax (716) 557-2259

September 28, 2006

Office of the State Comptroller  
Buffalo Regional Office  
295 Main Street  
Room 1050  
Buffalo, New York 14203

**RE: Response to preliminary draft findings**

On September 13, the Hinsdale Board of Education, Mrs. Karen Kunz, Business Executive, and Mrs. Judi McCarthy, Superintendent, met with representatives from your office to conduct an "exit discussion" regarding the findings of the State Comptroller's audit of Hinsdale Central School.

The following is a response to the issues brought up in the "Report of Examination" for a period covered from July 1, 2004 through April 7, 2006, (2006M-82)

**TOPIC 1: Are internal controls for employee separation compensation appropriately designed and operating effectively?**

P. 5, first paragraph, line 7: Had the Board accepted his (Superintendent's) resignation as of January 1, 2006 and paid for the accrued leave according to the terms of the prior contract.....

See  
Note 1  
Page 21

**The Hinsdale Central School Board was never offered a resignation by the Superintendent effective January 1, 2006, therefore, the Board couldn't accept it.**

P. 8, final paragraph, bullet 1: There was no documented justification for the \$15000 increase in the Superintendent's salary.

**A Superintendent's contract amendment of January 2005 shows that in paragraph 9, "Other Benefits: District will contribute \$3750 for each of four years towards a health insurance plan selected by the Superintendent upon retirement."**

**In the Contract with Superintendent of December 2005, paragraph 5, shows that "the compensation of the Superintendent shall be increased by \$15000 in equal installments from December 14 through June 30, 2006."**

**Administration**

Judi McCarthy, Superintendent, Ext 402  
Laurie Edmonston, Principal, Ext 415  
Andrea McLaughlin, Dir, Pupil Personnel Services, Ext. 417  
Karen A. Kunz, Business Executive, Ext 190  
JoAnn Bishop, District Clerk, Ext 407

**Board of Education**

John Fitzpatrick, President  
Mark Ash, Vice-President  
John Ames  
Jeffrey Hewitt  
Bobbi Jo Kent

# Hinsdale Central School

P. 8 (continued)

**Paragraph 6 of the December 2005 contract indicates “this Amendment supersedes all other agreements previously made”; therefore, the previous provision for contribution of \$15000 over four years towards a health insurance plan is negated.**

**There was a ‘meeting of the minds’ between the Board and Superintendent that this was an even trade; in addition it ensured that no other monies would be owed the Superintendent after June 30, 2006, in effect severing that relationship. It should be noted that a reserve fund had been set aside to save for this retirement benefit. Please also note that the Superintendent never availed himself of HCS health insurance, although it was in his contract, therefore saving the District approximately \$60,000.**

See  
Note 2  
Page 21

**This contract was implemented by legal counsel, and nothing done has been deemed illegal.**

P. 8, final paragraph, bullet 1: District leave time records did not support the accumulated 124 sick leave days taken.

**It is the recollection of those employees working in the Business Office at HCS that Mr. Senn indeed did not take sick days while employed as Hinsdale Superintendent. Medical visits were scheduled after school, during the evenings, or on Saturday. Since there was no stipulation in the administrative contract as to how they should be used, the School Board felt that they were justified in granting the use of those sick days from January through June of 2006.**

**In summarizing the separation compensation of Mr. Senn, the HCS Board considered various options regarding the separation of the Superintendent. Looking at the advantages and disadvantages of each, the Board decided that the avenue they took was the most advantageous one as far as the welfare of students, staff, and the educational programming at Hinsdale Central School were concerned.**

P. 9, paragraph above “Recommendations”, final sentence: The Board did not provide us with any formal written justification for these actions.

See  
Note 3  
Page 21

**The Hinsdale Central School Board was never asked for such formal written justification.**

**TOPIC 2: Are internal controls over the claims processing function appropriately designed and operating effectively?**

# Hinsdale Central School

## P. 10, Claims Processing:

**Although the proper documentation was not filed with the claims – all prior authorization forms and all receiving slips are available. Per the Comptroller's Office recommendations we will take steps to make sure these documents are filed with the voucher copy and the invoices.**

## P. 11, Credit card payments

**During the summer of 2004 two HCS employees attended a conference in Albany, NY. Both employees rode with an employee of a neighboring district. To share expenses HCS purchased two meals for the driver. This saved both districts money.**

**Procedures to secure itemized credit card receipts have been implemented.**

## P. 11, Employee Travel

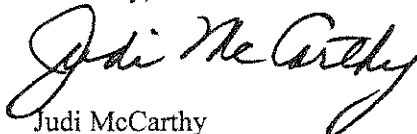
**Policies including the Federal Guidelines for travel per diem hotel rates and travel rates have been approved and limits have been implemented.**

## P. 12, Claims Audit Function

**On March 22, 2006 the board appointed an Internal Claims Auditor independent of District Business functions. The field representatives for the NY State Comptroller's Office were aware of the appointment.**

If you have any questions about this Response, please contact me at 716-557-2227, extension 402.

Sincerely,



Judi McCarthy  
Superintendent

C: John Fitzpatrick HCS School Board President

## **APPENDIX B**

### **OSC COMMENTS TO RESPONSE FROM DISTRICT OFFICIALS**

#### Note 1

District officials informed us that the Superintendent wanted to relinquish his duties by January 1, 2006. As such, the Board should have requested his resignation at that time. Instead, the Board provided additional compensation without a documented benefit to the District.

#### Note 2

The documents provided to us did not clearly indicate that the \$15,000 was in lieu of a contribution for health insurance after retirement.

#### Note 3

Board Members and other District officials were provided a copy of the draft report prior to the exit discussion. District officials could have provided us with documentation justifying the Board's actions at the exit discussion or in attachments to this response, but they did not do so. As such, we believe that the District has had ample opportunity to provide written justification for the Board's actions.

## 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 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 claims processing and payroll processing for further audit testing.

With claims processing, we focused our attention on the approval for payment for various types of goods and services acquired, including special attention to claims for travel and meal expenses for officials and employees and purchases made with credit cards. We also focused on whether certain claims processing procedures and travel policies were being followed. We interviewed officials, observed transactions and examined the following records and information to determine the effectiveness of internal controls pertaining to these functions and any associated effects of deficiencies in those controls:

- Claims
- Warrants
- Checks
- District policies concerning travel and meal expenditures
- Conference Request Forms

With payroll processing, we focused our attention on separation compensation and benefits provided to the Superintendent and two teachers. We examined the following records to determine if the payments and the use of leave time were properly authorized:

- Earnings Summaries
- Contracts

- Payroll Register
- Board of Education Minutes
- Employee Attendance Detail

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.

## APPENDIX D

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**AND ECONOMIC DEVELOPMENT**

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Steven J. Hancox, Assistant Comptroller  
John Clarkson, Assistant Comptroller

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