



Saugerties Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2004 - January 13, 2006

2006M-105



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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 Saugerties 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

EXECUTIVE SUMMARY

The Saugerties Central 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 Board designated the Business Administrator as the Purchasing Agent for the District. Under the general supervision of the Superintendent, the Purchasing Agent is responsible for administering purchase activities. In May 1999, the Board adopted a procurement policy that governs District purchasing and related activities. The District's audited financial statements included capital assets with a total net book value of \$6,644,652 as of June 30, 2005.

Scope and Objective

The objective of our audit was to determine if internal controls over selected financial activities are appropriately designed and operating effectively for the period July 1, 2004 through January 13, 2006. Our audit addressed the following related questions:

- Has the District established adequate internal controls over purchasing and claims processing to protect District assets against fraud, abuse and professional misconduct and are those controls operating effectively?
- Has the District established adequate internal controls to protect capital assets and consumable inventories against loss, waste and misuse and are those controls operating effectively?

Audit Results

We found the District has not established adequate internal controls over purchasing and claims processing. While the District has adopted policies that require competitive bidding and the audit of claims, District officials have not enforced compliance with the policies. For example, of the five contracts we tested that required bid solicitation, the District did not bid three contracts valued at \$394,159; similarly, of 10 purchases, totaling \$69,301, that required quotes, the District failed to obtain quotations for all 10 purchases. We also found that of the 44 claims the claims auditor had approved for payments, only two claims were both authorized and adequately supported. The District also paid

for certain travel and entertainment expenses, meal expenses, credit card charges and cellular phone costs that were unsupported, thereby increasing the risk that the District may have paid for excessive or inappropriate costs. Finally, we determined that 13 of 25 District budgetary accounts we tested were over-expended at various times during the 2004-05 and 2005-06 fiscal years because District officials did not verify appropriations were available before issuing purchase orders.

We found that District officials had not established adequate controls to protect capital assets and inventories against loss, waste and misuse. The District's inventory of capital assets has not been maintained on a current basis and periodic physical inventories have not been taken to substantiate amounts for land, buildings and equipment reported on its June 30, 2005 financial statements. Controls over inventories of consumable items, such as fuel, food and transportation materials and supplies, appeared to be adequate.

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. Appendix B contains our comments on a number of issues raised in the District's response to our audit.

Introduction

Background

The Saugerties Central School District (District) is located in the Towns of Saugerties and Woodstock. The 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 District Treasurer is the chief accounting officer and is responsible for the custody, deposit and disbursement of District funds; maintaining the financial records; and preparing the monthly and annual financial reports. The Treasurer electronically prepares the District's accounting records and maintains them on the modified accrual basis of accounting.

There are six schools in operation within the District, with 3,457 students attending these schools during the 2004-05 school year. The District has a work force of approximately 526 employees. The District's general fund budgeted expenditures for the 2005-06 fiscal year were \$41,825,685 funded primarily with State aid, real property taxes and grants.

The Board designated the Business Administrator as the Purchasing Agent for the District. Under the general supervision of the Superintendent, the Purchasing Agent is responsible for administering purchasing activities. In May 1999, the Board adopted a procurement policy that governs District purchasing and related activities. The District's audited financial statements included capital assets with a total net book value of \$6,644,652 as of June 30, 2005.

Objective

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

- Has the District established adequate internal controls over purchasing and claims processing to protect District assets against fraud, abuse and professional misconduct and are those controls operating effectively?
- Has the District established adequate internal controls to protect capital assets and consumable inventories against loss, waste and misuse and are those controls operating effectively?

**Scope and
Methodology**

During this audit, we examined the District’s internal controls related to purchasing, claims processing, capital assets and consumable inventories for the period July 1, 2004 through January 13, 2006.

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. Appendix B contains our comments on a number of issues raised in the District’s response to our audit.

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.

Purchasing and Claims Processing

The District should have a procurement process in place to ensure the District obtains needed goods and services at economical prices and appropriations controls that help avoid over-expending the Board-approved budget. The District should also establish a claims audit function that ensures the District pays only those claims that are properly supported and represent actual and necessary District costs.

We found that, while the District has adopted policies that invoke the General Municipal Law's requirements for competitive bidding and the Education Law's requirements for auditing claims, compliance with the policies was poor because in certain instances District officials did not enforce them. For example, of the five contracts we tested that required bid solicitation, the District did not bid three contracts valued at \$394,159; similarly, of 10 purchases, totaling \$69,301, that required quotes, District failed to obtain quotations for all 10 purchases. We also found that of the 44 claims the claims auditor had approved for payments, only two claims were both authorized and adequately supported. The District also paid for certain travel and entertainment expenses, credit card charges and cellular phone costs that were either unsupported or potentially excessive. Finally, we determined that 13 of 25 District budgetary accounts we tested were over-expended at various times during the 2004-05 and 2005-06 fiscal years because District officials did not verify appropriations were available before issuing purchase orders.

Procurement Practices

The General Municipal Law (GML) requires school districts to advertise for bids when a purchase contract exceeds \$10,000. The purpose of obtaining bids is to encourage competition in the procurement of supplies, equipment and services which will be paid for with public funds. The Board adopted Purchasing Guidelines that conform to the GML requirements. The Board designated the District Business Administrator as the Purchasing Agent, who is responsible for developing and administering the District's purchasing program.

To test adherence to competitive bidding requirements, we selected five purchase contracts, totaling \$416,676, paid in fiscal year 2004-05. We found the District did not competitively bid three of these contracts, totaling \$394,159, as follows: natural gas and electric services (\$298,225); 100 desktop and 23 laptop computers (\$83,579); and chorus robes and collars (\$12,355). The Business Administrator could not explain why the utility services and computers were not competitively bid, but said the robes and collars were purchased from

the selected vendor to obtain a specific color. We found no evidence to indicate this vendor was a sole source provider.

The GML also requires that school districts obtain written requests for proposals (RFPs), written quotations or verbal quotations when procuring goods and services that meet certain minimum cost criteria, but are not subject to competitive bidding. The GML requires school districts to adopt policies and procedures that explain each procurement method and its use, and provide for adequate documentation of the actions taken. Accordingly, the District's procurement policy requires District personnel to obtain verbal or written quotations from various vendors before purchasing such goods and services.

We tested 10 purchases, totaling \$69,301, made between July 1, 2004 and January 12, 2006 that required written or verbal quotes. We found no evidence that District personnel had attempted to obtain quotes for any of the 10 purchases. For example, the District paid \$7,428 for desks, chairs and tables without soliciting written quotes from two vendors, as required by District policy, before making this purchase. The Business Administrator acknowledged that no quotes had been obtained.

The District's policy requires the Business Administrator, as Purchasing Agent, to annually evaluate the effectiveness of controls that ensure compliance with the procurement policy. There was no evidence this evaluation was done, or that District officials have made any efforts to enforce compliance with the GML and District procurement policies. The failure of District officials and employees to follow the District's procurement policy increases the risk that the District paid too much for goods and services.

Claims Processing

With few exceptions, the Education Law requires school districts to audit and approve each claim before making payment. The Board has formally appointed a claims auditor to audit and approve District claims. The claims auditor is charged with auditing each claim to determine whether it is properly authorized and accurate, and whether the purchase represents a valid District expense for goods or services that were actually received. The District's Purchasing Guidelines require compliance with the Education Law's provisions for claims processing. The District uses purchase packets (claim forms, purchase orders, requisitions, invoices and receiving slips) to help ensure each purchase and related claim is supported by adequate and appropriate documentation of the expense.

We reviewed 44 claims, totaling \$292,368, paid between July 1, 2004 and January 13, 2006. We found that only two of these 44 paid claims

were supported by complete purchase packets. The remaining 42 claims (95 percent), totaling \$211,635, were paid even though one or more items of required documentation was incomplete or missing. Our review determined that:

- Twenty-seven purchase packets did not have claim forms attached;
- Thirteen of 33 claims that required requisitions did not have them, and two of the 13 requisitions were not dated;
- Ten of the 34 claims that required purchase orders did not have them; and
- Eighteen of 41 claims that related to purchases of goods and services lacked signed receipts acknowledging the District received the goods or services.

The internal claims auditor should review each purchase packet to verify that all required information is complete, correct and properly supported before paying the claim. Unless the claims auditor thoroughly audits claims, the District could pay for costs that are not authorized or valid District expenses, make duplicate payments, or pay for goods and services that were not actually received.

Travel and Conference Expenses

The Board has adopted policies and regulations related to travel and conference expenses. These policies state that District officials, employees and Board members will be reimbursed for actual and necessary travel-related expenses that are authorized and that are incurred while traveling for school-related activities. District policy requires conference participants to get prior written approval to attend a conference by submitting request forms. To receive reimbursement, the employee must complete and sign a claim form, with receipts and proof of attendance attached.

We tested five purchase packets, totaling \$1,578, for claims paid during the audit period to determine whether they contained pre-approved request forms. Two packets, totaling \$240, did not include pre-approved requests for conference attendance. We also examined 11 employee reimbursements paid between July 1, 2004 and August 3, 2005 to verify these payments were supported by a completed and signed claim form, receipts and other appropriate documentation. While 10 payments were adequately supported, we found that one payment for \$160 should not have been made. In this instance, the Superintendent was improperly reimbursed for actual travel mileage

to attend a conference even though he received a \$450 monthly stipend as compensation for use of his personal vehicle in District business. The failure to enforce compliance with the District's travel and conference expense policies increases the risk that the District will reimburse costs that may not be authorized or appropriate.

Meals, Cellular Telephone and District Credit Cards

The District paid \$9,395 for meals for the period July 1, 2004 to December 22, 2005; paid \$34,337 for credit card charges for the period July 1, 2004 to December 21, 2005; and paid \$13,000 for cellular telephone costs for the period July 1, 2004 to January 6, 2006. District officials should limit these costs to necessary expenses incurred in the conduct of District business. However, the District lacked policies and procedures designed to control these expenses thereby increasing the risk that the District could pay for excessive or inappropriate costs.

Meals and Refreshments — The District should pay for meals and refreshments for employees and Board members only when such costs are reasonable and necessary and incurred in the conduct of District business. To properly control District costs for meals and refreshments, the Board and District officials need to establish policies and procedures that set limits for amounts the District will pay meals and refreshments; require advance approval for District-paid meals; and prescribe the documentation needed to support expenses (e.g., the purpose of the meeting, a dated, itemized receipt, and indication of the number of people present). During our audit period, the Board had not established a written policy regarding meal and refreshment expenses.

We reviewed 14 District payments, totaling \$8,672, for meals and refreshments made between July 1, 2004 and December 22, 2005. These payments were for various events, including Board and committee dinner meetings a Board administrative retreat meeting at a local country club and the Superintendent's lunch meetings. We could not verify the legitimacy and appropriateness of any of these payments because payment packages did not clearly show who attended the meetings, or why District-paid meals and refreshments were required to conduct District business. We also reviewed an additional 11 payments, totaling \$723, to cafes and restaurants for charges made by the Superintendent and the Assistant Superintendent. The receipts attached to the packages did not itemize the meals and beverages purchased.

Cellular Telephones — During the audit period, the District spent approximately \$13,000 for 25 District-issued cellular telephones. The District should establish a policy that specifies who will receive the

employees should reimburse the District (for excessive personal usage), as well as procedures to monitor compliance with the policy. At the time of our audit, the Board had not adopted a written policy or procedures to govern District cellular telephones.

During the period June 20, 2005 to January 14, 2006, the District paid a total of \$6,317 for cellular telephone costs, \$737 more than the District's collective cellular telephone plan allowance of \$5,580. The District pays cellular telephone invoices without reviewing them to identify usage records for individual telephones or requesting employees to reimburse the District for personal usage. The absence of a cellular telephone policy increases the risk that the District will incur unnecessary expenses or pay for employees' personal telephone calls.

District Credit Cards— The District has six credit cards used to pay for travel-related expenses, supplies, equipment and Internet purchases. Charges to these credit cards totaled \$34,337 for the period July 1, 2004 to December 21, 2005. The Board should establish a District credit card policy that specifies the District employees authorized to use the credit cards, states procedures for using the cards and safeguarding them from misuse, and requires itemized receipts for all credit card purchases as evidence that purchases were received and served a District purpose. Related procedures should be developed to monitor adherence to the policy, including reconciling credit card statements to itemized receipts and invoices. Again, the Board had no written policy to guide District employees on the use District credit cards.

We selected and tested 11 credit card charges from 10 credit card statements. Two purchases of books, totaling \$1,415, were supported by post-dated purchase requisitions. When purchase requisitions are not approved prior to buying goods and services, there is increased risk that the District could pay more than it should for these purchases. We also found that two travel-related charges (hotel rooms and airfare), totaling \$527, were supported by reservation forms, but not by invoices. Charges should be supported by invoices to show the amount actually paid to the vendor. The absence of a credit card policy that clearly identifies documentation requirements for credit card purchases increases the risk that the District could pay for excessive or inappropriate costs.

Budgetary Control

The Education Law, guidance from the Office of the State Comptroller and good budgetary controls require that uncommitted appropriations be available before District personnel encumber funds or make expenditures. If it becomes necessary to make expenditures in

excess of appropriations in the original budget, the Board may, by resolution, modify the budget to increase appropriations and provide additional moneys from other sources (e.g., the unexpended balance of an appropriation or a cash surplus) before authorizing the purchase. However, District officials told us they did not always verify whether appropriations were available before issuing purchase orders. As a result, appropriation accounts were sometimes over-expended.

We judgmentally selected and tested 25 budgetary accounts active in fiscal years 2004-05 and 2005-06. We found that three school lunch accounts were over-expended or over-encumbered by \$30,481 as of June 30, 2005. Further, 10 general fund miscellaneous accounts were over-expended or over-encumbered at various times during the test period. For example, the appropriation account for materials and supplies account was over-expended by \$17,712 as of June 30, 2005. The Business Administrator stated that he looks at the budget in total to ensure total budget appropriations are not over-expended, rather than monitoring line item appropriations. When the over-expenditures were discovered, the Board adopted resolutions, both during and at the end of the 2004-05 fiscal year, to transfer appropriations to the over-expended accounts to rectify the deficiencies. For example, on August 2, 2005, the Board approved 57 year-end budget transfers in the amount of \$1,319,264. Board minutes did not contain detailed budget transfer information identifying the appropriation accounts affected by these transfers.

Lack of budgetary control increases the risk that the Board will not be aware of over-expenditures. Further, failure to limit expenditures to available appropriations creates the risk that moneys may not be available when required for necessary expenditures.

Recommendations

1. The Board and District administrators should monitor and enforce compliance with adopted policies and regulations relating to competitive bidding requirements and requests for proposals when procuring goods and services.
2. The Board should ensure that the internal claims auditor conducts a proper audit of claims in accordance with laws, regulations and District policies.
3. The Board and District administrators should monitor and enforce compliance with District policies and regulations governing travel and conference expenses, and ensure that required conference approval request forms are obtained.
4. The Board should establish a written meal and refreshment policy that states when the District will pay for Board and District

employees' meals and refreshments, and identifies the documentary evidence needed to support and justify these expenses.

5. The Board should consider obtaining reimbursement from the Superintendent for the inappropriate \$160 travel reimbursement.
6. The Board should establish a written policy and related procedures to address the assignment, usage and control of District-issued cellular phones and credit cards.
7. The Board and Superintendent should establish procedures to effectively monitor the District's budget and ensure that expenditures are limited to available appropriations.

Capital Assets

The District's capital assets had a net value of \$6,644,652 on the District's financial statements as of June 30, 2005. District officials must ensure these assets are protected from loss, maintained to preserve their value, and put to effective use by adopting and implementing policies and procedures related to safeguarding inventories of capital assets. However, while the Board has adopted policies that require accountability for capital assets, District officials have not enforced the policies. The District's technology inventory records were inaccurate, and the most recent physical inventory was taken in 2001. As a result, District capital assets are not adequately protected against loss, waste and misuse. We also found that District officials did not comply with the District's policy in disposing of obsolete capital assets.

Capital Assets Records

The Board adopted policies for the control of its capital assets. These policies require the Superintendent or a designee to maintain a continuous and accurate inventory of District land, buildings and equipment in accordance with the Comptroller's guidance, which requires the use of general ledger control accounts for capital assets. This guidance also recommends including item description and identification information in the asset records and tagging assets with a unique identifier. The policies further require the Board to set a minimum value and a useful life (one year) for fixed assets for which inventory records will be maintained. The policy also makes the Superintendent or designee responsible for conducting an annual inventory and resolving discrepancies between the physical count and the District's property records. The Board designated the Business Administrator as the property control manager.

Our review of the capital asset and inventory records on February 2, 2006 disclosed that the Board did not enforce the requirements of the District's policies over capital assets.

- The District's capital asset inventory records consisted of an Appraisal Report compiled by an outside contractor in 2001, the date of the last physical inventory. District officials stated that, since that time, they have not inventoried assets, maintained records, or assigned identification labels or numbers to assets.
- The District Treasurer did not maintain general ledger fixed asset control accounts in accordance with the Comptroller's guidance.

- We were provided no evidence that the Board had actually established a minimum dollar asset value for inventory and recordkeeping purposes.
- The Inventory of All Technological Equipment, a separate technology inventory record maintained by District personnel, was also incomplete and inaccurate, as demonstrated by our audit tests.

The District's Technological Equipment inventory record did not contain the costs of any equipment items, which limits its utility. We selected 45 computers (34 desktops and 11 laptops), acquired in 2001 and listed on the Appraisal Report, and traced these computers to the Technological Equipment record to verify they were listed, and to physically verify each asset's location. Our test showed that 33 of the 45 (73 percent) computers were not on the Technological Equipment record or not at the right location: 17 computers were not recorded, four computers were listed twice, seven computers were in the wrong location, and five computers could not be found. District personnel informed us one of the unaccounted-for laptop computers had been stolen. Unless management maintains up-to-date inventory records, and confirms record accuracy by performing periodic physical inventories, it cannot properly safeguard capital asset inventories.

A separate test determined that seven of 19 items (including 4 computers, five Palm Pilots, nine digital cameras and one printer) listed on the Technological Equipment record were not correctly or completely listed (three items), were not located as listed (three items), or could not be found (one item, a digital camera). Since the Business Administrator and other District officials do not ensure compliance with the Board's policies for safeguarding capital assets, District personnel are unable to accurately identify and monitor these assets. Poor control over capital assets creates opportunity for theft, fraud and misuse of District property.

Disposition of Capital Assets

The District has adopted a policy for the sale and disposal of District assets which requires the Superintendent to dispose of obsolete, surplus or unusable District equipment in a manner that realizes the greatest financial return for the District. If, after reasonable attempts to sell such assets have been unsuccessful, the Superintendent may dispose of the equipment in any manner which is deemed appropriate, but not without prior approval of the Board.

District officials stated that there were no public sales of equipment during our audit period. However, District records indicated that, under a prior administration, 114 pieces of technology equipment,

including computers, printers and scanners, were discarded between January 29, 2001 and October 1, 2003 without prior Board approval. Minutes of the October 7, 2003 Board meeting show the Board subsequently authorized the disposal of the above items, which were all declared obsolete. The failure of officials to dispose of equipment in compliance with District policies could result in unauthorized equipment disposals and a loss of revenue for the District.

Recommendations

8. The Board and District administrators should monitor and enforce compliance with the District's policies relating to capital asset and perpetual inventory records. In addition, periodic physical inventories should be taken and the results reconciled with the capital asset records.
9. Board and District administrators should monitor and enforce compliance with the District's policy for disposal of obsolete capital assets.

Consumable Inventories

Our audit also included a review of the District's internal controls over inventories of fuel, food and beverages, and transportation materials/supplies. We found the District has generally adequate controls over these consumable inventories.

Fuel is delivered and placed in an above ground tank at the high school. A weekly usage sheet is maintained for fuel pumped, identifying the vehicle number, date, number of gallons dispensed, tank meter reading and the individual dispensing the fuel. Periodically, the starting and ending meter readings on the pump are compared to the gallons dispensed on the usage sheets. In addition, District personnel compare meter usage to fuel delivery tickets. We found no significant weaknesses in District controls over fuel.

The District maintains inventories of food to supply its cafeteria operations. We found the District maintained perpetual inventory records at two elementary school cafeterias, but not at the junior/senior high school or at the remaining two elementary schools. Our review of junior/senior high school food and food related storerooms revealed that these areas were locked to students and were left unlocked for only short periods of time when restocking. Our review of perpetual inventory records maintained at one elementary school disclosed that the records were intact and periodic inventories were conducted and compared to the records. There were no gaps in the dates of entries.

The maintenance department maintains a supply of items such as oil, belts, antifreeze and other parts on hand for vehicle repairs. Items are purchased as needed to maintain a sufficient level of supplies. The maintenance department is located on the grounds of the high school and is locked every evening. We found no significant weaknesses in District controls over transportation materials/supplies.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The District response letter makes reference to eight attachments totaling 23 pages that support the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.

SAUGERTIES CENTRAL SCHOOL DISTRICT

Call Box A, Saugerties, New York 12477 Telephone: (845) 247-6551 Fax: (845) 246-8364

Office of the Superintendent

November 20, 2006

[REDACTED]
[REDACTED]
State of New York
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear [REDACTED]:

Enclosed you will find the district's response specific to the preliminary draft findings as presented by your office.


On November 17, 2006, the district met with [REDACTED] for the NYS Comptroller's Office, [REDACTED] for the NYS Comptroller's Office. Representing the school district were two members of the Board of Education, the Business Administrator and myself. The exit meeting proved to be very productive and informative as was [REDACTED] audit of the school district.

While the district's response may seem lengthy, please notice that corrective actions are incorporated into the document. In the body of the response, specific corrective actions are underlined. Attached to the response are pertinent documents that are supportive of the corrective actions.

As was stated during the audit process and during the exit discussion, the district is appreciative of the professional manner in which [REDACTED] conducted his audit.

Should there be any changes in your final report, please inform my office to allow the district to modify its response in kind.

If your office requires further clarification or additional information, please contact me at (845) 247-6551 (e-mail: rrhau@saugerties.k12.ny.us) or Joseph A. Dziadik, Business Administrator at (845) 247-6520 (e-mail: jdziadik@saugerties.k12.ny.us).

Sincerely,

Richard R. Rhau
Superintendent of Schools

Enc/Attach

**NYS Comptroller Audit
District Response**

The Audit by the NYS Comptroller was welcomed by District Administration as a means of reviewing and assessing the District's business operations that had developed over the past years under the supervision of a number of administrators with wide varieties of professional backgrounds and work experiences. Current Administrative staff saw early on the evident need for establishing a process that would lead to an effective systematic approach to the evaluation of all Business Office operations. The Comptroller's Audit would prove to be of invaluable assistance in offering a concentrated effort in the review and assessment of the District's business functions. While a few professional differences of opinion regarding interpretations of general accounting standards may have arisen, the Comptroller's Audit provided support and incentive to continue what had already been put in place and was, in fact, already ongoing, as District Administrators had, earlier in the year, initiated its own review and assessment of Business Office operations.

With salaries and employee benefits amounting to approximately 75% of the District's annual budget, payroll became the Administrative team's first year's primary focus for operational assessment and necessary change. Payroll schedules were brought in line with NYS standards, salary calculation methodology was updated, a procedure to regularly contact retirees and confirm health insurance coverage was implemented, the practice of employee multiple confirmation for receipt of pay was put in place, payroll account codes were reviewed with new codes instituted and reassignment of salaries to appropriate accounts where necessary, and reporting of retiree health benefits became better defined and broken out in their differing categories of District liability. These improvements represent just some of the examples of payroll changes that have taken place over the past year, however, it should be noted that the other operational areas of the Business Office were not totally ignored. The aforementioned payroll modifications were presented to the Comptroller's Audit Team for its review with positive responses returned.

As specific problems in other areas became known, remedies were addressed, however, general day-to-day operations continued in the same manner as had become accustomed over past years. The overall business functions, while put in place by a variety of different administrators, were generally accepted by the District's External Independent Auditor. In reviewing the Independent Audits over the previous five years, the accompanying Management Letters provided limited, if any, concerns directly related to acquisition and purchase procedures. In fact, the one recurring comment common to all of the reviewed Audits, centered on the Special Fund and the District's amount of receivables continually increasing over that period of time. In other words, Business Office staff followed a set of procedures put in place by many different supervisors, with the External Independent Auditor expressing minimal, if any, concern over the acquisition and purchase policies and procedures. See Note1, Page 28

To gain even more professional opinion and advice and counsel, District Administration recommended to the Board of Education that a Request for Proposal for Independent Auditing Services be advertised for consideration of appointing a new Independent External Auditor. The Board of Education agreed, the RFP was publicly offered, with three experienced firms (including the firm that performed District Audits over the past five years) interviewed by the Board of Education Audit Committee. The Audit Committee recommended a new auditing firm to the Board of Education with the new firm being appointed by unanimous vote to commence its five year contract with the auditing of the 2005-2006 fiscal year. The District's Internal Audit Function will review the comments and opinions of the new External Auditor, along with the final report filed by the NYS Comptroller. District Administration will work with the Internal Audit Function to review, assess and recommend modifications to practices that require change, emphasize those procedures that are compliant, strengthen routines that may be generally appropriate but, from time to time, exhibit certain weaknesses, and replace those functions that are unacceptable.

The District takes this opportunity to thank the Comptroller's Audit Team for its professional review of the local business operations. The Team's conscientious effort and attention to detail were well received. The team worked around the District's schedule, including the Christmas break, with understanding and cooperation. The local Business Office offers, at best, tight working space. The Audit Team's gathering of information, questioning of staff, discussion with staff, while working in close proximity in that tight space were well-done and in a manner that was appreciated by all office staff.

(01)

PROCUREMENT PRACTICES

In the preliminary draft findings of the Comptroller's Audit, reference is made to District procedures regarding five (5) purchase contracts in excess of \$10,000 and the lack of bidding for three (3) of those purchases.

1. Electricity and natural gas supplies, at a total cost of \$298,225, were listed as not being competitively bid. Central Hudson Gas and Electric customers have, over the past few years, paid one of the lowest energy rates in New York State. This District, as a component of Ulster County BOCES, participated in a consortium of school districts for the bidding of electricity three times in the past seven (7) years (*see Attachment #1*). The first two bids resulted in prices that were significantly higher than those being paid to Central Hudson Gas and Electric. Based on the recommendation of the consortium's energy consultant, Strategic Power Management, all bids were rejected to allow consortium school districts to pay the much lower rates of those provided by Central Hudson Gas and Electric. In early winter of 2005 the Ulster County BOCES consortium of school districts invited public bids for electricity services. On December 15, 2005 bids were opened from four (4) separate companies, with the low bid submitted by Constellation NewEnergy being accepted by all members of the consortium. The low bid price was competitive with the prices being charged by Central Hudson Gas and Electric, and was, therefore, recommended for acceptance by the consortium's electrical energy consultant. The Saugerties Central School District Board of Education, at its regular meeting on January 10, 2006, approved the bid of a two year contract by Constellation NewEnergy for electricity.

The Ulster County BOCES group has investigated natural gas acquisition through neighboring BOCES consortiums, with there being a number of negative issues and/or concerns. Currently, Ulster County BOCES is in the process of developing a bid process for natural gas. Saugerties Central School District is included in the process. The goal is for open bidding to occur in late winter/early spring of 2007.

See Note 2, Page 28

2. A purchase for chorus robes and collars was made in the amount of \$12,355. This acquisition did not involve a formal bid. In reviewing this particular entry, it was learned that the request for acquisition included a unique color (to match as close as possible the school color) for the robes and collars. A number of suppliers were contacted to ascertain color options with only one (Collegiate Apparel) committing to the specific color designation, resulting in the order being placed with that vendor. The review of color options was handled by the requesting staff member who made contact with all potential vendors.

See Note 3, Page 28

3. The third listed concern is the purchase of 100 desktop and 23 laptop computers. In investigating the purchase process utilized for this particular acquisition, in order to respond to the Audit, the Business Administrator learned that the purchase order was submitted, approved, and put through the system at the specific direction of a former administrator, without the use of any bid process.

Over the past three years, the District, as was explained and demonstrated to [REDACTED], has been working and contracting with Ulster County BOCES for the local acquisition of computer systems and hardware through its annual BOCES contracted services. Ulster County BOCES, at the request of [REDACTED], and with the knowledge and authorization of the local District, provided supporting documentation to confirm that its procedures and policies were in compliance with General Municipal Law acquisition procedures.

The District consistently utilizes the \$10,000 threshold bid process throughout its purchasing procedures. New transportation routes are bid on a regular basis in compliance with State guidelines, as witnessed by continued approval by the State Education Department of submitted contracts. Fuel oil for heating is bid by the District annually with the bid awarded to the lowest qualified bidder (this year Heritage Energy of Kingston, NY was awarded the bid). Motor vehicle fuel is purchased through New York State Contract Award, as are twenty-five (25) cellular telephones for District administrative business conducted throughout the District's seven buildings.

Other commodities that fall within the annual \$10,000 threshold are bid through cooperative efforts with other school districts. General and specialty classroom school supplies have been purchased through Educational Data Services, a firm that specializes in the coordination, solicitation and awarding of bids on behalf of a significant number of public school districts. The District participates in an Ulster County BOCES consortium of schools for joint bidding of:

- | | |
|-------------------------------------|--|
| 1. Cafeteria paper products | 6. Groceries (yearly food) |
| 2. Custodial supplies and materials | 7. Landscaping/ground maint. supplies |
| 3. Fine paper (varied sizes) | 8. Microfilm services |
| 4. Food service (monthly food) | 9. Milk and dairy products |
| 5. Graphing calculators | 10. Waste, rubbish and garbage removal |

Also in the preliminary draft findings of the Comptroller's Audit is a reference to obtaining written or verbal quotes as per District Policy #5420 (see Attachment #2). The District Policy requires at least two (2) verbal quotes for purchases between \$3,000 and \$5,000. To that end, a form entitled Telephone Quotation Data (see Attachment #3) has been developed to record verbal quotes with the completed report to be attached to the resulting Purchase Order to assure compliance with District Policy.

See Note 4, Page 28

Additionally, Policy #5420 requires at least two (2) written quotes for purchases that fall between \$5,000 and the \$10,000 bidding threshold. In the Comptroller's Audit, specific mention was made of a purchase in the amount of \$7,428 for desks, chairs and tables. The supporting documentation of this acquisition did not include written quotes. Upon further review by the District Business Administrator, it was determined that Purchase Order #42589, dated July 29, 2005, in the amount of \$7,427.79 was made out to VIRCO with payment made on September 21, 2005 with check #96720. VIRCO (NYS Contract #PC58594) is a vendor listed on the New York State Office of General Services website for New York State Contract Award Notices. This particular purchase was made through a State Contract Award; however, said Award number was not noted on any of the purchase documents. The Business Office is in the process of implementing procedures that will require any acquisitions made through a State Contract Award to include listing the Award number on the purchase order. The Business Office is also reviewing Policy #5420 with all administrative staff to gain compliance with written quotes for purchases valued between \$5,000 and \$10,000, and further, to have the written quotes attached to the purchase order for future reference.

Review of procurement practices will continue to be ongoing with the Comptroller's Audit to be extensively used as one of a number of resources in the assessment and implementation of proper and compliant procedures.

CLAIMS PROCESSING

Relative to claims processing, the Independent Auditor's Report for fiscal year ending June 30, 2005 included similar comments as are contained in the preliminary draft findings of the Comptroller's Audit. The District Business Office, in receiving and reviewing the Independent Audit Report, had initiated remedial processes to address the comments listed in the Independent Auditor's Management Letter. In the Independent Audit for fiscal year ending June 30, 2006, the Auditor reviewed the previous year's Management Letter and re-tested those areas addressed as concerns. The Management Letter for fiscal year ending June 30, 2006 contains the following comment pertinent to Claims Processing:

"The prior year audit made recommendations covering 6 areas that were observed during the 2004-2005 audit.

In the normal course of the current year audit, these matters were again tested.

The current year testing yielded much improvement. All areas were addressed and resulted in no current findings for such items."

The Management Letter in the Independent Audit for fiscal year ending June 30, 2006 included other observations regarding extensive use of Claim Vouchers versus Purchase Orders. In its ongoing review and assessment of business operations, the Business Office will appropriately address the Independent Auditor's comment, as well as the comments of the Comptroller's Audit. Both Independent Audit Reports, 2004-2005 and 2005-2006, have been filed with the Comptroller's Office and should be available to substantiate this section of the District's response.

TRAVEL AND CONFERENCE EXPENSES

From five (5) tested packets, the Comptroller's Auditor found two disbursements to be without pre-approved requests, as required by Board of Education Regulation 6230R.1. Discussion among Business Office staff discovered a co-mingling of workshops/conferences with certain instances of overnight student activities with teacher supervision qualifying as appropriate District activities that resulted in payment of reimbursable expenses. An ongoing review and assessment is in process that will incorporate all reimbursable overnight and out of District activities into a consistent reimbursement procedure that is compliant with Board of Education Policy. At the beginning of the 2006-2007 school year the District initiated a procedure that requires the Business Office to provide each Board of Education Member with documentation of all paid employee reimbursements for travel and conference expenses. Each month the Board Members receive a summary sheet of employee mileage reimbursement and copies of paid Claim Vouchers for conference expenses. Attachment #4 represents the documents provided to each Board Member for its regular meeting on November 6, 2006.

During the Comptroller's Audit, a reimbursement payment to the Superintendent of Schools in the amount of \$160.00 for personal mileage was challenged by the Auditor, to the point that reference is made within the preliminary draft findings of the Comptroller's Audit, specifically, "... one payment for \$160 should not have been made", and, further, under Recommendation #5, states "Obtain reimbursement from the Superintendent for the inappropriate \$160 travel reimbursement." This topic, with supporting documentation was presented to Shaw and Perelson, LLP, Legal Counsel for the local Board of Education. Shaw and Perelson represented the Board of Education in the negotiation and development of the Contract between the Superintendent of Schools and the Saugerties Central School District Board of Education. Michael Lambert, Senior Partner with Shaw and Perelson has offered his opinion on this particular matter of the \$160 reimbursement with his letter attached to this response as Attachment #5. In his opinion, Mr. Lambert states, in part, "As I previously opined to the Board of Education, it is my view that such payment was NOT inconsistent with the provisions of the Superintendent's contract." The letter continues with further clarification and supporting references to the Attorney's opinion. The Business Administrator, during the Audit, explained to the Auditor, that mileage reimbursement in the amount of \$160 was the least expensive cost to the District, when compared to airline tickets at \$300-\$400 or rental cars at \$200-\$300. As is stated in the Attorney's opinion, "... Article 3c. of his employment contract provides for reimbursement for all "reasonable and customary expenses" associated with, among other things, "attendance at professional conferences previously approved by the Board of Education." Travel to and from such approved conferences is clearly a reasonable and customary expense attendant thereto." Legal Counsel for the local Board of Education, responsible to that body for the advice and oversight of its employment contracts, clearly indicates in its written opinion that the reimbursement of \$160 was appropriate and the most cost-effective option to the District.

See Note 5, Page 28

MEALS

In response to the preliminary draft findings of the Comptroller's Audit, the District has developed a form entitled Board of Education/Administration Off-Site Meeting (See attachment #6), to be completed, submitted and attached to any disbursement for off-site meetings. The completed form will list:

- | | |
|---|---|
| 1. Purpose of the meeting | 6. District contact person responsible for meeting |
| 2. Location of the meeting | 7. A listing of all of those in attendance at the meeting |
| 3. Date and Time of the meeting | |
| 4. A listing of purchased services for the meeting, e.g., room rental, meals, lease of specialty hardware | |
| 5. Method of payment, e.g., Credit Card, Purchase Order Number, Claim Voucher | |

CELLULAR TELEPHONES

On March 07, 2006, the local Board of Education adopted Policy #5322, USE OF THE DISTRICT CELL PHONE (see Attachment #7). The District has twenty-five (25) cellular telephones with hardware and calling plans purchased through a New York State Office of General Services Contract Award at a cumulative base rate of \$734.71 per month. Twenty-four (24) of the cellular telephones fall under a single contract calling plan with a maximum of 3,000 combined minutes per month (averaging 125 minutes per month per phone). The remaining cellular telephone is assigned under an individual contract calling plan to the Superintendent of Schools with 1,000 minutes per month.

(04)

Consultation and coordination with the Ulster County Sheriff's Office enables all of the twenty-five (25) cellular telephones to link to a priority channel with direct connection to responders in the case of an emergency. This connectivity will allow communication to remain open between District Administrators, police units, and emergency specialists during crisis situations. The Business Office reviews monthly cellular telephone invoices with particular emphasis applied to excess use of minutes. In the current school year, four (4) invoices have been paid with each of the four invoices listing fewer minutes used than the contracted 3,000 minutes per month. The process of analyzing cellular telephone invoices by reviewing and assessing the number of monthly minutes proves to be a cost effective means of determining appropriate expenditures. With the District utilizing a State Contract Award, the cost is assured to fall within reasonable standards, and when total monthly usage of minutes is reported at fewer than the contract standard of 3,000 minutes, it can be reasonably expected that usage is not excessive, with review and assessment occurring in a timely manner, without significant staff time, thus proving to be both cost and labor effective.

DISTRICT CREDIT CARDS

On March 07, 2006, the local Board of Education adopted Policy #5321, USE OF THE DISTRICT CREDIT CARD (see Attachment #8). The Policy authorizes issuance of two credit cards: one in the name of the Superintendent of Schools and one in the name of the District Treasurer. The two credit cards had been in use prior to the adoption of Policy #5321, as referenced in the preliminary draft findings of the Comptroller's Audit.

BUDGETARY CONTROL

Over past the past ten (10) years a procurement process had been implemented by a variety of Business Administrators that provided timely acquisition of essential educational supplies and materials. In each of those ten (10) years, the overall General Budget, as approved by local voters, was never over-expended. As requisitions were submitted for specific account lines that may have had minimal balances, the overall General Budget was reviewed to ascertain the actual availability of sufficient balances in other account lines from which transfers could be made to increase the requisitioned account line to allow the approval of a Purchase Order. At certain times of the school year, the Business Office can be inundated with an abundant number of requisitions for necessary supplies, textbooks, classroom essentials, and other varied commodities. The aforementioned account line review, if sufficient funds are determined to be available, enables timely ordering and receipt of necessary education materials. To process transfers prior to the ordering of materials would add time to the acquisition process and would jeopardize the timely receipt of those necessary educational commodities. That being stated, current District Administration, in response to the Comptroller's Audit, will review its requisition procedures, including discussions with Building Principals, and Department Supervisors, to implement a process of closer budget review with purchase requisitions including attached transfer requests for those account lines with minimal balances. Also, to facilitate and assist in this review, District Administration will meet with appropriate staff in the Mid Hudson Regional Information Center, provider of the District's finance system, Finance Manager, to review the Appropriations and Revenue Status Reports and modify them where necessary to make them easier to read and more "user friendly" for the Building Principals and Department Supervisors. The updated procedure will result in more timely transfers throughout the school year.

CAPITAL ASSET RECORDS

District Administration is in the process of reviewing all Board policies and procedures relative to capital asset control. That review will involve updating of policies, where necessary, and a thorough evaluation of procedures with modifications implemented to meet State and/or Federal guidelines.

In coordination with this review, the Business Administrator has contacted VRM Maximus, a national firm specializing in municipal asset appraisal and inventory, to perform a complete appraisal of District assets. VRM Maximus provided the District's appraisal in June of 2001, as referred to in the preliminary draft findings of the Comptroller's Audit, and is the logical firm to be engaged for updating of its original asset analysis. In the implementation of a new contract with VRM Maximus, the District is requesting its professional advice/consultation in the initiation of appropriate procedures for the immediate recording and future reporting of

District asset acquisition. At the very least, it is expected that the procedure will include asset recording, asset identification, designation of asset location, asset estimated useful life, depreciation method, annual inventory recording, and inventory testing.

The preliminary draft findings of the Comptroller's Audit include a comment on technology equipment discarded between the period of January 29, 2001 and October 1, 2003. Since July of 2004, current District Administration has submitted to the Board of Education and subsequently received its formal authorization for the disposal of various commodities on four separate occasions as listed below.

1. *February 7, 2006*: Declaration of one (1) 1986 Ford F250 4WD truck with 8' plow to be excess and approved for sale in a public bid to the highest bidder.
March 7, 2006: Awarded one (1) 1986 Ford F250 4WD truck to the highest bidder at a price of \$1,551.00.
2. *September 12, 2006*: Declaration of eight (8) different textbook titles to be excess (out of date) and to authorize the disposal of said textbooks.
3. *October 10, 2006*: Declaration of one (1) textbook title to be excess (out of date) and to authorize the disposal of said textbook.
4. *October 10, 2006*: Declaration of two (2) Ricoh photocopiers to be excess and to authorize the disposal of said photocopiers.

It should be noted that every effort was made to assess the re-sale value of the textbooks and photocopiers. For textbooks, the district contacted three used-textbook vendors: 1. Follet Educational Services; 2. Academic Book Services; and 3. Budget Text; to provide the titles and ISBN #'s of each textbook to assess market value. When no interest of purchase was indicated, the District then contacted local private/parochial schools to ascertain any interest in donated used textbooks. With there being no interest in purchase or donation, the final option was recycled disposal. The photocopiers were ten years old, non-functioning and determined to be non-repairable, therefore requested for disposal.

SUMMARY

The District welcomes the comments from the Comptroller's Audit. These comments provide support for the operational evaluation of the many business functions that had already been initiated by current District Administration. The Comptroller's Audit, along with the past two year's reports issued by the District's Independent External Auditor will be presented to the District's newly appointed External Audit Function for further review and assessment. The goal of District Administration has been and will continue to be the establishment of appropriately compliant business procedures that are consistent and adequately documented. The Comptrollers' Audit will be a vital resource to that end.

District Administration is appreciative of the professional manner in which the auditing staff conducted themselves. While the Comptroller's Audit did, in a few circumstances, lead to some differences of opinions or interpretation, the auditing team, as was previously mentioned, provided the opportunity for frank and open discussion with absolute professional courtesy. The efforts of the auditing team will impart positive support to the District's continuing efforts in updating its business operations.

APPENDIX B

OSC COMMENTS TO THE DISTRICT'S RESPONSE

Note 1

The external audit for the year ending June 30, 2005 states that the CPA “considered internal controls over financial reporting only to express an opinion on the financial statements, not to provide an opinion on internal controls over financial reporting.” The CPAs stated that their consideration of internal controls “would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.” Our audit disclosed that there were weaknesses that needed to be corrected. The fact that these procedures were put in place by a variety of different administrators and weaknesses were not disclosed by the independent CPA does not suggest that there is no need for improvement.

Note 2

The District’s response states that electricity and natural gas supplies were bid from 1998-2000 through an Ulster County BOCES consortium of school districts, of which Saugerties was one. Formal bidding was conducted at least twice during that time period. During our audit, we requested bidding information and documentation for review, but we did not receive such documentation. Attachment #1 of the District’s response indicates that records pertaining to the bids are “no longer available.”

Note 3

During our audit, the District did not produce documentation indicating that the purchase involved a “unique color.” There was no evidence in the Board minutes that the Board addressed and approved this purchase from a “sole source provider.”

Note 4

The documentation provided by the District to support this transaction did not include any indication that this vendor had an approved State contract. Therefore, even though the District was able to subsequently verify that VIRCO was a State contract vendor, we question how District managers could have processed the transaction and how the internal claims auditor could have approved the claim, without clear indication that it complied with District policy or State purchasing requirements.

Note 5

The Superintendent was reimbursed \$160 for actual travel mileage to attend a conference even though he received a \$450 monthly stipend as compensation for use of his personal vehicle in District business. Regardless of the District’s position and its counsel’s opinion on this issue, the fact remains that the Superintendent received \$450 a month for use of his personal vehicle, but was still reimbursed separately for his actual vehicle mileage to attend a conference.

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 appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, with the help of District personnel, 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 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 purchasing, claims processing, capital assets and consumable inventories for further audit testing.

Within the purchasing area we focused our attention on the approval of purchases, and approval of payment for various types of goods and services acquired, including purchase packets for reimbursement of expenses for officials and employees and credit card charges. We also focused on adherence to District policies and procedures, as well as pertinent laws and regulations related to purchasing. We examined the following records to determine the effectiveness of internal controls pertaining to the claims processing function and to identify any associated effect of deficiencies found in those controls:

- Vendor Payment History Reports
- Purchase Requisition Forms
- Warrants
- Purchase Orders
- Purchase Packets
- Multiple Account Transaction Reports
- Bid Files
- Listing of Board Members and Administrators
- Policy Manual
- Treasurer's Reports
- Minutes of the Proceedings of the Board of Education

Within the capital assets area, we focused our attention on computer/electronic equipment purchases. We examined the following records and reports in an effort to determine if capital assets and inventories were protected against loss, waste and misuse and to identify the possible effect if they were not adequately safeguarded:

- 2001 Appraisal Report
- Inventory of All Technology Equipment
- Vendor Payment History Reports
- Warrants
- Treasurer's Reports
- Purchase Packets
- Multiple Account Transaction Reports

Within the consumable inventories area, we focused on fuel, food and transportation materials/supplies, based on the perceived risk associated with them, to determine whether they were adequately protected against loss, waste and misuse. Tests of fuel inventories included interviewing the Superintendent of Buildings and Grounds and other District personnel, inspecting the fuel storage tank area and examining records of fuel purchased, used and onhand. Tests of food included interviewing the Cafeteria Manager and inspecting food, beverages, and food-related storage sites. We also examined records of these commodities, including the Junior/Senior High School Cafeteria Inventory List and the Elementary School Cafeteria Perpetual Inventory Records. We also observed the operations of the Junior/Senior High School cafeteria. Tests of transportation materials/supplies included inspecting storage sites.

During this audit, we examined the records and reports of the Treasurer of the District for the period July 1, 2004 through December 21, 2005. To accomplish the objectives of this audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed appropriate District officials in order to obtain an understanding of the organization and the District's accounting system and to identify key personnel.
- We reviewed District policies and procedures and evaluated their adequacy.
- We reviewed the District's financial records and reports to ensure that transactions were properly recorded.
- We interviewed appropriate District officials to learn about procedures used to prepare and approve purchase packets for payment. We reviewed 44 purchase packets in the 2004-05 and 2005-06 fiscal years to determine if payments were properly supported, approved and recorded in accordance with management's directives and legal requirements.
- We interviewed appropriate District officials to learn about procedures used to control capital assets and consumable inventories. We reviewed the capital asset records that were compiled in 2001 and the "Saugerties Central School Inventory of All Technological Equipment." In addition, we reviewed purchases of capital assets in fiscal years 2004-05 for additions to the asset records. We also reviewed selected District records for deletions to the records.

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

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