



Remsen Central School District Internal Controls Over Cash Disbursements and Conflicts of Interest

Report of Examination

Period Covered:

July 1, 2004 - June 30, 2005

2006M-129



Table of Contents

	Page
AUTHORITY LETTER	3
EXECUTIVE SUMMARY	5
INTRODUCTION	7
Background	7
Objectives	7
Scope and Methodology	7
Comments of District Officials and Corrective Action	8
CASH DISBURSEMENTS	9
Recommendations	10
CONFLICTS OF INTEREST	11
Recommendation	12
APPENDIX A Response From District Officials	13
APPENDIX B Audit Methodology and Standards	17
APPENDIX C How to Obtain Additional Copies of the Report	19
APPENDIX D Local Regional Office Listing	20

State of New York Office of the State Comptroller

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 Remsen Central School District — Internal Controls Over Cash Disbursements and Conflicts of Interest.

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

EXECUTIVE SUMMARY

The Remsen Central School District (District) is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

On an annual basis, the Board appoints a claims auditor who assumes the powers and duties of the Board in regard to approving or denying claims against the District. Responsibilities relating to the District's finances and accounting records and reports are largely those of the District's Business Manager/Treasurer. The Oneida-Herkimer-Madison Board of Cooperative Education Services (BOCES) processes all financial transactions, in conjunction with the Madison-Oneida BOCES's Mohawk Regional Information Center (MORIC).

Article 18 of General Municipal Law is the State statute relating to conflicts of interest on the part of District officers and employees. In general, this law is designed to prevent District officials from acting in circumstances in which their public responsibilities conflict with their personal business interests. Every District official has a responsibility to become knowledgeable about this law and to abide by it. And, as the elected governing body with oversight responsibilities for all District operations, the Board is responsible for ensuring that the District adheres to the conflict of interest requirements of Article 18.

Scope and Objectives

The objectives of our audit were to examine the District's internal controls relating to cash disbursements and conflicts of interest for the period July 1, 2004 to June 30, 2005. Our audit addressed the following related questions:

- Did the Board implement and monitor adequate internal controls relating to the District's cash disbursements?
- Has the Board established a process for identifying potential conflicts of interest?

Audit Results

The assignment of duties at the District does not provide for adequate segregation of duties (checks and balances) over financial transactions. The BOCES processes all of the District's financial transactions in conjunction with a computer at the MORIC. A BOCES employee enters most of the financial transactions, except for payroll which is entered by a different BOCES employee after the data has been reviewed and approved by the District Treasurer. This same BOCES employee that enters most of the financial data also receives custody of the unsigned printed checks from the system, enters all general journal entries, receives bank statements and cancelled checks from the bank, performs monthly bank reconciliations and serves as the District's claims auditor. These job duties are incompatible when performed by one person. In addition, according to State Education Department regulations, if a BOCES wants to provide the claims auditing function to a school district using its own employee, it can provide the service only if it has no other contracts with the district.

We also found that the claims auditor received no written guidance from District officials concerning her claims auditing responsibilities. She indicated that she would bring any questioned claims to the attention of the Business Manager/Treasurer rather than directly to the Board. In addition, the claims auditor was never told that she should either certify (sign) the individual claims she approves or the warrant (listing) of audited claims. As a result of these weaknesses, the Board has no assurance that claims are audited consistent with their expectations, the audit function does not provide independent oversight of the payment of claims necessary for good internal control and there is no written evidence of which District claims are audited and approved for payment.

The District has no formal system in place to identify the outside occupations and/or business interests of District officers and employees; to evaluate the outside occupations or business interests in order to make a determination if the interests are prohibited or required to be disclosed; or monitor proposed purchases in order to prevent circumvention of Article 18. During 2003-04 and 2004-05, the District made purchases totaling \$872 and \$799 respectively from a business in which the Superintendent's husband owns 33% of the stock. Based upon our review of the facts and an analysis of the statutory criteria provided by General Municipal Law, we determined that the Superintendent had a prohibited conflict of interest in these contracts.

Comments of District Officials

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

Introduction

Background

The Remsen Central School District is located in the Towns of Boonville, Forestport, Remsen, Steuben and Trenton in Oneida County, and the Towns of Ohio and Russia in Herkimer County. The District is governed by the Board of Education which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

There are two schools in operation within the District, with approximately 570 students and 108 employees. The District's budgeted expenditures for the 2005-06 fiscal year are approximately \$9 million, funded primarily with State aid, real property taxes and grants.

On an annual basis, the Board appoints a claims auditor who assumes the Board's powers and duties with regard to approving or denying claims against the District. Responsibilities relating to the District's finances, and accounting records and reports are largely those of the District's Business Manager/Treasurer. The Oneida-Herkimer-Madison Board of Cooperative Education Services (BOCES) processes all financial transactions in conjunction with the Madison-Oneida BOCES's Mohawk Regional Information Center (MORIC) using a software package known as "Finance Manager." The District's financial statements undergo an annual audit by an independent CPA firm.

Objectives

The objectives of our audit were to examine the District's internal controls relating to cash disbursements and conflicts of interest. Our audit addressed the following related questions:

- Did the Board implement and monitor adequate internal controls relating to the District's cash disbursements?
- Has the Board established a process for identifying potential conflicts of interest?

Scope and Methodology

During this audit we examined the internal controls relating to cash disbursements and conflicts of interest of the Remsen Central School District for the period July 1, 2004 to June 30, 2005.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of District
Officials and Corrective
Action**

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing 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.

Cash Disbursements

An effective system of internal control requires the separation of duties so that no single individual controls most or all phases of a transaction. Concentrating key duties (i.e., recordkeeping, reconciling cash and preparing checks) with one individual weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected. Another important aspect of the District's control environment rests with the position of claims auditor. The claims auditor assumes the Board's powers and duties of approving or denying claims against the District. The appointment of a highly ethical, inquisitive claims auditor who has a clear understanding of what is expected, who certifies individual claims or a warrant listing audited claims, and who reports regularly and directly to the Board and not to any other District staff or management, can increase the effectiveness of the District's internal control environment.

The assignment of duties at the District does not provide for adequate segregation of duties (checks and balances) over financial transactions. The BOCES processes all of the District's financial transactions in conjunction with the MORIC. A BOCES employee enters most of the financial transactions except for payroll, which is entered by a different BOCES employee after the data has been reviewed and approved by the District Treasurer. This same BOCES employee that enters most of the financial data also receives custody of the unsigned printed checks from the system, enters all general journal entries, receives bank statements and cancelled checks from the bank, performs monthly bank reconciliations and serves as the District's claims auditor. These job duties are incompatible when performed by one person.

In addition, according to State Education Department regulations, if a BOCES wants to provide the claims auditing function to a school district using its own employee, it can provide the service only if it has no other contracts with the district. Since the BOCES does have other contracts with the District totaling in excess of \$900,000 and has responsibility for significant business office functions, it should not be the District's claims auditor.

The claims auditor told us that she has received no written guidance from District officials concerning claims auditing responsibilities. She also indicated that she would bring any questioned claims to the attention of the Business Manager/Treasurer rather than to the Board. To determine the accuracy of cash disbursements, we reviewed 98

general fund claims, 12 Federal fund claims and 13 cafeteria fund claims paid during the 2004-05 fiscal year totaling \$145,533 and noted that the claims auditor did not sign the warrant certification authorizing payment of these claims by the Treasurer. Since the claims auditor also does not sign or certify the individual claims she approves, there is no evidence that she audited and approved the claims listed on the unsigned warrants. The claims auditor stated that she has never been instructed by anyone to make such certifications. No other exceptions relating to the claims examined were found. As a result of these weaknesses, the Board has no assurance that claims are audited consistent with their expectations, the audit function does not provide independent oversight of the payment of claims necessary for good internal control. Additionally, there is no written evidence of which District claims are audited and approved for payment.

Recommendations

1. Financial related duties should be assigned so that the work of one individual independently verifies another's in the course of their regular duties. At a minimum, the duties of recordkeeping, check preparation and reconciling bank accounts should be separated.
2. The Board should review the claims auditor's various duties for incompatibility. The claims auditor should not be involved with the District's accounting function or be a BOCES employee if the BOCES has any other contracts with the District.
3. The Board should develop a written duties statement for the position of claims auditor and require the claims auditor to sign the warrant certification authorizing payment of approved claims and to report directly to the Board.

Conflicts of Interest

The provisions of Article 18 of the General Municipal Law limit the ability of school district officials to enter into contracts in which both their personal and financial interests and their public powers and duties come into play. Although the law does not prohibit all contracts between district officials and the school district that they serve, Article 18 generally prohibits district officials from having an interest in a contract when they also have the power, either individually or as a member of a board, to negotiate, prepare, authorize or approve the contract; authorize or approve payment under the contract; audit bills or claims under the contract; or appoint an officer or employee who has such duties.

Furthermore, the law states that a district officer or employee has an interest in the contract of a corporation if the officer or employee owns or controls, directly or indirectly, more than 5 percent of the outstanding stock. In addition, a district officer or employee is deemed to have an interest in the contracts of his or her spouse. The law also provides a number of exceptions to the prohibition on interests in contracts. For example, when a district officer or employee's interest in all contracts with the district for which he or she serves totals less than \$750 in a fiscal year, the individual does not have a prohibited interest in any of those contracts.

During 2003-04 and 2004-05, the District made purchases totaling \$872 and \$799 respectively from a business in which the Superintendent's husband owns 33 percent of the stock. The purchases of various types of lumber and woodworking materials were made predominantly by the Technology Department for use in classroom instruction. Since the Board had annually adopted resolutions authorizing the Superintendent to enter into contracts with vendors, she had the powers and duties that fall under Article 18 conflict of interest laws. Since the Superintendent is also deemed to have an interest in the contracts of her spouse and the annual purchases from her spouse's business exceeded the \$750 limit, we concluded that she had a prohibited conflict of interest.

The Superintendent told us that she was unaware that the purchases in question represented a conflict of interest. The District has no formal system in place to identify the outside occupations and/or business interests of District officers and employees, to evaluate the outside occupations or business interests in order to make a determination

if the interests are prohibited or required to be disclosed or monitor proposed purchases in order to prevent circumvention of Article 18.

When an official conducts business with the district in which he or she serves, taxpayers and the public at large may question the appropriateness of such transactions. The existence of such transactions may create a perception of impropriety or improper enrichment at taxpayer's expense. Officials are accountable to the public at all times, especially when the expenditure of taxpayer's moneys is involved. It is therefore very important for the Board to institute internal controls to identify and prevent future conflicts of interest involving other District officers or employees.

Recommendation

4. The Board should review the conflict of interest provisions of Article 18 of the General Municipal Law and adopt policies and procedures to help ensure compliance in the future.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Remsen Central School

9733 Main Street
Remsen, NY 13438

PO Box 406
315.831.3797

Ann Turner
Superintendent
Elementary Principal

Anthony Nicotera
Assistant Superintendent
Jr/Sr HS Principal

Tracy Leone- George
Business Official

Robert Wilcox
Coordinator Blds/Grds/Transp

Board of Education
William McDonald, President
Donna Clark, Vice President
Richard Davis
Terri Roos
Ray Hamlin
Catherine Chandler, Clerk

www.remsencsd.org

November 17, 2006

[REDACTED]
Office of the State Comptroller
State Office Building, Room 409
333 East Washington Street
Syracuse, NY 13202

Dear [REDACTED],

On behalf of the Remsen Central School District, we would like to thank you and your staff for providing this review. Our intent from the time of the initial notification was that the audit be a learning experience and that we benefit from the findings as we make every effort to comply with the New York State Five Point Plan for Fiscal Responsibility. Your staff was most professional and provided us with the benefits of their knowledge and experience during the audit.

The following response addresses your findings and recommendations found in the preliminary draft report.

INTERNAL CONTROLS OVER CASH DISBURSEMENTS

The recommendation that the financial related duties should be assigned so that the work of one individual independently verifies another's in the course of their regular duties will be addressed as follows. The District utilizes the services of Oneida BOCES Central Business Office personnel for all general ledger processing; including record keeping, check preparation and reconciling bank accounts. In response to the recommendation to segregate these duties the District will request that Oneida BOCES assign multiple personnel to the above listed tasks.

With respect to the claims auditor's duties and functions, the District is currently in the process of hiring an independent

claims auditor based on the specifications contained in the New York State Five Point Plan for Fiscal Accountability.

Additionally, a duties statement will be created outlining the duties for the position of claims auditor. Included in the duties statement will be the directive requiring the claims auditor to sign the warrant certification authorizing payment of approved claims and instruct the claims auditor to report directly to the Board.

CONFLICTS OF INTEREST

The Board has reviewed the conflict of interest provisions of Article 18 of the General Municipal Law and will adopt the following to help ensure compliance in the future. Prior to the annual re-organizational meeting written disclosure forms will be completed by the Board members as well as administrators and appropriate employees that will identify outside occupations and/or business interests that may be determined to be prohibited or disclosed or should be monitored in order to prevent circumvention of Article 18. The disclosures will be read into and recorded in the minutes of the Board meeting. Copies of the disclosure forms will remain on file with the district clerk and the purchasing agent. The purchasing agent or the deputy purchasing agent will monitor purchases with companies in which disclosures have been made.

Should you have any questions, please feel free to contact us.

Very truly yours,

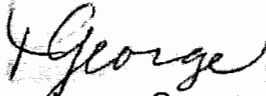


William McDonald, President
Remsen Central School Board of Education

Page -3-
November 17, 2006



Ann P. Turner
Superintendent of Schools



Tracy Leone-George
Business Official

cmc

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by District officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board of Education minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its 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 objective and scope by selecting for audit the area most at risk. We selected controls relating to cash disbursements and conflicts of interest for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We interviewed appropriate District officials in order to obtain an understanding of the organization, the District's accounting system and to identify key personnel.
- We obtained copies of District policies and procedures and evaluated the adequacy of these policies.
- We reviewed the policies and procedures relating to the method that the District's claims auditor uses to review and approve claims.
- We examined paid claims for the purpose of determining whether they were for a valid, legal purpose; were sufficiently itemized and included original invoices; contained departmental approval; complied with bidding requirements; were mathematically correct; agreed with the purchase order and warrant; and agreed with cancelled checks.
- We inquired into what internal controls and procedures were in place to identify and prevent potential conflicts of interest.

- We requested and obtained representations from the Superintendent, Board members and certain other District officials showing their outside employment and business interests and those of their spouses.
- We reviewed vendor reports, vouchers and other records to determine if the District had financial transactions with any business that might constitute a prohibited conflict of interest.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT SERVICES
AND ECONOMIC DEVELOPMENT

Mark P. Pattison, Deputy Comptroller
Steven J. Hancox, Assistant Comptroller
John C. Traylor, Acting Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Room 1050
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates
counties

SYRACUSE REGIONAL OFFICE

Eugene A. Camp, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence counties

BINGHAMTON REGIONAL OFFICE

Patrick Carbone, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins
counties

GLENS FALLS REGIONAL OFFICE

Karl Smoczynski, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,
Montgomery, Rensselaer, Saratoga, Warren, Washington
counties

ALBANY REGIONAL OFFICE

Christopher J. Ellis, Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205-1695
(518) 438-0093 Fax (518) 438-0367
Email: Muni-Albany@osc.state.ny.us

Serving: Albany, Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Schenectady, Ulster, Westchester
counties

HAUPPAUGE REGIONAL OFFICE

Richard J. Rennard, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau, Suffolk counties