



Stockbridge Valley Central School District

Internal Controls Over Treasury, Accounting and Claims Auditing Duties, Payroll and Capital Assets

Report of Examination

Period Covered:

July 1, 2004 - June 30, 2005

2006M-11



ALAN G. HEVESI

Table of Contents

	Page
AUTHORITY LETTER	3
EXECUTIVE SUMMARY	5
INTRODUCTION	7
Background	7
Objectives	7
Scope and Methodology	8
Comments of Local Officials and Corrective Action	8
TREASURY, ACCOUNTING AND CLAIMS AUDITING DUTIES	9
Treasury and Accounting Duties	9
Internal Claims Auditor	10
Recommendations	11
PAYROLL	13
Individual Time Records and Supervisory Approval	13
Final Review	14
Recommendations	14
CAPITAL ASSETS	15
Recommendations	16
APPENDIX A Response From Local Officials	17
APPENDIX B OSC Comments to Responses from District Officials	24
APPENDIX C Audit Methodology and Standards	25
APPENDIX D How to Obtain Additional Copies of the Report	27
APPENDIX E Local Regional Office Listing	28

State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

May 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 Stockbridge Valley Central School District — Internal Controls Over Treasury, Accounting and Claims Auditing Duties, Payroll and Capital Assets.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article 5, 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 Stockbridge Valley Central School District (District) is governed by the Board of Education (Board) which is comprised of 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 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 an Internal 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, accounting records and reports are largely those of the Business Administrator and the Treasurer. All financial transactions are processed by the Madison-Oneida BOCES (BOCES) in conjunction with a computer at the Regional Information Center.

Scope and Objectives

The objective of our audit was to examine the District's internal controls relating to treasury, accounting and the internal claims auditing duties, payroll and capital assets 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 treasury, accounting and the internal claims auditing duties?
- Did the Board implement adequate internal control policies and procedures over the payroll process?
- Did the Board implement adequate internal control policies and procedures to protect and account for District capital assets?

Audit Results

We found instances where the Board had either not established critical internal controls or controls that had been established were not implemented and operating effectively. As a result, the District is vulnerable to the possibility of errors and/or irregularities occurring and not being detected.

The assignment of job duties at the District does not provide for adequate segregation of duties (checks and balances) over financial transactions. A BOCES employee performs certain duties which are

incompatible when performed by one employee. All the District's financial transactions are processed by the Madison-Oneida BOCES in conjunction with a computer at the Regional Information Center. The District's Treasurer and Business Administrator transmit financial information to BOCES which is then entered by a BOCES employee into the accounting system. The BOCES employee who enters the financial data into the system also prepares occasional manual checks and reconciles District bank accounts. This BOCES employee's functions are incompatible.

We also found that the Treasurer does not directly oversee the process whereby her signature is electronically applied to District checks. As a result, District officials have no assurances that signed checks are being produced for only legitimate District expenses. Furthermore, the District's accounting software provides tools helpful to financial oversight that are not being utilized. The computer system can generate reports detailing vendor changes, user access and manual checks that could be used to monitor financial activity, something which is critically important when there is poor segregation of duties.

According to District policy, clerical personnel directly involved in accounting and purchasing functions are prohibited from being the District's Internal Claims Auditor and the Board expects the Internal Claims Auditor to conduct a thorough review of all claims. We found that the District's Internal Claims Auditor is also the Tax Collector and treasurer of the student activity funds, contrary to District policy. She also does not audit the actual claims as outlined in the policy. As a result, there is no independent verification that claims paid are for necessary and actual District expenses.

Individual time records for the cafeteria staff did not indicate daily in and out times, meal breaks and total hours worked and time records for cafeteria and custodial staff did not include supervisory approval. In addition, a final review of payrolls was not performed by someone independent of the payroll preparation process. As a result, we could not determine whether cafeteria staff was paid for the appropriate number of hours worked.

Finally, District officials did not ensure that capital assets are protected from loss by maintaining complete, accurate, up-to-date perpetual inventory records, conducting periodic inventories and decaling or tagging all District assets.

Comments of District Officials

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

Introduction

Background

The Stockbridge Valley Central School District (District) is located in the Towns of Eaton, Lincoln, Smithfield, Stockbridge and the City of Oneida in Madison County as well as the Towns of Augusta and Vernon in Oneida County. There is one school in operation within the District, with approximately 560 students and 100 full and part-time employees. The District's budgeted expenditures for the 2005-06 fiscal year are \$7.8 million funded primarily with State aid, real property taxes and grants.

The District is governed by the Board of Education (Board) which is comprised of 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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the Board's direction. On an annual basis, the Board appoints an Internal Claims Auditor who assumes the Board's powers and duties in regard to approving or denying claims against the District. Responsibilities relating to the District's finances, accounting records and reports are largely those of the Business Administrator and the Treasurer. All financial transactions are processed by the Madison-Oneida BOCES in conjunction with a computer at the Regional Information Center using a software package known as Finance Manager. The District's financial statements undergo an annual audit by an independent CPA firm.

The District's internal controls are a process effected by the Board, department heads, and other personnel, and are designed to provide reasonable assurance regarding the achievement of the Board's objectives. It is essentially a coordinated set of policies and procedures designed to help ensure that financial reporting is accurate, laws and regulations are complied with, and the District operates efficiently and effectively. A good system of internal control can help prevent or identify errors and/or irregularities in a timely manner.

Objectives

The objectives of our audit was to examine the District's internal controls relating to treasury, accounting and the internal claims auditing duties, payroll and capital assets. Our audit addressed the following related questions:

- Did the Board implement and monitor adequate internal controls relating to the District's treasury, accounting and the internal claims auditing duties?

- Did the Board implement adequate internal control policies and procedures over the payroll process?
- Did the Board implement adequate internal control policies and procedures to protect and account for District capital assets?

**Scope and
Methodology**

During this audit we examined the internal controls relating to treasury, accounting and the internal claims auditing duties, payroll and capital assets of the Stockbridge Valley 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 C of this report.

**Comments of
Local 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 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.

Treasury, Accounting and Claims Auditing Duties

An internal control system, which is established by management and implemented by District officials, is the integration of the activities, plans, attitudes, policies and efforts of the people of an organization to provide reasonable assurance that the organization will achieve its objectives. The foundation of any effective control environment is competent managers with integrity that attentively monitor operations. Having a good control environment helps ensure that all employees follow District policies and procedures.

We identified internal control weaknesses in the District's operations relating to treasury, accounting and the internal claims auditing duties that could lead to errors or irregularities occurring and not being detected.

Treasury and Accounting Duties

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.

The assignment of job duties at the District does not provide for adequate segregation of duties (checks and balances) over financial transactions. All the District's financial transactions are processed by the Madison-Oneida BOCES in conjunction with a computer at the Regional Information Center. The District Treasurer and Business Administrator transmit financial information to BOCES which is then entered by a BOCES employee into the accounting system. The BOCES employee who enters the financial data into the system also prepares occasional manual checks and reconciles District bank accounts. These job duties are incompatible when performed by one person. This weakness in internal controls is further compounded by a lack of sufficient management oversight. A BOCES supervisor performs only a limited review of the bank reconciliations by comparing the adjusted bank balances to the general ledger balances. Moreover, although a copy of the bank reconciliations is provided to the Board as part of its monthly financial report, no District official reviews the bank reconciliation, bank statements or cancelled checks. District personnel can view the bank statements online, but the actual statements and cancelled checks are sent to and stored at the BOCES.

District checks require the Treasurer's actual signature or a facsimile of the Treasurer's signature either affixed by the Treasurer or affixed under the Treasurer's direct supervision. Except for the occasional manual checks which are issued when a disbursement cannot wait until the next regularly scheduled disbursement period, District checks are computer generated with the Treasurer's signature imprinted on them. The Treasurer's signature is applied to the check when the District's disbursement records (payrolls and warrants) are processed by BOCES at the Regional Information Center. This procedure does not allow for the Treasurer's direct supervision over the signature process. As a result, District officials have no assurances that signed checks are being produced for only legitimate District expenses.

We also noted that the District's accounting software provides tools helpful to financial oversight that are not being utilized. The computer system can generate reports detailing vendor changes, user access and manual checks that could be used to monitor financial activity, something which is critically important when there is poor segregation of duties.

Internal Claims Auditor

Another important aspect of the District's control environment rests with the position of Internal Claims Auditor. The Internal Claims Auditor assumes the Board's powers and duties of approving or denying claims against the District. The appointment of a highly ethical, inquisitive Internal Claims Auditor who has a clear understanding of what is expected, and 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. According to District policy, the Internal Claims Auditor should not be involved in any other business or accounting functions within the District.

The District's financial management policy¹ describes certain persons who are prohibited from holding the office of Internal Claims Auditor and also establishes the Board's expectations for the auditing process. For example, clerical personnel directly involved in accounting and purchasing functions are prohibited from serving as Internal Claims Auditor. The policy also states that the Internal Claims Auditor should determine that the proposed payment is for a valid and legal purpose; the obligation was incurred by an authorized official of the District; the items for which payment is claimed were in fact received or, in the case of services, that they were actually rendered; the obligation does not exceed the available appropriation; and the submitted voucher is in the proper form, mathematically correct, does not include previously paid charges and is in agreement with purchase order or contract upon

¹ Adopted July 12, 2005.

which it is based. The Internal Claims Auditor should also be alert to any indications of fraud, abuse or illegal acts.

The District's Internal Claims Auditor is also the Tax Collector and treasurer of the student activity funds. In these non-audit positions, the Internal Claims Auditor reports directly to the Business Administrator and sometimes processes purchase orders. This is contrary to District policy and represents an incompatibility that could result in errors or irregularities occurring and not being detected.

Furthermore, the Internal Claims Auditor told us that she merely compares the computer generated checks to the warrant to verify that the amounts and payees agree. She never sees the claims and does not determine their validity as required by the District policy. After the comparison is complete, she signs the warrant certification authorizing payment of the claims by the Treasurer. The District also occasionally issues manual checks in instances where a claim must be paid before the next normal payment cycle. Manual checks are prepared at either the District or BOCES depending on the time available to issue the check and a warrant is prepared after their issuance. The Internal Claims Auditor does not perform any procedures to claims relating to manual checks, not even signing the related warrants. These are significant internal control weaknesses. As a result, there is no independent verification that claims paid are for necessary and actual District expenses.

We reviewed approximately one hundred twenty claims paid in February and June 2005 totaling over \$380,000 for the purpose of determining whether they were for a valid, legal purpose, were sufficiently itemized, contained departmental approval, were mathematically correct, had an accurate appropriation code, agreed with the purchase order and warrant, and in the case of the sixty claims paid in June 2005, agreed with the cancelled check. We found no deficiencies in the actual claims reviewed.

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 practice of allowing checks to be signed by computer imprinted signature without the direct supervision of the Treasurer should be discontinued.
3. Oversight of the District's financial activity should be strengthened by having District personnel review the bank reconciliations,

bank statements and cancelled checks, and utilize accounting system reports that detail vendor changes, user access and manual checks.

4. The Board should review the Internal Claims Auditor's various duties for incompatibility. The Internal Claims Auditor should not be involved in the District's accounting and purchasing functions, and should report directly to the Board.
5. The Internal Claims Auditor should audit claims in accordance with the Board's policy and the Board should ensure that its policy is adhered to. Auditing procedures should be applied to claims paid by both computer generated and manual checks.

Payroll

As with all school districts, payroll and fringe benefits represent a significant portion of the District's annual budget. In the 2004-05 fiscal year, these expenditures amounted to approximately \$4 million. The large cost highlights the importance of good internal controls in this area.

We reviewed key controls over the payroll process to determine if they were appropriately designed and operating effectively. Our audit disclosed that individual time records for the cafeteria staff were not adequate to record hours worked, supervisory approval was not always indicated on cafeteria and custodial staff time records, and a final review of generated payrolls was not being performed.

Individual Time Records and Supervisory Approval

Properly designed and maintained time records are an important component of good internal controls over payroll and fringe benefit expenditures. Employees maintaining daily records of their hours worked and/or absences is an important component of these controls. These records help supervisors and staff processing payroll determine employees' regular and overtime (if applicable) hours and accumulated leave balances. Time records should contain the information necessary to account for an employee's entire workday, including starting and ending times, leave charges and meal periods. The records should be approved by the individual directly supervising the employee to certify that services were actually performed.

The District has five cafeteria employees who are paid on an hourly basis. Annual wages for the cafeteria were approximately \$65,000 in 2004-05. Individual time records for cafeteria staff consisted of weekly time clock cards. Employees did not use the time clock and the time cards were manually completed by writing "ok" next to the day of the week worked. There was no information to account for an employee's entire workday, including starting and ending times, and meal periods. In addition, our examination of time records for a four-week period disclosed that time records for three of those weeks lacked supervisory approval. As a result, we could not determine whether cafeteria staff was paid for the appropriate number of hours worked.

The District has eight custodial employees who are paid on an hourly basis. Annual wages for custodial staff were approximately \$185,000 in 2004-05. Our examination of time records for a four-week period disclosed that time records for three of those weeks lacked supervisory approval.

Failure to maintain adequate individual time records results in a lack of documentation to support and verify that all employees worked the hours for which they were paid. When the Board does not require employees to complete appropriately detailed time records and direct supervisors to approve those records, employees may not be paid for the appropriate number of hours worked.

Final Review

Good internal controls require that someone independent of the preparation process perform a final review of completed payrolls. The review should verify that payrolls are based upon actual hours or days worked, or authorized leave time; verify that the Board authorized the hourly rates or annual salaries used; compare the net payroll checks to the payroll journals; and review the payroll for reasonableness.

The District has not developed adequate procedures for verifying the accuracy of processed payrolls. According to the Treasurer, who is responsible for preparing the payroll, each pay period the processed payroll report generated by BOCES is returned to the District and she reviews the hours of the bus drivers and anyone else who has overtime hours. The remainder of the payroll is not reviewed. The Superintendent indicated that he only reviews the report for any checks that seem out of line with the position of the employee and then signs the payroll indicating his approval.

The Board is responsible for establishing a system of checks and balances so that one person does not exercise control over all or most parts of the payroll process. The failure to have someone independent of the payroll preparation process perform a final review of completed payrolls increases the risk that employees could be paid inappropriate amounts or payments are made to other than legitimate District employees.

Recommendations

6. Individual time records for the cafeteria staff should indicate daily in and out times, meal breaks and total hours worked. Time records for cafeteria and custodial staff should include supervisory approval.
7. The Board should ensure that procedures to verify the accuracy of payrolls are implemented. Someone independent of the payroll preparation process should review final payrolls to verify that they are based on actual hours or days worked, or authorized leave time; verify that the hourly rates or annual salaries used were authorized; compare net payroll checks to the payroll journals; and review the payroll for reasonableness.

Capital Assets

Capital assets are those assets that have a useful life of more than one year and include such things as land, buildings and building improvements, furnishings, vehicles and electronic equipment such as computers. The District's inventory of capital assets represents a significant investment of resources. As of June 30, 2005 the District reported roughly \$19.5 million in capital assets of which approximately \$17 million was for land, buildings, and improvements other than buildings and \$2.5 million was for equipment.

District officials must ensure that capital assets are protected from loss, that their value is maintained and that they are used effectively. This can be accomplished by adopting policies, maintaining perpetual inventory records, conducting periodic inventories and establishing other safeguards such as tagging all assets as belonging to the District. Periodic physical inventories of all capital assets are necessary to help ensure the accuracy and completeness of recorded amounts. Periodic physical inventories can also identify obsolete assets. The results of these counts should be compared to detailed inventory records and any discrepancies investigated.

The District's inventory policy² states that "A perpetual inventory of all personal property shall be maintained" and "All valuable personal property having a unit resale value of \$250.00 or more shall be inventoried once annually." Capital asset records are maintained using the AssetMaxx software program. The records are updated annually for additions by running a report from the District's accounting system of all capital expenditures. Any items declared as surplus by the Board are disposed of after their identification tags are removed. The tags are then used as the basis for deleting items from the inventory records. Signed loan agreements are used when band equipment is loaned to students or computers are loaned to teachers. An annual physical inventory is not conducted; however, the Business Administrator and Head Custodian along with a teacher and one other individual (usually the Safety and Risk Coordinator for BOCES) do an annual visual walk through of all facilities.

Our examination of the District's policies, practices and procedures relating to capital assets disclosed the following deficiencies:

- We selected five capital asset purchases made during 2004-05 and traced them to inventory records. We found one purchase

²The policy was adopted January 12, 1988 and revised August 22, 2005.

of three Ethernet switches with a total value of \$8,766 was not recorded in the inventory records.

- We selected 12 items from the inventory records and attempted to view the actual asset. We could not find one item and three other items were not tagged. We were not able to locate either a baritone horn valued at \$1,207 listed in the inventory records or a loan agreement for the instrument. The instrumental music teacher told us that it may be on loan to another district or in a repair shop. The three items that were not identified by some method such as serial numbers, decaling or tagging were an overhead projector, computer monitor and computer printer.

Recommendations

8. Complete, accurate, up-to-date capital asset records should be maintained. Physical inventories should be conducted periodically and the results compared with the records. Any differences should be promptly investigated and resolved.
9. Each piece of property should be identified by some method such as serial numbers, decaling or tagging. Any identification tag or decal should also have the name of the District on it.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

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

STOCKBRIDGE VALLEY CENTRAL SCHOOL
P.O. Box 732, 6011 Williams Road
Mumsville, NY 13409-0732
Fax (315) 495-4492

BOARD OF EDUCATION

Michael P. Ott, President
Lee L. Menning, Vice President

Tamara "Tammie" March
Jacob Byron
Gwen Isbell
Jay Pokorny
John Wagner

March 23, 2006

Dr. Randy C. Richards
Superintendent of Schools
495-4400

Beth S. Lamb
Business Administrator
495-4445

Mary Anne Fritz
K-12 Principal
495-4550

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

Dear [REDACTED],

The Stockbridge Valley Central School District performed very well during the recent Internal Controls Audit by the New York State Comptroller. I am writing as required, according to the Exit Conference Checklist presented during an exit interview and Draft Report by [REDACTED] on 2/22/06 concerning an Internal Controls Audit of the SVCS District.

Overall, I am very pleased and proud of the staff of the Stockbridge Valley Business Office and our partners at the Central Business Office (CBO) of the Madison Oneida BOCES in our efforts to protect the Taxpayer's money. I have felt all along that having BOCES perform the CBO function adds yet another layer of fiscal segregation and protection for our taxpayers and is something not typically found in larger districts.

Per the exit interview, I have been asked to respond to the audit report to explain what I think about the report and how the District plans on addressing the recommendations. This Control Audit follows a very successful and positive independent audit of the year ended June 30, 2005 by D'Arcangelo & Co. LLP and issued August, 2005 which spoke to the financial condition of the district. Nevertheless, that audit was also very successful.

By contrast, the Comptrollers Audit was an opportunity to audit and increase our fiscal controls and further protect the taxpayer by addressing areas of concern cited in the Comptrollers DRAFT Audit Report. I appreciate that we were the first school in the Madison Oneida BOCES and surrounding area to be audited and my staff complied readily with requests for documents and other information during interviews. To be sure, it is somewhat perplexing as to why SVCS was audited first when we were not even identified on the Comptrollers Website as a school to be audited. Regardless, our experience with the audit here at SVCS is certain to be helpful not only to our District but to the audit team and their audits of other school districts.

See
Note 1
Page 24

My specific reactions are that:

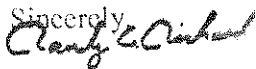
Although noble in its intent to protect Taxpayers, this audit, following the actions of dishonest School Administrators from Long Island, is yet another unfunded mandate. With the state policy changes requiring an Internal Auditor comes the cost which could be as high as \$60,000 if the District were forced to hire a 1.0 Full Time Equivalent person for the position. A more likely scenario is that SVCS would actually pay \$7,500 utilizing a shared service through BOCES. Regardless, consider the cost when under 2005-06 budget figures, a 1% increase in the Tax Levy, only raised approximately \$19,000. Money which could have been spent on students and their learning while addressing the sharp increases in fixed costs such as Utilities and Employee Health Insurance. Again, no additional revenues follow this mandate and they certainly should have, especially for small school districts such as ours.

See
Note 2
Page 24

The depth of the audit was surprising when one considers that the audit team spent over 2.5 months in the district examining our procedures. Despite the thoroughness, there were only eight recommendations. None of which appear insurmountable but certainly will be handled in an expedient fashion. Consider that five of the recommendations (1, 2, 3, 8, & 9) call for a change in procedures between the District and CBO. Given our strong relationship, they should be easily corrected. The remaining Four (4, 5, 6, & 7) will be addressed through changes in local policy or procedure. Recommendation seven is one that I'm not sure that the auditors fully understood as the District already has four layers of control in place.

Having said all of that, I have prepared a plan for each of the "recommendations for improvement" and established a date for their implementation. It is attached for your review.

In summary, I am proud of the District's performance under this audit and anticipate that the majority of recommendations will be addressed and corrected by June of 2006. Further, SVCS will continue to modify and strengthen fiscal controls and procedures as needed in order to protect our taxpayers while remaining open to suggestions for improvement.

Sincerely,


Dr. Randy C. Richards

SVCS Action Plan per Comptrollers Audit

Treasury, Accounting and Claims Auditing Duties

1. The district agrees that a separation of duties would be appropriate in regards to bank reconciliations. Therefore, the district will change our current process and instead reroute bank statements back to the district for review prior to being forwarded to BOCES for the actual accounting entry by their personnel. The district will also have the District Treasurer write manual checks when deemed necessary, here in the District instead of sending them to BOCES. See the enclosed March 1, 2006 letter from District Treasurer Kelly Johnson to a representative of the JP Morgan Chase Bank.

April 2006

2. Note that recommendation number two was later omitted per a phone conversation between District Business Administrator Beth Lamb and [REDACTED]

See
Note 3
Page 24

3. The item will be handled in the same fashion as recommendation number 1. In addition, we agree to use existing software to monitor financial activity. Stockbridge Valley is only in its second year of using Finance Manager Software. The district will work with the RIC to provide additional training on Finance Manager software to our Business Office Staff during the spring of 2006. As of this writing, an initial training session for running Accounting System Reports was conducted on March 20, 2006. Reports are anticipated to be generated on a monthly basis.

April 2006

4. Currently, the District's Tax Collector is a Civil Service employee and serves as the Internal Claims Auditor. The District will develop a new job description and list of job duties, aligned with BOE policy, for the Claims Auditor making the position confidential to the BOE. It will be necessary to identify an appropriate individual to perform these duties that is not involved in the accounting & purchasing function, nor has a direct conflict with the BOE as a family member.

To be sure, the small size of this district coupled with a lack of area jobs means that the District employs many BOE's family members' creating potential personnel/BOE conflicts and making it difficult to ensure impartiality. This entire process will be strengthened by a new suggested BOE policy on Financial Management recently developed by the Madison-Oneida Office of Labor Relations. This policy should be adopted by the BOE after a second reading in the Spring of 2006.

July 2006

In addition, it is likely that the District will purchase Claims Auditor services later as a shared service under a CoSer through Madison Oneida BOCES. The paradox here is that these duties are best performed by someone who has knowledge and understanding of

what is expected of the districts financial procedures and an outside person will lack this knowledge.

July 2006

5. As noted above, policy is already in place in anticipation of the required July 1, 2006 date. Working from this policy the new Internal Claims Auditor will audit claims and issue checks in accordance with the BOE policy. All computer and manual-claims will be addressed per the policy. I will recommend to the BOE that the Audit and Finance Committee periodically conduct a review to ensure that the policy is being followed. I will also ask our External Auditor to provide audit training to the members of the District's Budget & Finance Committee in order to help them perform their audit function.

July 2006

Payroll

6. A series of interventions will be implemented here. First a new time sheet will be developed and implemented for Food Service staff by 4/1/06 to replace the older time cards as they are not designed to include the necessary and required information. The Cafeteria and Building & Grounds Supervisor will then keep a more accurate record of daily in and out times, lunch and break times for employees, monitor them accordingly, and sign them weekly before submission to the Business Office.

April 2006

7. The Auditors seemed to overlook the fact that the individual Department Supervisors already review employee timecards for Staff before they are forwarded to the District Treasurer/Payroll Clerk who then summarizes all payroll information onto one combined weekly payroll and reviews payroll information with Supervisors. The payroll is then provided to the Business Administrator who performs another review of the Payroll summary and signs each page before final submission and processing to the BOCES Central Business Office (CBO). In total, there are already 3 layers of separation in the development of payroll.

Nonetheless, another step will be added in that a random review of time cards will be conducted. First, annually when all employees will sign for their paycheck when they pick up the W-2's. Second, a certain amount of time cards will be randomly selected each quarter and monitored for accuracy. The BOE's Budget and Finance Committee could ensure that this requirement is being met.

April 2006

Capital Assets

8. Some confusion exists here as many of our assets are already recorded in a grouped classroom contents inventory completed in 2002. The existing inventory can be strengthened by a room by room inventory conducted for typical items during the April, 2006 break. Inventory will also be done when a new employee is assigned a work space and when the employee leaves as part of the exit interview.

It was also indicated that computer equipment purchased through the RIC is of the greatest concern due to its portability. Immediately after the audit, this office received an updated computer inventory from the RIC on 2/27/06 and will reconcile it and file a copy with the RIC April 14, 2006.

9. In addition, we will commit to labeling or stickering all new equipment and property, with the District's name, once purchased or received before signing the invoice for payment and distribution. The District will consider the purchase of a "bar code reader" and appropriate hardware and software in order to expedite inventories.

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Dr. Randy C. Richards
Superintendent of Schools
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Beth S. Lamb
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Mary Anne Iritz
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March 1, 2006

Christina Gondeck, Middle Markets Rep.
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Bridgewater Place
500 Plum Street
Syracuse, New York 13204

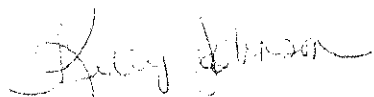
Dear Christina:

As discussed on the phone yesterday, I am requesting that all hard copies of the school's bank reconciliations/statements be mailed directly to my attention at Stockbridge Valley Central School instead of the Central Business Office at Madison-Oneida BOCES. This is a change in current procedure.

After our review, we will then sign off on them and forward the statements to the CBO at BOCES.

Thank you for your time and attention to this matter.

Sincerely,



Kelly Johnson
S.V.C.S. Treasurer

APPENDIX B

OSC COMMENTS TO RESPONSE FROM DISTRICT OFFICIALS

Note 1

District officials were given due notice of our intent to audit the District and were informed at the entrance conference that the audit was part of the Comptroller's School District Initiative that would ultimately result in an audit of all Districts in the State. The State Comptroller's website does not identify school districts scheduled for audits, as implied in the response.

Note 2

The Superintendent's statement that our audit is an unfunded mandate is incorrect. There is no cost to the District resulting from our audit.

Note 3

As discussed with District officials, the content of the report finding was changed after the exit conference. However, recommendation number two has not been deleted.

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 of Education 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 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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected controls relating to treasury, accounting and the internal claims auditing duties, payroll and capital assets for further audit testing.

To accomplish the objectives 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 District's EDP system for control weaknesses. Our purpose was to determine if controls over the District's EDP system were lacking or circumvented, and to recommend procedures to strengthen internal controls over computer-generated financial records.
- We reviewed the policies and procedures relating to the manner in which claims are reviewed and approved by the District's Internal Claims Auditor.
- We reviewed the key control activities of the Business office including the manner in which bank accounts are reconciled, duties are assigned, checks are signed and journal entries are accomplished.

- We examined paid claims for compliance with Board policy and bidding laws.
- We examined policies, record keeping and other safeguards relating to District capital assets and located capital assets identified in District records.
- We tested selected records and transactions, and examined pertinent documents including cancelled checks.
- We reviewed timesheets, payroll journals, leave time records, and collective bargaining agreements or employee contracts.

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

APPENDIX D

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