



Romulus Central School District Internal Controls Over Credit Card Purchases

Report of Examination

Period Covered:

July 1, 2004 - December 31, 2005

2006M-53



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

August 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 Romulus Central School District — Internal Controls Over Credit Card Purchases.

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*

Introduction

Background

The Romulus Central School District (District) is located in the towns of Romulus, Varick and Fayette in Seneca 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 has one school building with approximately 524 students and 115 employees. The District's approximate expenditures for the 2004-05 fiscal year were \$8.6 million, funded primarily with State aid, real property taxes and grants.

The District adopted a credit card policy in 2000. From July 2004 to February 2005, the District had one major credit card, with a \$10,000 limit, that was used by District officers and employees. In February 2005, the District requested an additional card for the new Superintendent, which resulted in two cards being used by District officers and employees through December 31, 2005. During our audit period, the District made credit card purchases of approximately \$6,000.

Objective

The objective of our audit was to evaluate the District's internal controls over the use of credit cards. Our audit addressed the following related question:

- Are internal controls over credit card purchases appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

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

Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the use of the District's credit cards and therefore, we examined internal controls over credit card usage for the period July 1, 2004 to December 31, 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 this audit 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 the plan of action, the Board may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District Clerk's office.

Credit Card Purchases

The Board adopted a policy regarding the use of District credit cards in 2000 and a regulation describing the safeguards and procedures to be used. The policy states that credit cards have been issued in the District's name for use by officers and employees. Officers and employees must receive authorization from the chief executive officer or the District Clerk to use the cards. In addition, each officer or employee must sign a receipt for all cards placed in their custody. The policy further states that District cards are to be used for pre-approved reimbursable travel expenses, such as hotel accommodations, car rental and transportation, and meals (exclusive of alcoholic beverages). Original receipts must be forwarded to the Central Business Office (CBO) for all charges. Failure to submit original receipts for charges may result in the officer or employee being personally liable for the undocumented charges.

When an officer or employee needs to use a credit card for travel purposes, a conference request and reimbursement voucher must be completed and approved by a principal or supervisor and the Superintendent. These forms provide authorization for the travel and specify the charges to be associated with the travel. The completed approved conference request is sent to the CBO where a purchase order is generated. The officer or employee is required to sign out the credit card on a log maintained by the Superintendent's administrative assistant. Upon completion of the conference the officer or employee is required to return the credit card and provide a completed reimbursement voucher with original receipts for the travel. The voucher is then submitted to the CBO for review and payment.

The District is not following the policy that the Board adopted regarding the use of District credit cards. For the audit period, there were 22 credit card purchases totaling \$5,932 plus \$113 in late fees and finance charges. We found that in 19 of the 22 purchases the official or employee using the credit card did not comply with at least one aspect of the District's credit card policy. Fourteen of these purchases were made during the term of the previous Superintendent. He did not follow or require officers and employees to comply with the District's credit card policy. Although charges were made that did not comply with the District's credit card policy, we determined that the charges were for legitimate District expenditures. Sixteen credit card purchases totaling \$3,780 lacked proper approval and 13 credit card purchases totaling \$3,434 did not have original receipts available to support the expenditures as required by District policy.

The ability of District officers/employees to circumvent the District's credit card policy is a severe internal control weakness. In a weak control environment, where the Superintendent did not comply nor require compliance by officers and employees with the credit card policy, the potential for the misuse and abuse of credit cards is increased.

Recommendations

1. The Board should ensure that credit card purchases are made in compliance with the District's policy. Every District credit card claim should contain enough supporting documentation to determine whether it complies with District policies, and that the amounts claimed represent actual and necessary expenses.
2. The District should make every effort to pay credit card charges on time to avoid late fees and finance charges.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The Romulus Central School District response letter makes reference to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

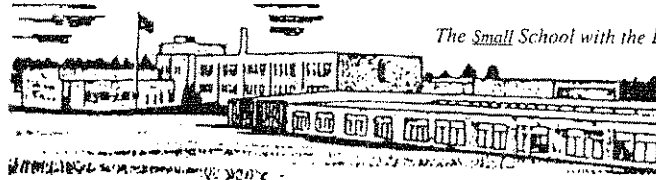
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Superintendent

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August 2, 2006

Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, NY 14614

Dear [REDACTED]:

Please accept this letter as the response to the preliminary draft findings of the Comptroller's Audit of Romulus Central School.

The Romulus School District welcomed the Comptroller's Audit. The Board of Education and the School District Management have always been secure in the knowledge that our business transactions were and continue to be above reproach. We pride ourselves on our internal controls and the trust that we have earned from the Romulus School District Community. Therefore, the leaders of the District were not concerned by the scrutiny of your office. The audit was seen as a tool in our continued efforts to protect the reputation of the Romulus School District. To this end, your written findings detailed what we already knew. The people controlling the funds of the Romulus District are trustworthy and do their best to ensure that all funds, supplies, and equipment are appropriately monitored, allocated, and disbursed.

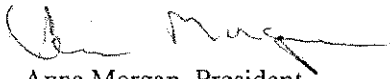
In your report, you discuss assessing the areas of cash receipts and disbursements, purchasing, payroll and personal services, capital assets and consumable inventories, and credit card transactions. On page four of your report you write that the internal controls were adequate to limit risk for misuse in these areas. This information is good news to the District. It means that the District is taking all measures to ensure that public funds and public trust are not abused by School District personnel. Your research into credit card controls was welcomed information and we take seriously your comments that while you did find an occasional breach of policy you did not find any transactions that were reason for concern. We appreciate your recommendations for strengthening control over credit card use and have already put into place appropriate measures to meet your recommendations.

District credit cards are stored in a locked safe. The Superintendent's secretary issues credit cards after permission for use is granted by the Superintendent. At the time of issuance the Superintendent's secretary notes in writing on the appropriate form; the type of credit card, the date issued, the purpose for issue, and has the Superintendent initial the form that he has authorized the use of the credit card. Upon return of the card the secretary then completes the form by noting in writing the date the card was used, the date the card was returned, the amount

charged, that a receipt was received and/or a purchase order was generated, and obtains the signature of the user. A copy of this form is attached to this letter. These procedures will ensure that the credit card is used in accordance with Board Policy and that credit card payments are made in a timely manner.

The Romulus School District appreciates the time spent with and the recommendations of the auditors. The District was very pleased with the findings of the auditors and will continue to do our best to ensure the trust of the Romulus Community and the State Comptroller.

Sincerely,



Anne Morgan, President
Cornelia Johnson, Vice President
Laurie Asermily
Rhonda Dickenson
Jim Somerville
Brian Sparrow
Norm Hollenbeck

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

During the initial assessment, we interviewed appropriate District officials and BOCES employees, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its database(s). Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared 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 those areas most at risk. We selected credit card purchases for further audit testing.

In order to evaluate credit card purchases, we interviewed appropriate District officials and employees and BOCES employees to obtain an understanding of the District's process for purchasing. We reviewed the District's credit card policy. We reviewed all credit card statements and transactions for the period July 1, 2004 through December 31, 2005 and any supporting documentation to determine if amounts posted to the account were in accordance with the District's credit card policy.

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

APPENDIX C

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