



# Port Jervis City School District Internal Controls Over Financial Operations

## Report of Examination

Period Covered:

July 1, 2004 - June 30, 2005

2006M-46



# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	3
<b>EXECUTIVE SUMMARY</b>	5
<b>INTRODUCTION</b>	7
Background	7
Objective	7
Scope and Methodology	8
Comments of District Officials and Corrective Action	8
<b>SEVERANCE PAYMENTS</b>	9
Recommendation	10
<b>INTERNAL CONTROLS</b>	11
Policies and Procedures	11
Segregation of Duties	13
Recommendations	13
<b>CAPITAL ASSETS</b>	15
Recommendations	16
<b>APPENDIX A</b> Response From District Officials	18
<b>APPENDIX B</b> OSC Comments to District Officials' Response	21
<b>APPENDIX C</b> Audit Methodology and Standards	22
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	24
<b>APPENDIX E</b> Local Regional Office Listing	25

# State of New York Office of the State Comptroller

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## Division of Local Government Services and Economic Development

September 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 Port Jervis City School District — Internal Controls Over Financial Operations.

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 Port Jervis City 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.

The President of the Board is the Chief Fiscal Officer of the District. However, many of the financial management functions of the District are the responsibility of the Superintendent, the Assistant Superintendent of Business and the Treasurer.

The Board negotiates employment contracts with District employees that state the compensation and benefits these employees will receive. The Board is also responsible for establishing policies regarding the management of District resources, including capital assets. As of June 30, 2005, the District reported \$24 million in net capital assets.

### **Scope and Objective**

The objective of our audit was to evaluate the effectiveness of the controls established over the District's financial operations for the period July 1, 2004 through June 30, 2005.<sup>1</sup> Our audit addressed the following related questions:

- Were severance payments to the former Superintendent and the former Assistant Superintendent for Instruction made in accordance with employment contracts?
- Did the Board develop and implement policies and adequate controls to ensure that District assets are properly safeguarded?
- Did the Board establish adequate internal controls to protect capital assets and inventories against loss, waste and misuse, and are those controls operating effectively?

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<sup>1</sup>For severance payments, we reviewed employment contracts and separation payments for the period January 2003 through October 2005.

## **Audit Results**

We found that two former District officials were paid in accordance with their contracts, but that the contracts did not protect the interests of District taxpayers. The contracts did not state when vacation and sick leave benefits would be paid, or require these benefits to be prorated. The Board elected to pay the full year's benefits on the first day of the new contract year. As a result, the former Superintendent and the former Assistant Superintendent for Instruction were paid for a full year's accrual of vacation and sick days upon retirement, even though they had worked only two and three months, respectively, of their contract years. Had the Board prorated fringe benefits for severance payment purposes, the District would have saved more than \$32,000.

The Board had no written policies governing meals and refreshments at District meetings. The District spent \$27,000 on meals and refreshments at meetings of District officials, Board members and employees with no indication of who attended the meetings, or why it was necessary to provide food to attendees at District expense. The District also lacked written policies about the issuance and use of cellular telephones, and the District's travel policy did not set maximum rates for traveler's lodging or per diem rates for meals. Without travel expense limits, there is a risk the District could spend more than it should for travel costs. We also found the District treasurer records cash receipts, makes bank deposits, prepares checks and reconciles bank statements. When one person performs all or most aspects of a financial transaction, errors in District finances could occur or funds could be diverted without detection.

We also found that controls over capital assets were not adequate to protect District assets against loss, waste or theft. Although the Board has adopted a written asset management policy, District officials did not comply with the Board's policy. District officials did not maintain detailed records to support balances in their June 30, 2005 audited financial statements. Further, officials have not updated capital asset inventory records since an outside vendor completed the last physical inventory of District assets in 2003.

## **Comments of District Officials**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as indicated in Appendix A, District officials generally agree with our findings and recommendations. OSC comments to District officials' response are in Appendix B.

# Introduction

## Background

The Port Jervis City School District (District) is located in the City of Port Jervis, Orange County. The District is governed by the Board of Education (Board) which comprises of 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 4 schools in operation within the District, with approximately 3,400 students and 500 employees. The District's budgeted expenditures for the 2004-2005 fiscal year were approximately \$44 million, funded primarily with State aid, real property taxes and grants.

The President of the Board is the Chief Fiscal Officer of the School District. However, many of the financial management functions of the District are the responsibility of the Superintendent, the Assistant Superintendent of Business and the District Treasurer.

The Board negotiates employment contracts with District employees that state the compensation and benefits these employees will receive. The Board is also responsible for establishing policies regarding the management of District resources, including capital assets. As of June 30, 2005, the District reported \$24 million in net capital assets.

## Objective

The objective of our audit was to evaluate the effectiveness of the controls established over the District's financial operations. Our audit addressed the following related questions:

- Were severance payments to the former Superintendent and the former Assistant Superintendent for Instruction made in accordance with employment contracts?
- Did the Board develop and implement policies and adequate controls to ensure that District assets are properly safeguarded?
- Did the Board establish adequate internal controls to protect capital assets and inventories against loss, waste and misuse, and are those controls operating effectively?

**Scope and  
Methodology**

During this audit, we examined internal controls over the financial activities of the Port Jervis City School District for the period July 1, 2004 through June 30, 2005.<sup>2</sup>

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

**Comments of District  
Officials and Corrective  
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as indicated in Appendix A, District officials generally agree with our findings and recommendations. OSC comments to District officials' response are in Appendix B.

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 your plan of action, you 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.

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<sup>2</sup> For severance payments, we reviewed employment contracts and separation payments for the period January 2003 through October 2005.

## Severance Payments

Employment contracts between the District and employees not covered by a collective bargaining agreement should be designed to compensate these employees fairly for their service to the District. In addition, employment contracts should clearly define all compensation and fringe benefits that the Board has agreed to pay, including severance payments, to protect the interests of District taxpayers. During our audit we found that employment contracts between the District and these employees did not require the earning of fringe benefits, such as vacation and sick days, to be prorated over the school year.

In response to complaints from taxpayers about lump sum payments made to District administrators upon retirement, we examined employment contracts for the former Superintendent and the former Assistant Superintendent for Instruction (Assistant Superintendent). The contracts provided for annual salary to be paid in 26 equal installments over the course of the school year. The contracts also stated that annual fringe benefits (vacation days, sick days and a tax deferred annuity) would be paid in addition to annual salary, but they did not require that benefits be accrued over 26 pay periods. In fact, the contracts did not specify when benefits would be paid. The Board elected to pay the benefits on the first day of each year of the contract rather than pro-rating them over the course of the school year. As a result, the District paid the former Superintendent and the former Assistant Superintendent the value of a full year's fringe benefits at separation, even though these officials had worked just two and three months, respectively, of the school year.

At its January 21, 2003 meeting, the Board approved the resignation of the former Superintendent, who stated he planned to retire effective August 29, 2003. When the former Superintendent retired in August 2003, the District paid him a full year's fringe benefits (tax shelter annuity and 24 vacation days), although he had worked for only two months of the 2003-04 school year. If the Board had included specific language in the contract that required fringe benefits to be accrued over the course of the year, and prorated for severance payment purposes, the District would have saved about \$24,100 (the value of 20 vacation days and 83 percent of the annuity).

The Board also increased the departing Superintendent's salary for the 2003-04 school year by 5.3 percent at its June 17, 2003 meeting. Although the Board knew the Superintendent was planning to retire, Board members approved this raise in recognition of his prior

performance. This action not only raised the former Superintendent's salary for two months, but it also increased the value of the annual leave he received in the above lump sum payment.

Similarly, the former Assistant Superintendent retired from his position with the District effective October 1, 2005. The employment agreement between the former Assistant Superintendent and the Board, dated June 21, 2005, provided that he would receive 24 vacation days and 15 sick days for the 2005-06 school year. The District paid the former Assistant Superintendent the full year's fringe benefits on July 1, 2005, at the beginning of the school year. If the Board had prorated the fringe benefits, the District would have reduced the former Assistant Superintendent's severance payment by about \$8,111, representing 18 vacation days.

### **Recommendation**

1. The Board should ensure that future employment contracts for District employees not covered by a collective bargaining agreement clearly describe how employee benefits will be paid upon separation. The Board should consider instituting formal guidelines for prorating fringe benefit payments over the full school year.

## Internal Controls

The Board is responsible for designing internal controls that help safeguard the District's resources and ensure these resources are used economically and efficiently. An adequate system of internal controls includes clear policies and procedures that promote effective operations, the prudent use of resources and adherence to applicable laws and regulations. Control procedures should also provide for segregating critical duties, so that no one person controls all phases of a transaction. We identified internal control weaknesses that increase the likelihood that errors could occur without detection, or that District funds could be wasted or misused. We found the Board did not adopt policies and procedures to govern the use of cellular phones or the purchase of meals and refreshments at District meetings. We also found that the existing travel and conference expense policy was inadequate. In addition, the Board and District management did not segregate key duties and responsibilities in the Treasurer's office.

### **Policies and Procedures**

The Board had not adopted written policies governing meals and/or refreshments at District meetings. The claim vouchers that supported about \$27,000 the District expended on meals and refreshments for District officials did not show who attended the meetings and why these expenses were necessary to conduct District business. We also found the District had not established a policy that identified which officials would be issued cellular telephones, or adopted a comprehensive travel policy that set maximum rates for lodging expenses and per diem rates for meals. Without adequate policies and procedures to control such expenses, the District is at risk of paying for unnecessary or excessive costs.

Meals and Refreshments at District Meetings — Generally, the District should not provide meals and/or refreshments at Board or other District meetings. However, the District can pay for such costs when events occur that prevent Board members, District officials or employees from taking time off for meals, or when there is a pressing need to complete District business. Therefore, it is essential for the Board to develop and implement a formal policy that sets conditions when meals and/or refreshments should be provided at District expense. The policy should require officials to document who attended the meetings and how the meetings fit the conditions.

During our audit period, the District expended approximately \$34,000 for meals and refreshments at meetings and events. Of this amount, \$7,000 was spent at events that involved either students or the

public; the remaining \$27,000 was spent on meals and refreshments provided primarily at meetings of District officials, Board members and employees. Specifically, the District spent \$26,685 for meals and refreshments provided to District officials at approximately 110 meetings and events, including \$11,063 for 3 Superintendent's conference days. We found that the claims for meals and refreshments did not indicate who attended the meetings, or why it was necessary to hold the meetings at mealtime and provide food to the attendees at District expense.

The lack of documentation to justify these expenses was due, at least in part, to the fact that the Board did not have a formal policy detailing when it is appropriate to provide meals and/or refreshments at District meetings. During our field work, the District drafted such a policy for review by the Board's policy committee. However, the Board had not adopted this policy by the end of our field work as of June 2006.

Cellular Telephones — District records showed that the District spent about \$18,000 on 34 cellular telephones provided to its personnel during fiscal year 2004-05. Seventeen of the 34 telephones were part of a plan shared by the Superintendent, various Directors and Supervisors that provided for pooled minutes and discounted rates; the remaining 17 telephones were issued to transportation and maintenance department staff. Department heads reviewed cellular telephone charges for overages and unusual items and submitted the bills to the Assistant Superintendent for Business for review prior to payment. We examined the \$2,569 of cellular telephone charges incurred by the District in 2004-2005 and found that charges were within the contracted amount.

However, we found the Board had not adopted a formal policy about cellular telephone issuance and usage. Since the District provides cellular telephones to its employees, it is essential for the Board to develop and implement a formal policy that outlines which employees need cellular telephones to conduct business, and how those employees should use the telephones. The District drafted a cellular telephone policy dated October 4, 2005 which states that District-owned phones are intended for business-related calls. However, the policy does not contain procedures that address personal use of the telephones or employee usage in excess of the District's monthly usage allotted by the contract.

Travel and Conference Expenses — To properly account for District resources, the District must monitor and control travel expenses incurred by District officials and employees by means of a comprehensive travel policy. The policy should require supervisory pre-approval of travel expenses, clearly describe which travel and

meal-related expenses the District will reimburse, and set limits for how much the District will pay. Periodic reviews of the travel policy will help District officials ensure that reimbursement rates are realistic. Some local governments have established maximum per diem rates based on rates established by the Internal Revenue Service (IRS) for business travel.

The District's travel policy in effect during our audit period required pre-approval of travel and conference expenses by the employee's supervisor and Assistant Superintendent for Business. The District paid approximately \$35,000 for travel and conference expenses for its administrators and teachers during this period. From these expenses, we selected and examined travel-related costs totaling \$1,846 on 3 reimbursement claims. Our review disclosed that expenditures for both lodging and meals were pre-approved, properly supported and within IRS established rates.

However, we also found that the District's travel policy did not set maximum rates for traveler's lodging or per diem rates for meals. Without travel expense limits in place, there is increased risk the District could spend more than it should for travel costs.

## **Segregation of Duties**

The Treasurer is responsible for the custody, receipt and disbursement of District moneys. To safeguard District funds, the Board and District management should establish policies and control procedures that properly segregate the duties within the Treasurer's office to ensure that no single individual controls most or all phases of a transaction. When critical duties are not segregated, District funds are at risk of theft or misuse without detection.

We found that the Treasurer records cash receipts, makes bank deposits, prepares checks, reconciles bank statements and prepares journal entries. The District does not take any steps to effectively mitigate the increased risks of having just one person responsible for all the above cash processing duties. There was no indication that the Assistant Superintendent of Business or other District officials review the bank reconciliations or other transactions the Treasurer performs. Further, although the District requires that all checks have dual signatures (The Treasurer and the President of the Board), the computer automatically generates the signatures, and the Treasurer has access to the cash disbursement application. As a result, errors in District finances could occur or funds could be diverted without detection.

## **Recommendations**

2. The Board should adopt a policy concerning the District's payment for meals and refreshments at school meetings, and monitor compliance with the policy's provisions.

3. The Board should develop and adopt a written policy for the assignment and use of District owned cellular telephones. This policy should specify the officials and employees who can be provided with cell phones, and the terms regarding personal use.
4. The Board should revise its travel policy to set maximum allowable rates for traveler's lodging and per diem rates for meals.
5. The Board and District management should review the scope of the Treasurer's duties and segregate incompatible functions. If duty segregation is not feasible, the Board and District management should provide for a compensating control, such as review of the Treasurer's work by an appropriate supervisor.

## Capital Assets

Capital assets are assets with a useful life of more than one year, and include such things as land, buildings, furnishings, vehicles and electronic equipment. As of June 30, 2005, the District reported approximately \$24 million in net capital assets.

District officials are responsible for protecting capital assets against loss, waste and abuse. To safeguard these assets, officials must ensure the District maintains complete and accurate asset records and assign accountability for maintaining and tracking asset inventories. Reliable asset records also help officials determine the adequacy of insurance protection, and plan for asset replacement. The District should also provide for an annual physical inventory count of capital assets to verify assets' existence and location and to update asset records. We found District officials did not adequately protect the District's capital assets. On March 18, 2003, the Board adopted a formal Capital Assets Accounting Policy (Policy) to account for and track capital assets in conformance with procedures in the Office of the State Comptroller's Uniform System of Accounts for School Districts. The Policy made the Assistant Superintendent for Business accountable for fixed assets. This responsibility includes: maintaining general ledger control accounts for major groups of capital assets; identifying and maintaining a property record for each asset; arranging for an annual inventory and appraisal of District property; and tracing and explaining any discrepancies that occur between inventory counts and the District's property records. However, District personnel do not follow the Policy. In fact, the District had no single reliable record of the capital assets it owns. If the District cannot properly account for its capital assets, these items are at significant risk of loss or theft. We identified the following weaknesses in the District's controls over capital assets:

- The District did not maintain a general ledger control account for capital assets to identify the total current value of the District's capital assets in the District's four schools. The lack of a control account diminishes the District's ability to account for assets, and to report their value accurately. For example, the District's independent auditor derived the total value of District fixed assets for the 2005 financial statements by adjusting the balance in each fixed asset category for current year additions he assumed would be capitalized, and by any known deletions.

- The District did not maintain a readily available current listing of District-owned capital assets. Generally, this listing should include information such as the asset's cost, purchase date, description and location. In 2003, the District contracted with an independent appraisal company to perform a physical inventory and prepare a detailed asset listing. However, District officials could not produce this listing until the last day of our field work. Further, officials told us they had not performed a physical inventory, and updated records accordingly, since 2003 since they did not contract with the vendor for these services. The failure to perform regular physical inventories results in inaccurate and outdated records, and also increases the risk that District assets could be lost or stolen.
- The District did not identify items as District assets (identification tags and property record cards) as soon as they were received. Further, the District did not have a uniform system for assigning identification numbers (e.g., a unit's serial or model number or a Port Jervis identification number) to all assets, regardless of their location in the District, to enable the District to track these assets.

Since the District did not provide us with a District-wide inventory listing, we used lists of computers and other electronic equipment prepared by the individual schools to verify the physical existence of selected items. These above inventory lists did not indicate the item's purchase date or price, and did not always include equipment serial numbers, which made it difficult to identify specific equipment items. Identification was further complicated by the fact that the method of categorizing computer equipment varied from school to school.

Of the 63 items we selected from these lists, we were able to locate 62 items. The missing item was a Gateway Profile computer. District officials had no information about its value or location. To determine the completeness or accuracy of the asset lists, we physically observed another 62 items and traced them to the asset lists. Of the 62 items observed, 9 items (15 percent) were not included on the schools' capital asset lists. The unlisted assets were one laptop computer, three printers and five computer monitors. Based on this test, we conclude the schools' asset lists are also incomplete and outdated. More significantly, District assets that do not appear on inventory lists could easily be lost or stolen.

## Recommendations

6. The Board should ensure that the District official responsible for capital assets maintains a general ledger control account that shows the total value of all District capital assets. District personnel

should reconcile the information in this account to information in detailed inventory records.

7. The Board should monitor to confirm that the District official responsible for capital assets arranges for annual physical inventories of capital assets, as required by its Policy. Differences between physical counts and inventory records should be investigated and resolved by persons independent of the inventory maintenance or recordkeeping function.
8. The Board should amend the Policy to require that each capital asset be identified as District property (by tagging the item and creating an asset property record card) when it is received by the District, and entered on the District's inventory listing of capital assets as soon as possible.
9. The Board should develop a uniform system for identifying District capital assets, and update the Policy to require that all schools follow this system.
10. The Board should require District officials to investigate the circumstances of the missing computer and report the results.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Port Jervis

SCHOOL DISTRICT

John Xanthis  
Superintendent of Schools  
9 Thompson Street P.O. Box 1104  
Port Jervis, New York 12771-1104

(845) 858-3175  
FAX (845) 856-1885

### Board of Education

Steven W. Banks  
President

Brendan Hess  
Vice President

### Board Members

Michael D. Bello  
Robert Habig  
Anne Horsham  
Kenneth Jones  
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Catherine Sacchiani  
Florence Santini

August 21, 2006

Office of the State Comptroller  
Division of Local Government Services  
22 Computer Drive West  
Albany, New York 12205

Dear [REDACTED]:

The Administration and School Board have reviewed the draft audit report and your recommendations at the exit discussion on August 8, 2006.

Below we have formally addressed each finding and recommendation in your draft report, along with any corrective action planned. They are divided into the same headings that are in your report. As per my telephone conversation, these were said to be acceptable if postmarked by 5PM on Monday, August 21.

#### Severance Payments:

##### District Response to Findings:

We accept the fact that the auditors disagreed with the District's fringe benefits accrual practice, but need to stress that this has been a district-wide practice, applying to not only central administration, but to our principals, faculty, and CSEA employees. The two men mentioned were not singled out for special treatment. Additionally, there seems to be an error in fact with regard to the Assistant Superintendent for Instruction's sick pay, for he had already reached the cap allowed for reimbursement. The subject involved has spoken personally with [REDACTED] on this issue and it was to be evaluated and a notation made.

See  
Note 1  
Page 21

##### District Response to Recommendation and Corrective Action Planned:

The contracts for management personnel issued since January 1, 2006 include a provision that requires prorating fringe benefit payments over the school year and upon resigning or retiring. The Board has adopted a resolution requiring fringe benefit payments for non-union and confidential employees to also be prorated over the school year. The Board will work towards negotiating the prorating of fringe benefit payments into all future contracts.

#### Internal Controls - Policies and Procedures:

##### District Response to Findings:

We were in the process of addressing areas where we needed to adopt written policies at the time of the audit, specifically cellular phones, meals and refreshments at district meetings, and travel and conference expenses. Your draft report states we had drafted a cellular phone policy dated October 4, 2005, but that it did not contain procedures addressing personal use or employee usage in excess of the allotted contract. The language in that Policy #5622 (which has since been amended on February 21, 2006 only to include an employee signoff on it) clearly states that each employee "will be

See  
Note 2  
Page 21

financially liable for any charges upon any district account related to personal use of their issued cell phone." Administrative Regulations, which were also required under the policy and are in place, clearly delineate who is to receive a cell phone and specifies how the district is to be reimbursed for personal use and/or overage.

District Response to Recommendation and Corrective Action Planned:

The district's Policy and Finance Committees worked all year on finalizing a Meals/Refreshments and Travel Policy. This was approved as a first reading on July 5, 2006 and is scheduled to be approved as a final reading at our next meeting on August 22, 2006. The policy limits all reimbursements to the Federal per diem rates. The Policy Committee will look into establishing a written policy concerning the District's payment for meals and refreshments at District meetings, including procedures to monitor compliance. As stated above, a Cellular Telephone Policy and Procedures have been in place since October 4, 2005.

Internal Controls - Segregation of Duties:

District Response to Findings:

Unfortunately, segregation of duties is severely limited by the number of staff members employed in the business office.

District Response to Recommendation and Corrective Action Planned:

The duties of the Treasurer have been reviewed. The Treasurer makes bank deposits, records the cash receipts and reconciles the bank statements. The checks are processed by an account clerk and all payments must be approved by the Internal Claims Auditor before being issued to vendors. Bank reconciliations and journal entries are reviewed by the Assistant Superintendent for Business. The District no longer issues checks with dual signatures. The Treasurer and the Superintendent are the only employees who may issue checks. The Treasurer secures her signature plate. No other employee has access to her signature plate. The Superintendent must manually sign checks when the Treasurer is unavailable.

Capital Assets:

District Response to Findings:

In 2003, the inventory records were updated by our independent appraisal company. Unfortunately, the district has been plagued by three major floods within two years time, during which some existing equipment, records and supplies were either damaged and/or lost. Admittedly, inventory records were not always maintained.

District Response to Recommendation and Corrective Action Planned:

The Business Office is developing a system for identifying and tracking capital assets throughout the district. The system will include tagging of items and maintaining accurate records. The Board will monitor the existing written policy on protection of District Capital Assets. The Business Office will maintain detailed records to support balances in audited financial statements. We have a new Assistant Superintendent for Business who is maintaining the required financial records.

We have also attached a letter from our attorney, Mr. Robert A. Onofry, regarding District contracts, as he has had personal contact with [REDACTED] on this subject.

We will forward copies of existing policies and those being developed and pending approval within 90 days as required. Please advise if you require additional information.

Sincerely,



Steven Banks  
President, Board of Education

SB:mo

## APPENDIX B

### OSC COMMENTS TO DISTRICT OFFICIALS' RESPONSE

#### Note 1

We recognize that the collective bargaining agreements with the District's principals, faculty and CSEA employees provide for fringe benefits to be calculated in this manner. Unlike these agreements, the administrators' contracts did not specify how they would be compensated for unused accruals. We recommended, and according to the District's response, the Board adopted a resolution requiring fringe benefit payments to be prorated.

We recalculated and changed the fringe benefits paid to the retired Assistant Superintendent to \$8,111.

#### Note 2

The District's Policy # 5622 on cell phone use provided to us during our examination on October 7, 2005 did not contain wording that states each employee "will be financially liable for any charges upon any district account related to personal use of their issued cell phone." The copy of Policy #5622 provided to us and filed in the audit work papers reads as follows:

"A Port Jervis School District-owned cell phone will be issued to a district employee when required by that employee's job duties and as determined by the Superintendent or his/her designee. Said cell phone may not be used by anyone other than the specified school district employee and can only be used for school-related purposes. Administrative Regulations will be developed regarding their use."

## 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 initially performed an assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board of Education minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its 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 to be adequate and limited risk existed in most of the financial areas we review.) We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected capital assets for further audit testing.

Within the capital assets and inventories area we focused our testing on computer/electronic equipment purchases based on the perceived risk.

We examined the following records to determine if capital assets and inventories were properly safeguarded:

- Property Inventory and Accounting Records
- Financial Statements
- Annual Reports

We reviewed employment contracts and separation payments to administrators. For employment contracts and separation payments to administrators, we obtained additional information covering January 2003 through October 2005.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. 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**  
**OFFICE OF THE STATE COMPTROLLER**  
**DIVISION OF LOCAL GOVERNMENT SERVICES**  
**AND ECONOMIC DEVELOPMENT**

Mark P. Pattison, Deputy Comptroller  
Steven J. Hancox, Assistant Comptroller  
John Clarkson, Assistant Comptroller

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