



# Northeast Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2004 - April 25, 2006

2006M-107



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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 Northeast 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*



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The Northeast Central School District (District) is located in the Town of Amenia, in Dutchess County. The District is governed by the Board of Education (Board) which comprises 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. The District's budgeted expenditures for the 2005-06 fiscal year were \$17.1 million, which were funded primarily with real property taxes, State aid, and grants. For fiscal year 2004-05 expenditures totaled approximately \$14.6 million.

A physical inventory conducted in 2004 indicated that the District-owned capital assets had a replacement cost of nearly \$23.5 million. The District's inventory of capital assets represents a significant investment of resources.

During the 2004-05 fiscal year, gross payroll for the District totaled \$7.7 million. Payroll and payroll-related expenditures represented more than 50 percent of total expenditures for the 2004-05 fiscal year.

### **Scope and Objective**

The objective of our audit was to determine if internal controls over selected financial activities were appropriately designed and operating effectively. Our audit addressed the following related questions for the period July 1, 2004 to April 25, 2006:

- Has the District established adequate internal controls to protect capital assets against loss, waste and misuse, and are those controls operating effectively?
- Has the District established adequate internal controls over payroll to protect District assets against fraud, abuse and professional misconduct, and are those controls operating effectively?
- Has the Board implemented adequate policies and procedures to protect and account for the District's assets?

## **Audit Results**

Our audit found instances in which the Board had not established internal controls or where internal controls existed but were not properly designed or operating effectively. Weaknesses in the District's internal controls can lead to errors or irregularities occurring and remaining undetected.

For example, the District has not implemented an adequate internal control system which would allow for proper safeguarding and accountability for its capital assets. The District has not assigned overall responsibility for its capital assets to one individual. Additionally, there has not been a complete physical inventory since July 2004. Our testing found 13 items valued at approximately \$24,000 which had not been recorded on the inventory. Also, we found that the District's inventory records lacked specific identifying information, such as a model and serial number, and the location of capital assets. We were unable to locate four digital cameras purchased by the District with a replacement cost of about \$200 each. Additionally, we could not locate one laptop computer with an acquisition cost of \$2,400 and one desktop computer with an acquisition cost of \$1,800.

We also found weaknesses in the controls over the District's payroll and personnel records. Our review of the adequacy of documentation contained in personnel files for 50 employees found missing items, including Federal I-9 immigration forms, employment applications, and references. There is also a lack of segregation of duties in payroll processing.

The Board had not adopted written policies that addressed travel-related lodging and meals, meals and refreshments at meetings, and cellular phone assignment and usage. As a result of these weaknesses, we conducted limited testing and found no significant instances of abuse or misuse of assets.

## **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 have already initiated corrective action. OSC's comment on the District's response may be found in Appendix B.

# Introduction

## Background

The Northeast Central School District (District) is located in the Town of Amenia in Dutchess County, 90 miles north of New York City. The District encompasses six towns: Amenia, Northeast, Ancram, Washington, Dover, and Stanford, and the Village of Millerton.

The District is governed by seven elected members of 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 five schools in operation within the District, with approximately 877 students and 200 employees. For fiscal year 2004-05 expenditures totaled approximately \$14.6 million. Gross payroll for the District represented \$7.7 million of that amount. A physical inventory conducted in 2004 indicated that District-owned capital assets had a replacement cost of nearly \$23.5 million.

The District's budgeted expenditures for the 2005-06 fiscal year were \$17.1 million, which were funded primarily with real property taxes, State aid, and grants.

## Objective

The objective of our audit was to determine if internal controls over selected financial activities were appropriately designed and operating effectively. Our audit addressed the following related questions:

- Has the District established adequate internal controls to protect capital assets against loss, waste and misuse, and are those controls operating effectively?
- Has the District established adequate internal controls over payroll to protect District assets against fraud, abuse and professional misconduct, and are those controls operating effectively?
- Has the Board implemented adequate policies and procedures to protect and account for the District's assets?

**Scope and  
Methodology**

During this audit we examined the District’s control environment and the internal controls over its capital assets and payroll for the period July 1, 2004 to April 25, 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 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. District officials generally agreed with our recommendations and indicated they have already initiated corrective action. OSC’s comment on the District’s response may be found in Appendix B.

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*.

## Capital Assets

A school district's inventory of capital assets often represents its most significant investment of resources. Capital assets are those assets used in operations that generally have a useful life of more than one year and include such things as land, buildings, furnishings, vehicles, and electronic equipment such as computers. Capital assets are subject to a number of risks, including loss, waste, misuse, and obsolescence. District officials must be aware of these risks as they seek to effectively manage capital assets. To reduce the risks of loss, waste, misuse and obsolescence, it is important for the District to adopt comprehensive capital asset policies, maintain inventory records, conduct periodic inventories, and establish other safeguards.

### Inventory Control

Maintaining inventory records helps to safeguard assets, determine the adequacy of insurance protection, and provides a means of planning for future replacement and for fixing responsibility for the care and safeguarding of equipment and property. A periodic physical inventory of capital assets is also an important control for monitoring the accuracy of the capital asset records and determining the existence and condition of the capital assets. Ideally, one person, the property control manager, should have overall responsibility for tracking capital assets, and for the accuracy of the asset records. The detailed records maintained by the property control manager must be complete, accurate, and up-to-date. Each piece of moveable property should have a record that includes a description of the item (including make, model, and serial numbers), the District's assigned identification number, date of acquisition, cost, vendor, and the asset's physical location.

The District has adopted policies and procedures to help safeguard its capital assets. These policies and procedures address the management of asset inventories, use of District vehicles, lending of school-owned equipment, use of school facilities, and sale of capital assets. Although the District has a policy that describes the methods required to dispose of District assets, the policy does not address the means by which District personnel should update the capital assets inventory records to reflect the disposal of the assets. Furthermore, the District has no procedures to ensure that when it relocates its assets, District personnel will update the inventory records to reflect those changes.

The District has not appointed a property control manager to oversee its capital assets. The District contracted with an appraisal company in 2004 to conduct a physical inventory of its capital assets. The inventory concluded in July 2004 indicated the following: Capital assets, less any building additions, had a cost of reproduction (new) of nearly \$23.5 million. Since the last physical inventory, the Treasurer has been responsible for recording any additions or deletions based upon paid invoices. According to the Treasurer, these updates are not provided to the appraisal company for use in updating the inventory records. Furthermore, a complete physical inventory of the District's capital assets has not occurred since the one conducted in 2004 by the appraisal company.

To determine the accuracy of the District's inventory records, we judgmentally selected 96 pieces of equipment purchased between July 1, 2004 and April 25, 2006 to determine whether these items were included on the District's capital asset inventory and whether they were physically located as indicated on the inventory records. Our testing showed that the District's inventory records were generally not accurate and did not contain sufficient information to allow managers to adequately safeguard District assets. For example:

- Thirteen of 96 items (14 percent), valued at approximately \$23,510, were not recorded in the District's inventory records. These items included:
  - o A batting cage,
  - o A hydraulic ladder,
  - o A projector, and
  - o Ten GX270 Dell computers.
- Seventy six of 96 items (79 percent) purchased did not have a physical location documented on the District's inventory records
- Ninety six of 96 items (100 percent) purchased did not contain sufficient identifying information, such as a model and serial number, on the District's inventory records.

When attempting to physically locate these 96 items, the District was generally able to locate equipment based on a generic inventory record description. However, we were unable to verify with certainty that the piece of equipment we observed was the item from our sample due to the lack of sufficient identifying information on the District's inventory records. This occurred because the Treasurer does not

include essential identifying information such as the location of the equipment, the model number, or the serial number on the inventory records.

We also noted that the Information Technology (IT) Department maintains inventory records to assist the IT Director in tracking computer and electronic equipment. The information contained within the IT Department's inventory is not audited by the District's independent auditor (although District officials stated that these inventory records are subject to audit at the discretion of the independent auditor) and is not communicated to the Business Office for the purposes of updating their capital assets inventory. We obtained a listing from the IT Department of all digital cameras owned by the District to determine the accountability over lower-dollar equipment that is not recorded on the District's inventory, but classified as high-risk items.

Based on our sample of nine cameras, we concluded that the IT Department's records are not reliable. For example, of the nine cameras sampled:

- Four were accounted for,
- Four could not be located, and
- One was located, but had been transferred to a different user.

We also found an additional camera that was located in the Webutuck Elementary School office, but was not included on the IT Department's inventory. Further inspection of the camera found that it was missing a tag identifying it as District-owned property. The Director of the IT Department indicated that the cameras not accounted for are a result of the assigned user transferring the item to another user or location. The IT Director was unable to locate the four cameras after we inquired as to their whereabouts. It would cost approximately \$800 to replace the missing cameras.

Incomplete and outdated information on capital assets can result in the District having inaccurate accounting records. Without an accurate system, the District is at risk for possible loss or misuse of its assets. As discussed above, the District cannot account for four digital cameras.

## **Segregation of Duties**

Segregation of duties is the division of tasks and responsibilities among the various employees and subunits of an organization so that no one individual controls all the key aspects of a transaction or event.

By separating key tasks and responsibilities — such as receiving, recording, securing, and disposing of assets — management can reduce the risk of error, waste, or wrongful acts occurring or going undetected. However, in cases where tasks cannot be effectively separated, management can substitute increased supervision as an alternative control activity that can help prevent or reduce these risks.

We identified a lack of segregation of duties in the District’s operations relating to the safeguarding of computer and electronic equipment which could lead to errors and/or irregularities occurring and going undetected. This occurred because the Director of the IT Department is responsible for receiving, tagging, securing, inventorying, and disposing of computers and other electronic equipment.

Without an adequate segregation of duties over computers and other electronic equipment, the District does not have the ability to monitor whether all those items are properly received, safeguarded, and retired.

## **Recommendations**

1. The Board should designate a property control manager to be responsible for maintaining an up-to-date and complete capital assets inventory record.
2. The District’s designated property control manager should conduct periodic physical inventories and compare the results to the capital assets inventory records. The property control manager should then investigate and resolve any discrepancies.
3. The Board should revise its capital assets policy to ensure that District personnel accurately report all dispositions and transfers of capital assets in a timely manner to the property control manager.
4. Inventory records should include identifying information for each equipment item including the model number, serial number, physical location, and assigned user.
5. The Board should ensure that duties are appropriately segregated for the requisition, receipt, tagging, inventory, and disposal of computer and electronic equipment.
6. The designated property control manager should account for all computer equipment during the District’s periodic physical inventory.

7. The District should update its inventory records to accurately reflect the items that are missing or discarded and investigate any missing items.

# Payroll

Salaries, wages, overtime and employee benefit costs comprise a significant portion of the District's budget. The Board must establish appropriate payroll policies and procedures that address such areas as the documentation required for personnel records, the timing of the appointment of extra-curricular positions, and the segregation of duties for the payroll process. District officials and administrators must ensure that appropriate controls are established to prevent and detect errors and irregularities in the District's payroll and personnel practices.

Our audit found weaknesses in the controls over personnel files, tardy appointments of individuals to extra-curricular positions, and a lack of segregation of duties over the key aspects of the District's payroll function.

## Personnel Records

The accuracy and completeness of personnel records supports the District's compliance with its policies, employee contractual agreements, and other legal requirements. Adequate documentation provides evidence to substantiate a decision or event. All documentation needs to be complete, accurate, and recorded promptly. Generally, the District uses resumes, transcripts, certifications, and references to determine the qualifications of its employees when making a decision to hire an employee and the level of compensation to be provided.

If personnel files lack the necessary documentation, the District does not have adequate assurance that its employees are qualified and compensated at the proper rate. Additionally, without adequate references, the District may not have sufficient information as to the background and abilities of the prospective employees or the extent of their experience with students.

We randomly selected 50 employee files to determine if the necessary documentation was contained in their personnel files and found a variety of missing documentation. For example:

- Ten of 50 employee files were missing the Employment Eligibility Verification (I-9) form. This form, required by the Immigration Reform and Control Act, is used by employers to verify the employment eligibility status of newly hired employees.

- Two of 50 had an incomplete or missing employment application.
- Five of 50 were missing references.

Valid teaching certificates were properly included for all employees classified as instructional.

District officials indicated that the Superintendent’s secretary and the accounts payable clerk are currently reviewing and updating personnel files for missing I-9s. Employers who fail to properly complete and retain the I-9s as required by law may face civil penalties. Based on the results of the sample, the District could potentially be liable for a civil penalty ranging from \$1,000 to \$10,000 for non-compliance. Officials indicated that their new employee packet includes the I-9 form for all newly hired employees to complete.

**Extra-Curricular Positions**

Each year in July, the Board holds an annual reorganization meeting for the upcoming school year. The Board uses this meeting to appoint individuals to other extra-curricular positions such as athletic coaches for various teams, and to approve the payment of stipends for these extra-curricular positions. According to the Superintendent, these appointments should occur prior to the start of the school year or the athletic season.

We sampled five instances during the period July 1, 2005 to April 25, 2006 where an extra-curricular activity appointment occurred and found that the appointment date was after the start of the season in three instances. The Superintendent was aware that these appointments for extra-curricular positions were late and indicated that he is in the process of addressing these issues for the 2006-07 fiscal year.

<b>Position</b>	<b>Season Start Date</b>	<b>Appointment Date</b>	<b>Stipend Amount</b>
Athletic Director	August 15, 2005	August 22, 2005	\$5,974
Cheerleading Coach	November 7, 2005	April 17, 2006	\$2,456
JV Boys Basketball Coach	November 7, 2005	January 24, 2006	\$2,142

When appointments to extra-curricular positions occur after the commencement of the activity, there is a risk to the District of employing unqualified individuals for a period of time. Additionally, when an individual assumes the responsibilities of an extra-curricular position prior to official appointment, there is a risk to the individual that the Board may not subsequently approve them.

## **Payroll Processing — Segregation of Duties**

Good internal control requires a separation of functions and responsibilities among two or more individuals who provide a system of checks and balances over each other's activities. For example, an employee authorized to input new employees into the computerized payroll system should be separate from an employee who processes the payrolls. This would ensure that only legitimate, authorized personnel are included on the District's payroll.

The functions and duties in the area of payroll processing are not adequately segregated. The payroll clerk is responsible for controlling all key aspects of the payroll function from adding and deleting employees, processing the payroll, to distributing checks to department supervisors. Additionally, aside from the Superintendent certifying the payroll, no other adequate compensating controls are in place to mitigate the risks associated with one individual controlling all aspects of the payroll process. Our audit also found that the payroll clerk has only a limited review of his work by the Business Manager to ensure that proper payments and entries have occurred. Furthermore, the payroll clerk indicated that vacations are scheduled around the payroll period to avoid having someone else assume the payroll duties. At the time of the audit, the District had not officially designated another employee to fill in for the payroll clerk during an absence. We also found that the District has not developed written policies and procedures that document the payroll clerk's job duties and responsibilities. Without an adequate segregation of duties in the payroll area, the District is at risk for processing payroll transactions that may be inaccurate, unauthorized, or inappropriate.

According to District officials, due to the limited staff in the Business Office, the resources are not available to adequately segregate the responsibilities involved with payroll processing. Because of the lack of segregation of duties over payroll, we tested the accuracy and authorization of pay rates for 50 employees, as well as a sample of time sheets for support and approval. Our testing revealed no exceptions. We also observed a payroll payout to District staff. The payroll payout required employees to pick up their checks in person and to produce identification to verify their identity. This procedure helped confirm the accuracy of payroll records by ensuring that individuals who received paychecks were legitimate employees.

## **Other Payments**

Our audit also examined the accuracy of the payroll records for the following types of transactions: retirement and separation payments, leave credit calculations, and health insurance buyouts. Generally, we found that the District's records for the above transactions were accurate and adequately supported.

## **Recommendations**

8. The Business Manager should develop a checklist of documentation required for District employee personnel files. The Board should ensure that all employee personnel files contain this information.
9. To the extent practicable, the Board should appoint all extra-curricular positions at the annual reorganization meeting in July of each year. Minimally, the Board should appoint an individual prior to the commencement of the activity.
10. The Board should require the Business Manager or another business office employee who does not have responsibilities over processing payroll to monitor bi-weekly payroll reports to review and identify variances.
11. As part of the District's newly developed internal audit function, the Board should require a periodic review of the payroll transactions processed.

## Other Internal Controls

Control activities are tools — both manual and automated — that help prevent or reduce the risks that can impede accomplishment of the District’s objectives and mission. The Board’s establishment of control activities helps to effectively and efficiently accomplish the District’s objectives and mission. Additionally, the Board’s close monitoring and evaluation of control activities ensures they are functioning properly and that such things as managerial overrides, collusion, or careless judgments are not compromising their effectiveness.

There are many control activities the Board can use to counter the risks that threaten the District’s success. Some controls guide a District toward its desired outcome. These control activities take the form of regulations, guidelines, policies, and written procedures. Policies are important to overall District operations. They should provide clear guidelines for a particular segment of operations that all District personnel should follow. Without the existence of formal policies, there is no common standard for employees to follow. This may result in misunderstandings and operations not performed according to the Board’s expectations. During our audit period, the District did not have formal policies governing the use of cellular phones, or for meal and refreshment purchases for meetings. We also noted that the District’s travel-related expense policy was inadequate. While the District lacked policies, we found no significant exceptions in our testing of transactions related to meals provided during meetings, cellular telephones, or travel-related lodging and meals.

### **Travel-Related Lodging and Meals**

Although the Board has established a formal policy addressing mileage reimbursement, there is no policy covering the reimbursement of travel-related lodging and meal costs. Some local governments and school districts have opted to establish reasonable maximum per diem rates (i.e., daily rates established by the U.S. General Services Administration for business travelers) for meals and lodging that officials may not exceed, without approval, as a way to safeguard public funds.

### **Meal Expenses During Meetings**

During our audit period, the Board did not have a written policy outlining when it was appropriate to provide meals and refreshments to employees attending District meetings and events. District officials are entitled to reimbursement for actual and necessary expenses incurred in the performance of their official duties. However, the Board should only consider meals provided at meetings necessary

where events prevent staff from taking time off during mealtime because of a pressing need to complete business. An additional way to safeguard taxpayer funds might be to consider establishing maximum costs per attendee for meeting meals that officials may not exceed without approval.

### **Cellular Phone Use**

During our audit period, the District had four cellular phones that were used by employees of its bus garage. These phones have a limited number of minutes allowed by their plan.

Because the District provides cellular phones to its employees, it is important for the Board to adopt a written cellular phone policy that outlines which employees need cellular phones to conduct District-related business, and how those employees should use cellular phones. While we did not find any instances in which the District exceeded its plan minutes, without a formal policy in place, there is the potential for unacceptable use.

According to the Business Manager, the District does not incur large expenditures with regard to the above listed areas, and his regular review of transactions would identify any discrepancies or unreasonable expenditures. The Business Manager further indicated that he understands the reasoning for having policies and procedures to guide District employees and stated that the District will address these issues.

### **Recommendations**

12. The Board should adopt a written policy governing the allowable reimbursements for lodging and meals incurred during official District business, and setting limits for how much it will pay.
13. The Board should adopt a written policy outlining when the District may provide meals and refreshments at District meetings and events.
14. The Board should adopt a written policy to control the assignment and use of District-owned cellular phones.

## **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 refers to attachments that support the response letter. Because the District's response letter provides sufficient detail, we did not include the attachments in Appendix A.

WEBUTUCK (NORTHEAST) CENTRAL SCHOOL DISTRICT  
194 Haight Road, P.O. Box N  
Amenia, NY 12501

**Superintendent of Schools**

Dr. Richard N. Johns

**Business Administrator**

Kevin Geoghan

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Scott Richards, Asst. Principal

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**Webutuck Elementary School**

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**Committee on Special Education**

Patricia Carmody

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**Transportation/Facilities**

Ed Tannini

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**Food Service**

Jason Thomas

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**Board of Education**

Bernadette Coniglio (Chair)

Joanne Boyd

Daie Culver

Joseph Herald

Susan Lounsbury

Joseph Matteo

John Perotti

Clerk: Tracy Trotter

December 1, 2006

Office of the State Comptroller

22 Computer Drive West

Albany NY 12205

Dear [REDACTED]

At the direction of the Board of Education of the Webutuck (Northeast) Central School District I respectfully submit this response to the findings and recommendations contained in the draft Report of Examination of the Northeast Central School District: Internal Controls over Selected Financial Activities for the period of July 1, 2004 through April 25, 2006.

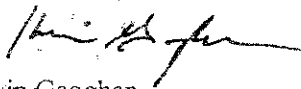
The Board of Education is most pleased to know that the Webutuck (Northeast) Central School District is, in fact, operating with the utmost integrity, and that as a result of your in-depth inquiry, "no significant instances of abuse or misuse of assets" were uncovered. While the District is not surprised by the finding, a high-quality, independent review is most reassuring. The finding also serves as an impetus for the District to reaffirm its unqualified commitment to maintaining the highest degree of integrity at all levels.

The Board of Education is equally pleased to receive Comptroller recommendations for improvement. Attached is a detailed description of actions and supporting documents indicating all recommendations have either been fully implemented or the foundation has been set to complete implementation in this school year.

On a final note, the level of sophistication and depth of review provided by the Comptroller would not otherwise be possible within the limits of the District's local tax base and the educational demands of its students. We appreciate your support.

Thank you

Sincerely,



Kevin Geoghan  
School Business Administrator

C: Webutuck (Northeast) CSD Board of Education  
Dr. Richard N. Johns, Superintendent of Schools

Attachments:

Comments and actions on recommendations with supporting documentation

# Comptroller Draft Audit Report

## Response Letter Attachment

### Comments and Actions on Recommendations

**Webutuck Central School District**  
**Comments and actions on Comptroller Findings and Recommendations**

**Introduction:** Section I of this document focuses first on the eleven recommendations listed in the draft Report of Examination of the Northeast Central School District: Internal Controls over Selected Financial Activities for the period of July 1, 2004 through April 25, 2006. Section II includes comments on other statements contained in the report that appear either to be examiner opinion or findings. Both sections follow the headings that appear in the draft report.

**Section I**

**Capital Assets**

Recommendations:

*1. The Board should designate a property control manager to be responsible for maintaining an up-to-date and complete capital assets inventory record.*

Person(s) Responsible: Board of Education

Completion Date: 8/1/06

Status as of the date of this report: Completed

Supporting Documentation: The attached [EXHIBIT 1] is an excerpt from the minutes of the District's 2006 Annual Organization Meeting. It indicates the Board of Education appointed a Property Control Manager with an annual stipend of \$3,300.

*2. The District's designated Property Control Manager should conduct a periodic physical inventory and compare the results to the capital assets inventory records. The Property Control Manager should then investigate and resolve any discrepancies.*

Person Responsible: Property Control Manager

Completion Date(s): - Initial physical inventory: 9/1/06

- Comparison with capital assets inventory records: 10/1/06

- Investigate/resolve discrepancies: 6/30/06

Status as of the date of this report: The Property Control Manager was hired as of July 1, 2006 and conducted a physical inventory over the summer of 2006. The comparison with recorded inventory was completed and incorporated into the District's financial records for the year ending 6/30/06.

Supporting Documentation: The attached [EXHIBIT 2] is a copy of the Property Control Manager's Job Description. The description directs the Property Control Manager to conduct a periodic inventory, compare results with capital asset records, and prepare a report on discrepancies so that they may be resolved.

As a result of the physical inventory conducted by the Property Control Manager, the District recognized and began tracking additional assets. Additions to the recorded inventory are reflected on audited statements of the District. [EXHIBIT 2.1] includes excerpts of the years ending 6/30/05 and 6/30/06 audit reports indicating an increase in recorded assets that are depreciated from \$1,340,753 to \$3,427,110. As stated, associated depreciation is also recorded.

3. *The Board should revise its capital assets policy to ensure that District personnel accurately report all dispositions and transfers of capital assets in a timely manner to the property control manager.*

Person(s) responsible: Board of Education / Purchasing Agent

Completion Date: 11/1/06

Status as of the date of this report: Completed

Supporting Documentation: As discussed during the exit discussion, the Board of Education typically creates policies that direct personnel to take action. In this case, District Policy #609 [EXHIBIT 3] directs the Purchasing Agent to "be responsible for developing and administering the purchasing program." Since the Purchasing Program is authorized by Board of Education Policy, it bears the same force and effect as Board Policy.

The Purchasing Program [EXHIBIT 4] covers all aspects of purchasing, including the responsibility of each person who participates in the process, and his role in the safekeeping and tracking of assets. The section entitled "Special requirements for purchases of furnishings and equipment" (including all computer and electronic equipment) begins on page 6.

Section 6 of the Property Control Manager's Job Description [EXHIBIT 2] requires the Property Control Manager to develop a system to assist Budget Initiators in meeting their obligation to report all transfers. Section 5 of the job description requires the Property Control Manager to track the usefulness of assets and, as appropriate, recommend the disposal of property in accordance with the District's asset disposal policy.

4. *Inventory records should include identifying information for each equipment item including the model number, serial number, and the physical location and/or assigned user.*

Person Responsible: Property Control Manager

Completion Date to create the system: 12/1/06

Status as of the date of this report: Completed

Completion date to record new equipment: Completed and ongoing

Completion date to log and or tag historic equipment: 6/30/07

Supporting Documentation: The District keeps inventory records in-house and has developed a spread sheet to facilitate this record keeping. The same spread sheet is used to prepare financial statements and to calculate depreciation expense and accumulated depreciation used in audited statements. The spread sheet is also helpful in comparing asset age against useful life, and by keeping these records in-house through the work of a designated employee, the District eliminates the cost of a third party vendor. [EXHIBIT 5] is an excerpt from the District's Inventory Records and shows field titles that include model number, serial number, and physical location.

5. *The Board should ensure that duties are appropriately segregated for the requisition, receipt, tagging, inventory, and disposal of computer and electronic equipment.*

Person(s) responsible: Board of Education / Purchasing Agent

Completion Date: 7/1/06

Status as of the date of this report: Completed

Supporting Documentation: Through the Purchasing Program [EXHIBIT 4], duties are segregated as follows:

Requisition: Budget Initiators

Tagging and recording in inventory: Property Control Manager

Reporting changes in locations: Budget Initiators

Recording changes in locations: Property Control Manager

- Disposal of District property is governed by Board Policy #700 [EXHIBIT 6]. It further segregates duties by assigning responsibility to itself and to the Business Administrator.

6. *The designated property control manager should account for all computer equipment during the District's periodic physical inventory.*

*And*

7. *The District should update its inventory records to accurately reflect the items that are missing or discarded and investigate any missing items.*

Person(s) responsible: Property Control Manager

Completion Date: 6/30/06 and ongoing

Status as of the date of this report: The inventory update and expansion was completed in the summer of 2006. There remain some minor discrepancies to be resolved. All discrepancies and all recommendations for disposing of obsolete equipment are expected to be completed by the end of this school year.

Supporting Documentation: Item # 2 of the Property Control Manager's job description [EXHIBIT 2] assigns responsibility for including all computer and electronic equipment in the District's inventory records. [EXHIBITS 4 and 5] indicate that computer and electronic equipment are part of the inventory system.

## Payroll

8. *The Business Manager should develop a checklist of documentation required for District employee personnel files. The Board should ensure that all employee personnel files contain this information.*

Person(s) Responsible: Superintendent of Schools

Completion Date: 12/1/06

Status as of the date of this report: Completed

Supporting Documentation: As discussed during the exit discussion, the District Policies are typically focused on broad issues and provide direction to the Superintendent.

Attached is the newly drafted Board Policy #408 [EXHIBIT 7] governing employee records and directing the Superintendent to draft related regulations. Also enclosed is Superintendent #A408 [EXHIBIT 8] governing personnel files. Page 2 of the Regulation includes a list of items that shall be included in personnel files.

9. *To the extent possible, the Board should appoint all extra-curricular positions at the annual re-organizational meeting in July of each year. Minimally, the Board should appoint an individual prior to the commencement of the activity.*

Person(s) Responsible: The Superintendent for making appointment recommendations and the Board for acting on recommendations

Completion Date: 11/1/06 and thereafter

Status as of the date of this report: Complete.

Supporting Documentation: The draft findings point to an anomaly in the District's appointing practice. It was isolated to the athletic department during the audit period, and known to the District. It is the District's common practice to appoint personnel in advance of activities whenever possible. To fulfill District needs without delay, the Superintendent has the authority via Board Policy #411 [EXHIBIT 9] to temporarily hire any employee pending appointment by the Board of Education at a subsequent Board meeting. [EXHIBIT 10] is a copy of the Superintendent's Regulation related to this policy which requires, in section 2, that coaches are recommended a year in advance. Sections 5 and 6 require immediate postings of open positions. The District believes that adherence to this Regulation should eliminate instances cited in the findings.

10. *The Board should require the Business Manager or another business office employee that does not have responsibilities over processing payroll to monitor bi-weekly payroll reports to review and identify variances.*

Person(s) Responsible: The Claims Auditor is responsible for auditing bi-weekly payroll and reporting the results of audits to the Superintendent as part of the process of certifying payroll.

Completion Date: 11/1/06

Status as of the date of this report: Completed.

Supporting Documentation: Since segregation of duties in processing payroll has been a particular target of internal control and external audits, the Business Office has taken several steps, dating back to July 1, 2004, to mitigate the risks associated with the lack of segregation. Two documents, produced since the Comptroller's review of District operations, point to the success of District efforts: First, the management memorandum [EXHIBIT 11] provided by the District's independent auditor in its audit report for the period ending 6/30/06 states: "While there are still incompatible functions performed by the Deputy Treasurer, the District has other controls in place that limit unauthorized payroll transactions..., we consider this (payroll segregation risk) closed." More recently, the District has revised its payroll software, and now has the ability, through user rights control, to prevent the person processing payroll from entering new employees or changing pay rates. It also provides the District with the report capability to produce exceptions reports and changes in gross and net pay for all employees for any two pay periods. The revision was implemented the day before the filing of this response. The Claims Auditor, and others with the authority to produce an exceptions report, can now track in real time far greater amounts of data than before. Enclosed [EXHIBIT 12] is a copy of an internal memo from Infomatic, the District's software company, indicating the specifics of the software update and installation instructions. The first item gives the System Administrator the ability to assign specific privileges to specific users. The level of segregation, for instance, will permit the District to assign one user the right to create a new employee without permitting that employee access to payroll data. A second person could be restricted from creating new employees and could be assigned the right to enter payroll data, and a third person could have the right to do neither of the above, but run payroll checks. While the 2005-06 Independent Audit concluded that the segregation of duties with respect to payroll has been resolved, the updated software, segregation of rights, and reporting capability allows the District to take segregation to a higher level.

*11. As part of the District's newly developed Internal Audit function, the Board should require a periodic review of the payroll transactions processed.*

Person(s) responsible: Audit and Finance Committee

Completion Date: 11/1/06

Status: Completed

Supporting Documentation: Attached is a copy of the Audit and Finance Committee Agenda for November 13 [EXHIBIT 13]. The first item on the agenda indicates the Committee met with the District's Internal Auditor, Nugent & Haeussler. Item 2 indicates that during this meeting, the Committee and Internal Auditor discussed the Comptroller's recommendation to review payroll transactions. [EXHIBIT 14] is an excerpt from the Board of Education Minutes from the meeting that followed the Audit Committee

meeting with the Internal Auditor. The minutes note the Audit Committee Chair's report to the Board, the discussion of the risk assessment, and discussion of Comptroller recommendations related to payroll and the Internal Audit function. In light of recent updates in the segregation of duties, the District is inclined to let the Internal Auditor's risk assessment proceed before making decisions on specific areas for further review.

### Other Controls

12. *The Board should adopt a written policy governing the allowable reimbursements for lodging and meals incurred during official District business, and setting limits for how much it will pay.*

Person(s) responsible: Superintendent (via regulation)

Completion Date: 8/1/06

Status as of the date of this report: Completed

Supporting Documentation: Superintendent Regulation #C610 [EXHIBIT 15] governs allowable and maximum reimbursements for lodging and meals incurred during official District business.

13. *The Board should adopt a written policy outlining when the District may provide meals and refreshments at District meetings and events.*

14. *The Board should adopt a written policy to control the assignment and use of District-owned cellular phones.*

Person(s) responsible: Purchasing Agent

Completion Date: 8/1/06

Status as of the date of this report: Completed

Supporting Documentation: As elements of purchasing, recommendations 13 and 14 have been implemented through the Purchasing Program [EXHIBIT 4], which is authorized through Board Policy #609 [EXHIBIT 3]. On page five of the Purchasing Program, the section entitled "Guidance on meal purchases" addresses recommendation 13. Cell phone use is covered on Page 7.

## Section II

### Capital Assets

Statements on page 8 of the draft describe a process for providing a third party vendor with inventory records who in-turn provides the District with updated records. The District has determined that, since the Business Office originates the information and is responsible for verifying the third party reports, (and has found errors and omissions in

third party reports), it would be more cost effective for the District to keep inventory records in-house and perform physical inventories with in-house personnel.

On page 9, the document states “the information contained within the IT department’s inventory is not audited by the District’s independent auditor.” This statement may be misleading to the public in that all District records are subject to audit by the independent auditor. The auditor has not elected to audit these records.

See Note 1 Page 31
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Overall, recommendations are almost exclusively directed towards establishing Board Policy. On page 14, the draft report acknowledges that “control activities take the form of regulations, guidelines, policies and written procedures.” The District uses all of these forms of controls in responding to recommendations, and the final version of recommendations could recognize that many different mechanisms – policies, regulations, guidelines, or written procedures -- may be effective in providing the necessary protections.

**Payroll  
Personnel Records**

The paragraph on page 11, beginning with: “If personnel files lack the necessary documentation...” is factually inaccurate. Qualifications of employees are fully vetted by:

- The manager who may make the initial recommendation to the Superintendent of Schools, and will be responsible for supervising the employee;

- The Superintendent of Schools who takes whatever actions and reviews whatever documents he feels are necessary to make a qualified recommendation to the Board of Education; and

- Board Members who would not cast a vote for or against an appointment without reviewing whatever document or asking any questions about the applicant’s background that the Board Member believes are required before making a fully informed decisions.

In fact, the act of vetting of an employee’s qualifications and background can be (and is) fully accomplished for all employees at Webutuck. The fact that different types of documents were found in different employee files means no more than processes may be different, or filing may be more or less complete and accurate. There is no question that best practice calls for a more structured and careful approach to filing employee records as suggested in examiner recommendations, and the District has implemented these recommendations. The statements that appear on the cited paragraph are, nonetheless factually inaccurate.

At the bottom of page 11, there is a statement calling attention to the District's potential liability for a civil penalty for non-compliance with the I-9 regulation. In the independent auditor's report [EXHIBIT 11] on 6/30/06, the auditor concluded: "Each I-9 was accurately completed. We (the auditor) consider this matter resolved." The potential liability no longer exists.

#### Extra-Curricular Positions

On page 12, the statement that the Board is "unable to review recommendations or qualifications" when appointments occur after the commencement of the activity is factually inaccurate and appears to contradict the next statement correctly states the risk is with the employee, not the District. While there is no doubt that employees should be appointed before they start work, and the District's policies and practices should (and now do) require this, Board members have the opportunity to review and question any temporary hiring decision of the Superintendent and have the ultimate responsibility, authority, and opportunity to review and either grant or deny an appointment to any employee regardless of their work status.

See  
Note 1  
Page 31

The sentence pointing out the risk to the individual (and not the District, State, or taxpayer) appears to be beyond the intended scope of this examination.

#### Payroll Processing – Segregation of Duties

At the bottom of page 12, the draft report states that "no other adequate compensating controls are in place" to mitigate the risks of lack of segregation of duties in processing payroll. There were at least two, mitigating "controls" in place at the time of the examination. First, and perhaps more importantly, the District is committed to hiring staff with the utmost integrity and of maintaining a work environment that embraces the highest ethical standards. During a conference on fraud prevention (Albany, November 2004) Viola Abbitt, the Deputy Bureau Chief, Criminal Prosecutions Bureau, NYS Attorney General's Office stressed the importance of creating and maintaining a zero-tolerance (for fraud) work environment as the single most effective deterrent to fraud. While such an environment may be difficult to uncover during an examination of financial transactions and written statements, it nonetheless exists at Webutuck. Its existence is demonstrated by the fact that the segregation of duties has been in District audit comments for years, while at the same time, auditors have found an absence of actual fraud. The District believes the high ethical environment at Webutuck is acting as "an adequate compensating control." The second mitigating factor is that at least one paycheck for every pay period dating back to July 1, 2004 has been audited by the Business Administrator or his designee. While these "spot checks" do not meet established audit standards in terms of volume, they were a deterrent to the person processing payroll because an intentional miscalculation of payroll could be uncovered.

## **APPENDIX B**

### **OSC COMMENTS ON THE DISTRICT'S RESPONSE**

Note 1

We have revised our report for greater clarity.

## 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 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 District's 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 capital assets and payroll for further audit testing.

To assess the District's internal controls over its capital assets we conducted a series of audit steps. Our audit steps included obtaining and reviewing District policies and procedures relating to accounting for capital assets, interviewing District staff responsible for updating the capital asset inventory, examining District expenditures for trends in purchasing, and assessing the adequacy of the District's inventory system and the controls in place to secure District assets (primarily computers and electronic equipment). Additionally, we traced capital asset acquisitions to the inventory, traced capital assets from the inventory to the physical location, and determined the causes of the District's inadequate controls over its capital assets.

To assess the District's internal controls over payroll, we obtained and reviewed the District's collective bargaining contracts; payroll policies and procedures; interviewed District staff; and reviewed payrolls, payroll cards, attendance reports, and leave reports for the 2004-05 and 2005-06 fiscal years. We conducted testing to determine if the controls in place were adequate to ensure that employees were properly paid and that time and attendance sheets and payroll deduction calculations were accurate. Additionally, we traced scheduled pay rates and extra-curricular position stipends to the Board minutes, contracts, and personnel files. Our testing also included an observation of the payroll process from the initial preparation to the distribution of payroll checks.

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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## APPENDIX E

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