



# Mahopac Central School District

## Internal Controls Over Payroll and Purchasing

### Report of Examination

Period Covered:

July 1, 2004 - March 31, 2006

2006M-164



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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

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. The following is our report on the Mahopac Central School District — Internal Controls Over Payroll and Purchasing.

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 Mahopac Central School District (District) is governed by the Board of Education (Board), which comprises nine 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 are six schools in operation within the District, from kindergarten through high school, with approximately 5,300 students and 840 employees. The District's budgeted expenditures for the 2005-06 fiscal year, totaling \$92.9 million, were funded primarily with real property taxes, State aid and grants.

### **Scope and Objective**

The objective of our audit was to evaluate internal controls over payroll for the period July 1, 2004 through January 31, 2006, and over purchasing transactions for the period July 1, 2004 to March 31, 2006. Our audit addressed the following related questions:

- Are internal controls over payroll appropriately designed and operating effectively?
- Are internal controls over purchasing appropriately designed and operating effectively?

### **Audit Results**

We determined that controls over payroll processing appeared to be generally adequate. However, we identified instances where control weaknesses allowed supervisors to receive overtime pay without the required approval and supporting documentation. In addition, District payroll personnel paid an employee two stipends totaling \$10,000 without Board authorization.

Although the District has established generally adequate internal controls over its purchasing practices, we found instances in which those controls were not operating effectively. We found the Board did not enter into written agreements with three providers of professional services, whose contracts totaled \$390,871. Without written agreements, the District cannot properly audit the claims from these providers prior to payment. Further, the failure to document the services to be provided and the compensation to be paid can make it difficult to resolve any disputes that may arise between the District and vendor.

We also found that the District purchased \$24,000 in janitorial supplies from a vendor who did not submit a bid for janitorial supplies, rather than from the vendor who was awarded the contract for these products. As a result, the District may have overpaid for this 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. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

# Introduction

## Background

The Mahopac School District (District) is located in the Town of Carmel, Putnam County. The District is governed by the Board of Education (Board), which comprises nine 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 are six schools in operation within the District, from kindergarten through high school, with approximately 5,300 students and 840 employees. The District's budgeted expenditures for the 2005-06 fiscal year, totaling \$92.9 million, were funded primarily with real property taxes, State aid and grants.

The District's Treasurer monitors payroll transactions, while the Assistant Superintendent for Business monitors staffing levels throughout the District and approves overtime rosters. The Purchasing Agent coordinates purchasing activities and reports to the Assistant Superintendent for Business.

## Objective

The objective of our audit was to review the District's internal controls over payroll and purchasing. Our audit addressed the following related questions:

- Are internal controls over payroll appropriately designed and operating effectively?
- Are internal controls over purchasing appropriately designed and operating effectively?

## Scope and Methodology

During this audit, we evaluated the internal controls over payroll for the period July 1, 2004 through January 31, 2006, and over purchasing transactions for the period July 1, 2004 to March 31, 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  
Local Officials and  
Corrective Action**

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

## Payroll Processing

Based on our audit procedures, we determined that controls over payroll processing appeared to be generally adequate. However, we identified instances where control weaknesses allowed supervisors to receive overtime pay without the required approval and supporting documentation. In addition, District payroll personnel paid an employee two stipends totaling \$10,000 without Board authorization.

### Overtime

Overtime is normally generated after employees have worked 40 hours in a work week. Employees are usually compensated for overtime at the rate of time and a half for week days and Saturdays and double time for Sundays and paid holidays. Except for snow plowing, District officials maintained a roster of persons eligible for overtime for each bi-weekly period.

As of January 31, 2006, the District was still negotiating with the supervisory collective bargaining unit. The previous collective bargaining agreement with supervisory personnel, effective July 1, 1999 through June 30, 2003, covered the categories of Head Bus Driver, Mechanic Foreman, Head Custodians, Crew Chiefs and Head Groundskeepers. The agreement included a special provision for "Building Checks" to occur on weekends and whenever the schools are closed. The building checks involve supervisory personnel entering the buildings to check for water pipe leaks, broken windows and to determine if anyone had vandalized or broken into the buildings.

During the 2004-05 fiscal year, the District paid overtime totaling approximately \$512,000. We examined annual earnings for 19 employees who worked as custodians, groundskeepers, mechanics, bus drivers and supervisors from these same categories and determined that the District paid these employees approximately \$309,400 in overtime. The total overtime the District paid these 19 employees represented approximately 34 percent of their total authorized salaries. Table 1 shows the full breakdown of the \$309,424 over the eight employment categories.

**Table 1: Overtime Paid to 19  
District Employees in 2004-05**

<b>Job Categories</b>	<b>Total Employees</b>	<b>Total Authorized Salaries</b>	<b>Overtime</b>
<b>Supervisors</b>			
Head Custodian	5	\$263,561	\$64,660
Crew Chief	5	195,675	30,187
Head Bus Driver	2	104,924	49,617
Head Groundskeeper	1	36,237	18,039
<b>Subtotal</b>	<b>13</b>	<b>600,397</b>	<b>162,503</b>
<b>Staff</b>			
Custodians	1	45,242	4,600
Bus Drivers	2	99,082	42,649
Groundskeepers	2	93,601	85,530
Mechanic	1	55,814	14,142
<b>Total</b>	<b>19</b>	<b>\$894,136</b>	<b>\$309,424</b>

We selected and examined time cards for eight of the above 19 employees, three of whom were supervisors, for the pay periods ended November 23 and December 23, 2005 and January 20, 2006. Of the \$205,293 in overtime paid to these eight employees for these periods, \$142,321 was paid to five non-supervisory employees, and \$62,972 was paid to the three supervisors. Our test showed that, aside from some minor exceptions, overtime hours worked by the non-supervisory employees were approved and documented on their time cards. However, we found that the supervisors' time cards were not consistently signed by managers to indicate the manager's approval of the time worked. Further, supervisors' time cards did not consistently show the actual time worked. When the overtime was due to snow plowing, none of the time cards showed the actual time the supervisors worked; supervisors simply signed their own cards and inserted a total number of hours worked. As a result, the District does not have adequate assurance that the three supervisors worked all the overtime hours they were paid for.

The District rents facilities to the Town and other community groups to use for sports and other social events. The use of the District's facilities generates additional overtime work for District employees. The total receipts for the 2004-05 fiscal year from this and other social events were approximately \$12,000. The District also has two contracts totaling \$110,000 with the Town, for the use of its fields

and other facilities. District officials stated that the District used the \$122,000 in revenue from these activities to defray part of the \$512,000 that was paid in overtime for the year. However, District officials do not maintain records for the overtime cost associated with the two contracts with the Town for the use of District fields and other facilities. As a result, District officials do not know whether the rent it receives from its contracts with the Town is reasonable compared to the overtime cost incurred for Town use of District facilities.

### **Unauthorized Stipends**

All staff appointments require the approval of the Board. In addition, any change to an employee's pay or benefits that was not part of a signed collective bargaining agreement requires Board authorization, which must be documented in the Board meeting minutes. The District's human resources department should then prepare documentation authorizing the payroll department to execute the respective changes. Without such authorization, payroll personnel have no authority to execute changes to the payroll. Furthermore, any special services for which employees should be paid additional compensation is deemed a change to the payroll and requires the same level of authorization as the hiring of new employees.

District controls over payroll were adequate overall, and officials generally retained documentation to show authorization of payments for salaries and related items. However, in one instance, we found the District made two separate payments to the same employee without documentation. District officials paid a head bus driver two \$5,000 stipends, one in December 2004 and the other in May 2005, for the implementation of software for routing and scheduling. The stipend payments were made in addition to the head bus driver's authorized salary of \$52,749 and overtime of \$41,650 for the fiscal year July 1, 2004 to June 30, 2005. We requested documentation to show that the Board authorized the payments and District officials informed us that some Board members remembered the issue. However, there was no evidence on file that showed that the Board authorized the software implementation or the payment of \$10,000 in stipends.

In this instance, there was a breakdown in internal controls over payroll, since persons involved in the payroll control process (payroll clerk, supervisor, treasurer and two business managers) did not request documentation before allowing both payments to be processed. Without documentation authorizing the service and detailing the Board's understanding of the service and any related compensation, neither we nor District officials could determine if the District received the proper level of service for the additional \$10,000 stipend paid to the head bus driver.

## **Recommendations**

1. District officials should ensure that supervisors list their hours of overtime work on their timesheets, and that managers sign supervisors' timesheets to indicate approval of overtime hours worked.
2. The Board should review the District's staffing needs for the various categories of employees that incur the most overtime and continue to pursue corrective measures to reduce overtime.
3. The Assistant Superintendent of Business should account for overtime costs associated with the rental of facilities to the Town and other organizations. District officials should ensure that rent payments are reasonable compared to the overtime costs the District incurs on such occasions.
4. The Assistant Superintendent of Business should ensure that payroll-related payments are made only upon the documented authorization of the Board.

## Purchasing Practices

The objectives of a procurement process are to obtain services or materials, supplies and equipment of the desired quality in the quantity needed at the lowest price in compliance with applicable Board and legal requirements. This helps ensure that taxpayer dollars are expended in the most efficient manner. The Board is responsible for designing controls over the procurement process that help safeguard the District's assets, ensure the prudent and economical use of its moneys when procuring goods and services, and protect against favoritism, extravagance, fraud and corruption.

Although the District has established internal controls to protect against fraud, abuse and professional misconduct related to the District's purchasing practices, we found instances in which those controls were not operating effectively. This occurred because the Board did not enter into written agreements with various providers of professional services, and because the District did not competitively bid certain purchases of janitorial supplies.

### Payments for Professional Services

Written agreements between the District and professionals provide both parties with a clear understanding of the services the professionals are expected to provide and the compensation for those services. A resolution of the Board is also a suitable method of authorization to pay professionals if the resolution clearly states the services to be provided and the basis for compensation. During the period July 1, 2004 through March 31, 2006, the District paid nine professionals approximately \$1.19 million to provide legal, architectural, public accounting, engineering and other services. Of this amount, we examined approximately \$327,000 in payment vouchers. Our examination disclosed the following:

Architectural Firm - The District paid an architectural firm \$234,403 during the period July 1, 2004 through March 31, 2005. District officials did not have a written agreement that was in effect for the period. Instead, District officials presented us with an agreement, dated April 2002 which stipulated that the principal's time should be paid at the fixed rate of \$120 per hour, with an increase of 5 percent (\$126 per hour) effective January 1, 2003. There was no provision for any other increase or extension after 2003. Payment vouchers indicated the District paid the principal at a rate of \$160 per hour instead.

Engineering Firm - The District paid an engineering firm \$152,488 during the period July 1, 2004 through March 31, 2005. The written agreement, dated January 27, 2000, that District officials presented did not include rates of compensation for the various professionals who provided the services.

Therapist - The District paid a therapist \$3,980 during the period July 1, 2004 through June 30, 2005. District officials did not have a written agreement with this provider that stated the required service and compensation.

Making payments to professionals without established authorizations or written agreements is a significant weakness in the internal control over the processing of claims. The lack of written agreements provides no assurance that the amounts paid were appropriate. It also makes it difficult, if not impossible, to properly audit the claims prior to payment. The failure to adequately document the understanding of the services to be provided and the compensation to be paid can make it difficult to resolve any disputes that may arise between the District and vendor.

## **Competitive Bidding**

The purpose of obtaining bids is to encourage competition in the procurement of supplies, equipment and services which will be acquired with public funds. The District's appropriate use of competition provides taxpayers with the greatest assurance that District officials procure goods and services of desired quality in the most prudent and economical manner at the lowest possible price, without the influence of favoritism, extravagance, fraud or corruption. State law requires bids when an item or commodity group exceeds certain dollar limits established under Section 103 of the General Municipal Law. Current dollar thresholds require school districts to advertise for bids for purchase contracts in excess of \$10,000 and public work contracts in excess of \$20,000. The District's procurement policy mirrors the above requirements.

For the school year July 1, 2004 through June 30, 2005, the District competitively bid various products under the caption "janitorial supplies." As a result of the bidding, the District awarded contracts to several vendors for these products, including one vendor, whom the District paid \$121,402 based on a contract for janitorial supplies. However, the District also purchased \$24,000 in janitorial supplies from another vendor who did not submit a bid for janitorial supplies, and was not included on the list of successful vendors for the respective products. District officials should have purchased these supplies from its contract vendor or put this purchase out to bid.

When District officials purchase goods and services from vendors to whom contracts were not awarded, they have no assurance they have obtained goods at the lowest cost, and give an unfair advantage to a vendor who did not participate in the bidding process. This practice can reduce participation in future instances when the District seeks competitive bids, because vendors may be less likely to bid on contracts when the District allows significant purchases to be made from vendors who did not submit a bid for the contract. Reduced competition would reduce the effectiveness of the competitive bidding process.

### **Recommendations**

5. The Board should enter into written agreements with all professionals and the Assistant Superintendent of Business should retain these agreements as support for payments to these professionals.
6. The Superintendent should ensure that all items which exceed the bidding thresholds are competitively bid in accordance with purchasing statutes and the District's procurement policy.

## **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 also contained two additional attachments that we did not include in our audit report. Since the District's response letter generally describes the attachments' contents and their importance in sufficient detail, we did not include the attachments in Appendix A. The two attachments have been filed in our work papers.

# MAHOPAC CENTRAL SCHOOL DISTRICT



*Robert J. Reidy, Jr., Ph.D.*  
*Superintendent of Schools*

December 11, 2006

Office of the State Comptroller  
Division of Local Government Services and  
Economic Development  
33 Airport Center Drive, Suite 103  
New Windsor, NY 12553

Ladies and Gentlemen:

The Mahopac Central School District Board of Education, the Superintendent of Schools, Assistant Superintendent for Finance and associated staff are appreciative of the efforts of the auditing team from your office. The Mahopac Central School District viewed the audit process as an opportunity for (1) constructive feedback on our financial processes and (2) an opportunity for improvement. While the report reaffirms the Mahopac Central School District "...controls over payroll were adequate overall and ...the District has established internal controls to protect against fraud, abuse and misconduct...", we will incorporate your recommendations into our procedures in order to further strengthen our internal controls.

As it relates to the specific findings of the audit, the district offers the following responses:

Payroll Processing/Overtime:

1. Your report indicated that your "...test showed, aside from some minor exceptions, overtime hours worked by the non-supervisory employees were approved and documented on their time cards."

You also noted that supervisors' time cards were not consistently signed by managers to indicate the manager's approval. You further noted that time cards did not consistently show the time actually worked. Finally, you found when overtime was due to snow plowing, none of the time cards showed the actual time.

Transportation: It was explained during the audit process that the Director of Transportation was on medical leave during the 2004-05 school year. During this period, duties were shared between two department staffers. Time cards for these individuals were reviewed weekly by the Assistant Superintendent for Finance to insure the propriety of overtime payments.

District Remediation: All supervisory personnel in the transportation department are now required to punch in using a time clock and the Director of Transportation signs off approving overtime. In his absence, the Assistant Superintendent for Business will sign off.

Snow Removal: Non Supervisory Employees (Snow Removal) – in the past, all employees performing snow removal would report directly to their assigned schools. This was done for two, (2), reasons. The first was for safety by reducing drive time. The second reason was to save time and money. The snow teams would call the bus garage, which coordinated the snow removal teams, upon arrival at their assignments. The teams would be logged in and they would be logged out when they called the bus garage upon completion of the snow removal.

District Remediation: Time clocks have been installed in the garage areas of each school/building. Snow removal crews are required to “punch” in and out. All time cards must be approved and signed by the Director of Facilities. In his absence, the Assistant Superintendent for Finance will sign the cards.

Building Checks: Employees (Building Checks) – building checks are done on weekends and on days when school is not in session to insure that a building has not been broken into and that all of the mechanical systems are in proper working order. The staff member arrives on site, codes the alarm system, and conducts a walk through inspection. The employee codes out and leaves the building. Our security company, CIA, maintains for short periods computer logs by employee for all entries and exits. Thus we can verify the time and duration of building checks. Over the years, a number of serious conditions have been discovered during these checks.

District Remediation: Time clocks have been installed and staff members performing building checks, when school is not in session, are required to punch in and out. These time cards are signed and approved by the Dir. of Facilities. In his absence, the Assistant Superintendent for Business will sign off.

2. The Board should review the District’s staffing needs for the various categories of employees that incur the most overtime and continue to pursue corrective measures to reduce overtime.

The Business Office conducted a District-wide overtime study during the 2003-04 school year. During the course of that study the Business Office looked at the Applications for use of Mahopac Facilities, and the school calendars for each of the District school buildings. This analysis generated a matrix of school use that detailed all uses of District facilities for a 6 month period that generated overtime. This was calculated for all activities beyond the normal school day. Based on this study, it was determined that the major driver of overtime, 69%, in the district is athletics.

District Remediation: To reduce overtime, the athletic department reduced the numbers of staff that it used for the setup and chaperoning of athletic events. The number of buses traveling to and from school athletic events was reduced and teams were doubled up on buses, provided there was room with safety being the primary concern. In addition, building principals reduced the numbers of staff required to support evening events such as “Back to School night”, athletic and PTO events. District officials have had and are continuing to hold meetings with Union representatives to negotiate changes to existing bargaining unit agreements that will allow the district more flexibility in staffing after hour events at regular compensation or at a reduced overtime compensation level. The district is also negotiating the hiring of additional staff on a flex week / hour schedule.

3. The Assistant Superintendent of Business should account for overtime costs associated with the rental of facilities to the Town and other organizations. District officials should ensure that rent payments are reasonable compared to the overtime costs the District incurs on such occasions.

The district performed an analysis of overtime costs for a six (6) month period to determine what the major drivers of overtime in the district were. Based on that analysis, it was determined that the moneys received annually from Town based organizations fairly represent compensation for the towns usage of school district facilities.

District Remediation: The district will continue to monitor its overtime costs as a result of outside organizations usage of school facilities. Fees will be adjusted where appropriate to insure that the district continues to be fairly compensated for use of its facilities.

4. The Assistant Superintendent of Business should ensure that payroll-related payments are made only upon the documented authorization of the Board.

In the 2002-03 school year, the District became concerned that the Director of Transportation was going to retire. The Director had done all of the scheduling and routing of Mahopac school buses for the past 30 + years. This was not a computerized system and this knowledge base would be lost should he retire. Discussions were held with the BOE Transportation subcommittee, and it was decided that the District needed to install a computerized scheduling and routing software package. A stipend would be paid to computerize these data. Computerizing the Districts records and running tests of the routing and scheduling system for each school took 1 1/2 years to fully implement. The stipend was to be put onto the next Board of Education agenda, but for some unknown reason it was not. This was confirmed by former Trustee, Mr. Ken Schmitt, Chairperson of the Transportation Committee and Dr. Joseph Sabatella, former Superintendent of Schools (letters attached). After the software was fully implemented, the stipend was discontinued in the payroll system.

District Remediation: All payroll adjustments will only be made only upon written approvals of the Board of Education and the Personnel Department.

Purchasing Practices:

5. The Board should enter into written agreements with all professionals and the Assistant Superintendent of Business should retain these agreements as support for payments to these professionals.

The Business Office provides monthly reports to the Mahopac Board of Education on the status of expenditures in these areas. In addition, because of the on-going litigation with our capital projects our legal team briefs the BOE periodically on the status of the lawsuits as well as their estimate of on going costs in order to bring the litigation to closure. The BOE is given periodic updates on the status of our construction projects, as regards to year-to-date costs incurred and projected costs to complete the remaining projects. In addition, all Accounting, Legal, and Financial correspondence is given to the BOE in the Superintendents Friday update.

District Remediation: Formal contracts for Legal, Accounting, Architectural and the physical therapist will be put in place.

6. The Superintendent should ensure that all items which exceed the bidding thresholds are competitively bid in accordance with purchasing statutes and the District's procurement policy.

The district has over 2,400 active vendors that we have dealt with over the past 2 years. These reflect a combination of vendors off of the state bid lists of consultants, professional organizations, reimbursement of expenditures, dues and fees, vendors that are part of the school consortium bid process and vendors that fall below the GML (General Municipal Law) ceiling. The GML ceiling on service contracts (labor & materials) is \$20,000 and \$10,000 for material/ supplies. Annually, the district reviews expenditures by vendor and bids those vendors that we anticipate will exceed the GML mandate. The vendor the district failed to bid was CINTAS. This vendor provides the district with uniforms for custodians and mechanics, entry mats as well as mops and brooms. Unfortunately the district missed this vendor in our expenditure projections and as a result we exceeded the GML threshold.

District Remediation: In the future the district will expand monthly reviews of all vendor expenditures to insure that we do not exceed the GML thresholds. Those items approaching the threshold will be bid out.

The Mahopac Central School District, the Board of Education and Administration view this audit process as serious and important. Our audit conference was attended by our district Audit Committee, several Board of Education members and the Superintendent's Administrative Cabinet. This is an important year for the Mahopac School Community. The school district is on a contingent budget and it is important that our community be assured our financial checks and balances are appropriate. It is also important for our community to know our "spirit" is one of wanting to improve.

We appreciate your recommendations and believe that their implementation will strengthen our accountability as a public agency.

Sincerely,

  
Robert J. Reidy, Jr.  
Superintendent of Schools

## 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.

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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected purchasing and payroll processing for further audit testing.

We initially conducted various procedural and analytical tests of the January 20, 2006 payroll and related time cards, collective bargaining agreements, leave accrual, and payroll earnings records for the period July 1, 2004 through January 31, 2006, to determine if the controls over payroll, in general, and specifically over time records, were adequate relative to the level of overtime which existed. Due to the deficiencies which we identified with some of the time cards, and controls over supervisory overtime of our initial sample of 13 employees, we expanded our sample size to 19 and concentrated our sample mainly on custodians, mechanic and bus drivers, in a supervisory capacity. This expanded sample included 13 supervisory staff. For this expanded sample, we merely analyzed the categories of employees and their authorized salaries and compared them to overtime earned for the July 1 2004 to June 30, 2005 fiscal year and July 1, 2005 through January 31, 2006.

Based on our evaluation of the payroll data and interviews with the Assistant Superintendents for Business and Human resources we determined that the magnitude of overtime for certain categories of employees constitute a significant risk and a major concern to management.

For the purchasing scope area we interviewed the purchasing agent reviewed bid documents, contracts, resolutions and payment vouchers and determined if payments to the respective professionals and other vendors were made in accordance with the respective contracts for the period July 1, 2004 through March 31, 2006. In addition, for items which exceeded the bidding thresholds we performed analytical reviews to determine if there was compliance with the bidding statutes for the fiscal year July 1, 2004 through June 30, 2005.

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 C

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