



Marathon Central School District Internal Controls Over the Audit of Claims

Report of Examination

Period Covered:

July 1, 2004 - November 21, 2005

2006M-27



Table of Contents

	Page
AUTHORITY LETTER	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
INTERNAL CONTROLS OVER THE AUDIT OF CLAIMS	7
Recommendation	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

June 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 Marathon Central School District — Internal Controls over the Audit of Claims.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article 5, Section 1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by 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 Marathon Central School District (District) is located in two towns in Broome County, one town in Tioga County and seven towns in Cortland County. The District is governed by the Board of Education (Board) which is comprised of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are two schools in operation within the District, with approximately 1,000 students and 170 employees. The District's budgeted expenditures for the 2004-05 fiscal year were approximately \$12 million, funded primarily with State aid, real property taxes and grants. The Board is responsible for authorizing payment for all District expenditures, which includes the audit of claims.

Objective

The objective of our audit was to determine if internal controls over the audit of claims were appropriately designed and operating effectively to adequately safeguard District assets. Our audit addressed the following related question:

- Did the Board exercise its management responsibilities by adopting a policy requiring the deliberate and thorough audit of claims and did it comply with this policy?

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 controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in claims processing and therefore, we examined internal controls over claims processing for the period July 1, 2004 to November 21, 2005.

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, 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.

Internal Controls Over the Audit of Claims

It is the responsibility of the Board to establish policies and/or procedures relating to the business functions of the administrative offices, including the auditing of claims, to reduce the risk of fraud, waste or abuse of assets. Written policies and procedures should provide clear guidance on claims auditing responsibilities. An effective internal control system should include the requirement that all claims be deliberately and thoroughly audited before the District pays them. The Board or the internal claims auditor (if one has been appointed) should audit all claims with the goal of determining that they are proper charges against the District. This can be done by making sure that all claims are sufficiently itemized, in proper form, are mathematically correct, do not include charges previously paid, include documentation that they have been approved by the person who ordered the goods or services and contain evidence that they were actually received.

The Board has not established policies or procedures for the audit of claims, nor has the Board deliberately and thoroughly audited them. Based on our discussions with District officials, neither the Board members nor any other District official actually audited each claim. We found in our review of Board minutes that the Board simply acknowledged and approved a listing of claims received and to be paid (warrants), prepared by staff of the business office. Board members confirmed this by telling us they reviewed each warrant and only reviewed individual claims (which were available at every Board meeting) when questions arose regarding any proposed payments.

Members of the Board told us that they did not audit every claim because they trusted the work done by other District staff to ensure that the claims were accurate, appropriate and contained the required documentation. More specifically, the Board relied on business office staff that recorded and processed the claims package, and the Superintendent of Schools who certified copies of the related purchase orders indicating that the goods/services ordered had been received.

The approach used by the Board is incorrect. A good system of internal controls does not rely on “trust”, rather it should rely on independent checks and balances among various employees. Specifically, the claims auditing function should be independent of the clerical or professional staff directly involved in accounting and purchasing duties and independent of the direct supervision of the Superintendent.

The Board has not provided independent oversight over the claims payment process, instead relying on staff that performs accounting or purchasing duties.

To further evaluate claims processing, we tested 80 claims and found that eight had no evidence that the goods or services were received, and two included mileage reimbursements that were paid at rates other than the established rate set by the Board. Even though the dollar amounts involved were immaterial in these instances, there is a risk of material errors if controls are not improved. We discussed the issues involved with District officials so that they could take corrective action.

The lack of effective internal controls over the claims auditing process increases the risk that claims may be paid which are improper charges against the District.

Recommendation

1. The Board should enhance the District's internal controls by establishing policies and procedures to ensure the deliberate and thorough audit of all individual claims.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Marathon Central School District
Office of the Superintendent of Schools
Post Office Box 339
1 East Main Street, Marathon, New York 13803
Tel. 607-849-3117 Fax. 607-849-3305

Mr. Timothy J. Turecek
Superintendent

Mrs. Nancy Cornell
District Clerk

May 1, 2006

████████████████████
Office of the State Comptroller
Division of Local Government Services
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear ██████████:

This letter will serve as the District's response to the audit of Marathon Central School District conducted by your office on behalf of the State Comptroller.

The sole deficiency cited in the audit report was a need for the Board to "enhance the District's internal controls by establishing policies and procedures to writing so that effective procedures to ensure the deliberate and thorough audit of all individual claims."

To address this deficiency the Board and Administration will take two actions. First, we will appoint a part-time internal claims auditor to fill this gap in our internal controls procedures. Secondly, we will commit our internal control policies and procedures to writing so that effective procedures are maintained over time and, across and staff turnovers.

We learned a lot and were helped to tighten already effective controls through this audit process.

Sincerely,



Timothy Turecek
Superintendent of Schools

c: Board of Education
P. Fry, School Business Official

"Enabling all students to achieve academic success, become responsible citizens, and realize their full potential."

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 database(s). Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during 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 adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected the audit of claims for further audit testing.

In order to accomplish the objective of evaluating the claims auditing function, we:

- Reviewed any adopted policies or directives the District had for appropriateness.
- Interviewed District staff to gain an understanding of the current procedures in place.
- Tested a judgmental sample of claims which included payments to District officials to see that the charges included on them were proper, documentation was sufficient, rates were correct (mileage reimbursements), and that the claim was itemized.
- Looked for appropriate signatures for approval, receipt, endorsements, and also looked at payee, date, and dollar value to determine if they have been altered in any way from the original warrant 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.

APPENDIX C

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AND ECONOMIC DEVELOPMENT

Mark P. Pattison, Deputy Comptroller
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