



# Warsaw Central School District Internal Controls Over Financial Operations

Report of Examination

Period Covered:

July 1, 2004 - December 5, 2005

2006M-143



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# State of New York Office of the State Comptroller

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## 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 Warsaw Central School District — Internal Controls Over Financial Operations.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school district officials.

If we can be of assistance to you, or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government Services  
and Economic Development*



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

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

### **Scope and Objective**

The objective of our audit was to evaluate internal controls over the District's financial operations to ensure that District assets were properly safeguarded for the period July 1, 2004 through December 5, 2005. Because of deficiencies noted in the District's accounting for extra-classroom activity (ECA) moneys, we extended our testing of cash receipts and disbursements to February 28, 2006. Our audit addressed the following related questions:

- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively?
- Are internal controls over capital assets appropriately designed and operating effectively?
- Are internal controls over purchasing and claims processing appropriately designed and operating effectively?

### **Audit Results**

Our audit disclosed a lack a segregation of duties over cash receipts and disbursements relative to extra-classroom activity (ECA) funds and cafeteria deposits. The secretary to the Superintendent of Buildings and Grounds (Secretary) was appointed by the Board as the ECA Treasurer and, as such, is responsible for collecting, depositing, recording, and disbursing ECA moneys. No other District official periodically reviews the work performed by the Secretary. The Secretary also is responsible for making bank deposits of cafeteria receipts. The performance of all these duties by one person without compensating controls, designed to serve as a system of checks and balances, is a significant control weakness. Because one person has access to cash from the ECA fund and cafeteria receipts, and has the sole responsibility for recording all ECA transactions, that individual could misappropriate cash.

Our audit testing disclosed that ECA cash on deposit exceeded the recorded cash balances in the Secretary's ledgers (as of February 28, 2006) by \$2,400. Thus, money submitted by ECA clubs to the Secretary for recording and deposit were not all credited for the appropriate amount in the ledger maintained by the Secretary. Our audit testing disclosed ECA bank reconciliations that were not properly prepared or reviewed. Further, many deposits were not properly recorded in the ledgers, many were not made intact (that is, in the same order and form (cash or check) in which they were received), and several were not made to the appropriate bank account. Both ECA and cafeteria cash receipts were not deposited timely. Finally, we did not find sufficient documentation to support 38 of the 89 disbursements of ECA moneys we reviewed, amounting to \$27,104 (68 percent of total disbursements of \$39,628).

The Board has not adopted a comprehensive capital asset policy and the District failed to maintain adequate inventory records of its capital assets. While we were able to locate all 25 items we selected for testing, none were included on the District's capital asset inventory record. In addition, we located 39 of 40 laptop computers we selected for testing. The District's technology coordinator acknowledged the remaining computer was missing as of March 1, 2006. Finally, while District records indicated that each item inventoried was physically tagged (bar coded), we did not find any bar codes on any of the District owned assets we observed during our audit. Thus, the asset numbers assigned by the appraisal company in preparing the inventory record are of no value in terms of the ability to locate and verify the existence of any recorded items.

We tested 51 purchases made by the District between July 1, 2004 and June 30, 2005 to determine if purchase orders had been properly issued. For 13 purchases, the date of the vendor invoice was prior to the issuance of the purchase order. Thus, the purchase order was issued only to "confirm" the order. For two other purchases, there was no evidence that a purchase order had been issued. Ten of these 15 purchases originated in the Buildings & Grounds Department. In addition, we tested 26 claims, totaling \$174,587, that required verbal or written quotations from three or more vendors to comply with the District's procurement policy. For 15 of those claims (\$74,770 or 62 percent), no documentation existed to indicate that any quotes were obtained.

### **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 Warsaw Central School District (District) is located in Wyoming County, in western New York State. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are two schools in operation within the District, with approximately 1,050 students and 175 employees. During the 2004-05 fiscal year, the District's general fund expenditures totaled \$14.7 million, which were funded primarily with State aid and real property taxes. The District also collects a significant amount of money from two other sources: cafeteria revenues and extra-classroom activity (ECA) funds. During the 2004-05 fiscal year, cafeteria receipts totaled \$333,156, while ECA collections were reported at \$223,081.

The District maintains a large inventory of capital assets to support day-to-day operations. Capital assets have a useful life of more than one year and include such things as buildings, furnishings, vehicles, and equipment. As of June 30, 2005, the District reported approximately \$35.4 million in capital assets, of which approximately \$32.5 million was for buildings and \$2.9 million was for furniture and equipment.

The Board adopted written policies and procedures that require all purchases to be approved in advance by the purchasing agent,<sup>1</sup> and be accompanied by a purchase order. The policy further indicates that purchases made without prior approval and without a purchase order will not be approved, and the individual making an unapproved purchase will be responsible for paying for it. In addition, department heads must obtain quotations (either verbal or written, depending on the cost of the commodity) for purchases below the competitive bidding thresholds. The Board also designated a claims auditor to review and approve claims for payment on behalf of the Board. This individual reports directly to the Board and performs no other duties for the District.

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<sup>1</sup> The Board appointed the Business Administrator as purchasing agent.

## Objective

The objective of our audit was to evaluate internal controls over the District's financial operations to ensure that District assets were properly safeguarded. Our audit addressed the following related questions:

- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively?
- Are internal controls over capital assets appropriately designed and operating effectively?
- Are internal controls over purchasing appropriately designed and operating effectively?

## Scope and Methodology

We examined internal controls over cash receipts and disbursements, capital assets and purchasing for the period July 1, 2004 to December 5, 2005. Because of deficiencies noted in the District's accounting for ECA moneys, we extended our testing of cash receipts and disbursements to February 28, 2006.

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

## Comments of District Officials and Corrective Action

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Education Law Section 2116-a(3)(c) and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

## Cash Receipts and Disbursements

One of the Board's managerial responsibilities is to establish an adequate system of internal controls. A good system of internal controls provides reasonable assurance that District assets are properly safeguarded, accounting transactions are recorded and reported properly, pertinent regulations and laws are complied with, and work performed is monitored and routinely reviewed. For example, moneys collected should be deposited intact (that is, in the same order and form (cash or check) in which they were received) and in a timely manner, and every disbursement of District funds should have sufficient documentation to allow for a determination that it complies with District policies, and that the amount paid represents an actual and necessary District expense. Furthermore, an effective system of internal controls provides for the segregation of duties so that no single individual controls all phases of a transaction. When it is not practical to segregate duties because of limited staff resources, it is important for the Board to establish compensating controls. Such compensating controls would include the Board or other administrative staff periodically reviewing the work in question, rotation of duties, and mandatory vacations.

The District's independent public accountant (IPA) issued a qualified opinion on the ECA fund financial statements for the period ended June 30, 2005. Specifically, the IPA indicated that insufficient accounting controls were exercised over cash receipts from the point of collection by students, to the time the money was remitted to the secretary. We focused our audit testing on the financial activities performed by the Secretary relative to ECA transactions and cafeteria receipts.

### **Segregation of Duties**

Proper division of responsibilities should provide that no single individual controls most or all phases of a transaction. Concentrating key duties (e.g., recordkeeping, reconciling bank accounts, and making disbursements) by one individual significantly increases the risk that errors and/or irregularities might occur and go undetected and uncorrected. Segregation of duties is primarily designed to prevent or detect errors and fraudulent activity in a timely manner.

The Secretary was appointed by the Board as the ECA Treasurer. Accordingly, she is responsible for collecting, recording, depositing, and disbursing ECA moneys. ECA moneys are typically collected by students in the first instance and then remitted to a designated member of the activity club. The money is then turned over to the Secretary in a sealed deposit envelope with a form attached to the envelope indicating the name of the club, the amount of the deposit,

the student treasurer, the source of the money (e.g., magazine sales or bake sales), and the date remitted to the Secretary. The Secretary does not give the activity clubs a receipt to support the amount of money received from the club designee.

The Secretary also has the sole responsibility of recording all ECA collections and disbursements in a computerized accounting system to which only she has the password to access the system. The Secretary maintains two ECA bank accounts: one for elementary school activities, and the other for high school activities. She prepares checks, receives the bank statements, and prepares bank reconciliations of ECA cash in the bank to the cash balances in her accounting records. No other District official reviews the work performed by the Secretary.

The Board appointed the Business Administrator as Controller of the ECA accounts. In addition to co-signing ECA checks, initially prepared and signed by the Secretary, the Business Administrator is responsible for monitoring the Secretary's work as ECA Treasurer. However, we did not note any evidence of such monitoring by the Business Administrator during our review. When we inquired as to what documentation was provided to the Business Administrator at the time checks were presented for her signature, she indicated that she only receives the checks that require her signature and occasionally requests supporting documentation from the Secretary. The Board's policy handbook requires the claims auditor to audit and approve payments from the ECA accounts. However, the claims auditor has not audited any of these disbursements. Therefore, no one independent of the Secretary verifies whether the disbursements of ECA moneys are supported by documentation sufficient to establish the purpose or accuracy of the payments made. As a result of this significant control deficiency, we reviewed disbursements made during the 2004-05 fiscal year from four high school and one elementary school activities to determine whether adequate support was included. We did not find sufficient documentation, such as invoices and receiving slips, to support 38 of 89 disbursements, amounting to \$27,104 (68 percent of total disbursements of \$39,628) for the five activities.

The Secretary also is responsible for taking deposits of cafeteria receipts to the bank. The bank deposit slips are normally prepared by cafeteria staff from daily meal sales at the District's two cafeterias. However, the money is left in unlocked bags and placed in a drop box, which is located in a locked closet. We were told that only the Secretary and the Superintendent of Buildings and Grounds have a key to the closet.

The performance of all these duties by one person, without compensating controls designed to serve as a system of checks and

balances, is a significant control weakness. Because one person has access to cash from the ECA fund and cafeteria receipts, and has the sole responsibility for recording all ECA transactions, that individual could misappropriate cash. ECA moneys could be used to substitute cash from cafeteria receipts, and the improper use of ECA funds could be concealed by altering ECA records.

## **ECA Records**

An effective system of internal controls over cash receipts and disbursements ensures that accounting records are complete, accurate, and up-to-date; cash account reconciliations are properly performed in a timely manner; undeposited cash is physically safeguarded; and that moneys are deposited timely and intact and recorded properly. Funds that are not promptly deposited are at risk of theft or loss.

We noted that the Secretary's ECA records were not well organized. Check stubs, invoices and deposit receipts presented to us were in a box in no specific order. The Secretary could not provide us with a number of bank statements and the corresponding canceled checks for several months from both the prior and current fiscal years, and ultimately had to request a number of them from the bank.

Despite the fact that the District's procedures require that ECA moneys be turned over to the Secretary in a sealed envelope, the Secretary indicated that she has needed to open about half of the deposits she receives, particularly if the sealed envelope contains unrolled coins or lacks a deposit slip. We questioned how the Secretary would know if a deposit slip was prepared if the envelope containing the money was sealed. The Secretary claimed that in these cases, the club wrote on the envelope that a deposit slip was needed. The Secretary further claimed that the bank will not take unrolled coins; therefore, she needs to open the envelopes to roll the coins.

For ECA moneys, we obtained bank compositions for three deposits recorded in the February 2006 ledger, totaling \$9,795, and noted that these three deposits included cash totaling \$775. The remaining \$9,020 included checks that were dated as far back as November and December 2005. For another 24 deposits that we received bank compositions for, we tested their timeliness as well. For five, the deposit slip was not dated, so there was no evidence as to when the deposit was prepared. The remaining 19 deposits were not made in a timely manner. For example, one deposit, which totaled \$3,382 and included \$885 in cash, was recorded in the ledger as having been received from an ECA club on November 8, 2004. Another deposit, which totaled \$3,464 and include \$532 in cash, was recorded in the ledger as being received on November 19, 2004. Both these amounts were deposited on December 1, 2004. Furthermore, \$2,631 was recorded as being received on December 22, 2004. However, it was

not deposited until January 19, 2005. This deposit included \$1,297 in cash. Finally, an \$840 deposit slip prepared by a student activity treasurer was dated March 10, 2005. It was posted to the Secretary's ledger on May 10, 2005, and was deposited June 14, 2005. Again, not making deposits in a prompt manner substantially increases the risk of loss or misuse.

We tested monthly ECA bank reconciliations for three months (June 2005, November 2005, and February 2006) and noted errors on all of them. Specifically, checks that had actually cleared the bank by the date of the reconciliation were listed as outstanding on the bank reconciliation prepared by the Secretary. In addition, the Secretary was unable to provide us with any documentation to support the amount listed as deposits in transit. We also noted that the February 2006 bank deposits in the high school account exceeded recorded collections by over \$2,800.

We recalculated the adjusted bank balances and compared them to the cash balances recorded in the ECA ledger. As of February 28, 2006, ECA deposited cash exceeded the recorded cash balances in the Secretary's ledgers by \$2,400. Thus, ECA clubs that submitted money to the Secretary for deposit were not all credited for the appropriate amount in the ledger maintained by the Secretary. Because the Secretary did not always make deposits in a timely manner, we were unable to determine to which clubs this overage was due.

We noted two instances where the Secretary failed to accurately record deposits in her 2004-05 ledgers. First, a check for \$500 dated April 4, 2005 from a local restaurant was deposited to the elementary school account on May 12, 2005. However, we could not trace it to any of the elementary school activity ledgers. In addition, \$890 was deposited into the high school bank account on June 14, 2005, which agreed with the deposit form prepared by the club, indicating that \$890 was remitted to the Secretary. However, only \$90 was recorded on the Secretary's ledger for this club.

We also compared the 2005-06 extra-curricular deposit forms prepared by five high school and two elementary school club activities with the Secretary's ledger. The amounts recorded by the clubs on two forms, totaling \$235, were not recorded in the ledger, and another form for \$380 was recorded in the ledger as \$330 (\$50 short). It is unclear whether these amounts were deposited because deposits were not made intact.

The Secretary did not deposit ECA moneys into the proper bank account. In July 2004, two deposits, totaling \$2,838, were made to the elementary school account, but were collections from high school

activities and, therefore, should have been deposited into the high school bank account. These deposits were not recorded in any of the 2004-05 student activity ledgers. We note that if student treasurers or advisors were preparing their own deposits as directed, such errors would not occur, as they would only have deposit slips for the correct bank account. No evidence existed to indicate that the amount was properly transferred to the high school account.

The Secretary did not deposit cash receipts from cafeteria sales into the bank on a timely basis, based on our testing for the first four months of the 2005-06 fiscal year. For example, during October 2005, six bank deposits were made four or five days after the date listed on the deposit slip prepared by cafeteria staff. The failure to submit daily receipts for deposit in sealed envelopes, or in some other secure method, decreases the control over the funds.

## **Recommendations**

1. District officials should thoroughly review the processes and procedures used to account for ECA funds. This review should emphasize the Business Administrator's role in supervising ECA financial activities.
2. District officials should segregate the recordkeeping activities from the custody of cash.
3. District officials should ensure that the Secretary issues pre-numbered duplicate receipts for all funds at the point where they are remitted to another individual, after verifying the accuracy of the amount.
4. District officials should deposit and record all money in a timely manner in the proper bank account. Cafeteria money prepared for deposit should be stored in locked bags in a secure location.
5. The ECA Treasurer should properly document all outstanding checks and deposits in transit on the monthly bank reconciliations.
6. The District's claims auditor should audit all extra-curricular activity fund disbursements as directed by both resolution and policy of the Board of Education.
7. The ECA Treasurer should maintain records in an orderly manner and correct all errors as noted in this report.

## Capital Assets

District officials must ensure that capital assets are protected from loss, that their value is maintained and that they are used effectively. To safeguard capital assets, the District should have a comprehensive capital asset policy that describes the Board's objectives for capital assets and the records and procedures required to achieve those objectives. An effective capital assets policy includes a description of the duties of a designated property control manager, guidelines for the maintenance of asset records, provisions for periodic physical inventories, procedures for identifying items as belonging to the District, restrictions on access and/or use of assets, and procedures for disposing of assets. Periodic physical inventories of all capital assets are necessary to help ensure the accuracy and completeness of recorded amounts, and also can identify obsolete assets. The results of these counts should be compared to detailed inventory records and any discrepancies should be investigated to help reduce the risk of loss or theft.

The District's inventory of capital assets represents a significant investment of resources. As of June 30, 2005, the District reported approximately \$35.4 million in capital assets, of which approximately \$32.5 million was for buildings and \$2.9 million was for furniture and equipment.

The Board has not adopted a comprehensive capital asset policy and the District failed to maintain adequate inventory records of its capital assets.

In 2003, the Board hired an appraisal company to conduct an inventory of capital assets. The effective date of the inventory was January 14, 2004. However, since this report was prepared, District officials have not conducted a physical inventory of capital assets, and the Business Administrator has not sent any asset addition/deletion forms to the appraisal company, as is instructed in the January 2004 report. Furthermore, the inventory report that the appraisal company sent the District in July 2005 included the same information that was recorded in the report from the previous year. The Business Administrator said that she had not sent any asset addition/deletion forms to the vendor since the July 2003 inventory because the District has not purchased anything over the \$500 capitalization threshold. In our scan of vendor histories, we noted multiple purchases for items of a capital nature costing well in excess of \$500. We also noted that the District continues to pay the appraisal company each year for

updating the District's inventory report of capital assets without filing any addition/deletion forms with the company. Essentially, the District is paying the appraisal company \$300 annually to print the same report, with simply a different date.

We tested the physical existence of 25 items purchased between July 1, 2004 and December 31, 2004, which had an aggregate cost of \$42,363. We located all 25 items, but none were included on the District's capital asset inventory record.

In addition, we selected 40 laptop computers listed on the District's existing inventory records prepared by the appraisal company in January 2004 and were able to locate all but one of the computers. In a letter dated March 1, 2006 to the Business Administrator, the District's technology coordinator acknowledged the remaining computer was missing and indicated that it had been kept in the business office. Since we conducted our testing, the District surveyed all employees regarding computer equipment in their possession and developed an inventory of computer equipment.

While District records indicated that each asset inventoried was supposed to be physically tagged (bar coded), we did not find any bar codes on any of the District-owned items we observed during our audit. Thus, the asset numbers assigned by the appraisal company in preparing the inventory record are of no value, in terms of allowing District personnel to locate and verify the existence of any of the recorded items.

The failure to maintain accurate inventory records results in a lack of accountability over capital assets. As a result, the District faces an increased risk of loss or theft.

## **Recommendations**

8. The Board should adopt a comprehensive capital asset policy to track and account for all acquisitions and dispositions. This policy should designate individuals to perform periodic physical inventories of District assets and reconcile the items viewed with the property records, including investigating and resolving any discrepancies in a timely manner.
9. District officials should ensure that all capital assets have a tag affixed to them identifying them as District properties.
10. District officials should determine if the missing computer has been stolen and, if so, they should notify appropriate law enforcement officials.

## Purchasing

In general, the objectives of internal controls over purchasing are to ensure that every claim contains enough supporting documentation to determine that it complies with management's directives and established policy, and that the amounts claimed represent actual and necessary District expenses. There are various ways to achieve this objective. For example, a purchase order system can be used to help ensure that appropriations are available and that authorization was obtained to initiate the purchase. The inherent benefits of a purchase order system can be derived only if purchase orders are prepared, approved and issued before the acquisition of goods and services. The failure to do so limits management's ability to exercise timely and effective budgetary controls, and to prevent unauthorized purchases. In addition, an adopted procurement policy helps to ensure that competition is sought and that there is economical use of public moneys by facilitating the acquisition of goods and services of desired quality at the lowest price. However, strict and consistent adherence to the policy is necessary if true cost benefits are to be realized.

We tested 51 purchases made by the District between July 1, 2004 and June 30, 2005 to determine if purchase orders had been properly issued. For 13 purchases, the date of the vendor invoice was prior to the issuance of the purchase order. Thus, these purchase orders were issued only to "confirm" the orders. For two other purchases, there was no evidence that a purchase order had been issued. Ten of these 15 purchases originated in the Buildings and Grounds Department. These purchase orders do not appear to have been issued as a result of unforeseen occurrences or emergencies. Furthermore, there was no evidence indicating why the purchase orders were issued after the purchase was initiated.

We also tested 26 claims, totaling \$174,587, which required verbal or written quotations from three or more vendors to comply with the District's procurement policy. For 15 of those claims (\$74,770, or 62 percent), no documentation existed to indicate that any quotes were obtained. Although the District's procurement policy requires that employees pay for purchases that did not comply with the policy, District officials did not request reimbursements for those purchases.

The claims auditor serves a critical District function, since the individual assumes the Board's powers and duties with respect to auditing claims. This individual ensures that all vendor claims are proper, legal, and comply with District policies and procedures before

authorizing payment. While the claims auditor function could have served as an effective mitigating control, we found no evidence that the claims auditor raised questions or denied payment for failure to document compliance with the District's procurement policy for any of the transactions we tested.

The failure to implement, monitor and enforce appropriate internal controls increases the risk that District moneys could be used for purposes that are unauthorized, inappropriate or not in compliance with District policies.

## **Recommendations**

11. District officials should ensure that purchase orders are approved prior to making a purchase.
12. District officials should ensure that the required number of quotations are obtained for all purchases subject to the Board-adopted procurement policy, prior to initiating a purchase. The quotes obtained should be included with the invoice, purchase order, and other supporting documentation and presented to the claims auditor for review and approval prior to payment.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

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



# Warsaw Central School

Warsaw, NY 14569-1295

(585) 786-8000

December 11, 2006

██████████  
██████████  
Division of Local Government Services and Economic Development  
Office of the State Comptroller  
295 Main Street, Room 1050  
Buffalo, New York 14203-2510

Dear ██████████,

Please accept this letter as the official response from the Warsaw Central School District regarding the Draft Report of Examination for the audit conducted by your office. Thank you for providing us with the opportunity to respond and for the professional, thorough and helpful way in which this process has been conducted. We take our role as trustees of public confidence very seriously. These findings have given us a tremendous amount of guidance in how we can continue to improve as an organization and we appreciate your cooperation in this effort.

Although this is our official response letter, it will also serve as an outline for our Corrective Action Plan to be created in accordance with the Local Government and Management Guide. To this end, the following response has been organized by the areas outlined in your report and includes both a response and the corrective action being taken.

### Cash Receipts and Disbursements

During the course of your audit and immediately following, several actions were taken to address concerns noted with the segregation of duties, supervision of ECA financial activities, record keeping, process for making deposits, cafeteria deposits, claims auditor involvement, and important documentation. The following changes have been implemented:

1. Triplicate pre-numbered bank deposit slips are now used. This allows the advisor, bank, and ECA Treasurer to all keep a copy.
2. The ECA Treasurer copy of the bank deposit slip, once received from the bank, is attached to the form that is filled out by the club, which accompanies the deposit.
3. Deposits are made daily, without exception.
4. Bank reconciliation is done monthly, filed accordingly, and a copy is sent to the BOE quarterly per policy. School Business Administrator will review on a monthly basis.

DISTRICT OFFICE  
FAX (585) 786-8008

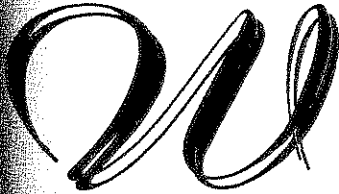
BUSINESS OFFICE  
FAX (585) 786-3265

HIGH SCHOOL OFFICE  
FAX (585) 786-3193

COUNSELING CENTER  
FAX (585) 786-3485

ELEMENTARY OFFICE  
FAX (585) 786-2537

SPECIAL SERVICES/CSE  
FAX (585) 786-2833



# Warsaw Central School

Warsaw, NY 14569-1295

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5. Pre-numbered duplicate receipts are given to advisor upon deposit of all funds.
6. Outstanding elementary funds have been transferred to the High School Account. As 5<sup>th</sup> graders moved to 6<sup>th</sup> this should have been complete. This will now be completed annually.
7. All disbursement requests are taken with the checks to the School Business Administrator. They are reviewed and require the SBA's signature to be processed.
8. The district's Internal Claims Auditor will review all disbursements.
9. Bank statements and all records are now maintained in an organized fashion, and easily accessible
10. Cafeteria funds are not deposited by the ECA treasurer.
11. Deposits are kept in locked bags and made "in-tact".
12. ECA Treasurer is no longer making deposits. Duties have been segregated.
13. Outside auditor has held training session with all club officers and advisors. Proper procedures were reviewed and taught. This training will be required annually for all officers and advisors.

## Purchasing

Your report outlines purchases made outside of purchasing procedures established by BOE policy. Specifically, you have cited purchases made without an approved purchase order and the need for quotations to be secured in accordance with the BOE's policy for procurement. The following steps have been taken to correct this area of need:

1. Department Heads and Principals who complete requisitions have been retrained and provided with the BOE policies regarding purchasing and procurement. (attachment A)
2. Purchases will not be made without an approved purchase order.
3. The SBA will ensure that the required number of quotations is obtained prior to initiating a purchase.

## Capital Assets

Your report cites the need for a comprehensive capital asset policy and for the maintenance of an adequate inventory record for all capital assets. The following steps have been or will be taken to address these issues.

1. The following comprehensive capital asset polices were adopted by the BOE on 12/5/07:

DISTRICT OFFICE  
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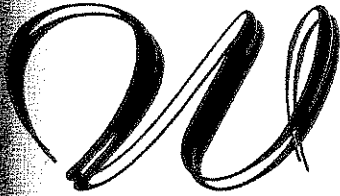
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# Warsaw Central School

Warsaw, NY 14569-1295

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2007

5620

Non Instructional/  
Business Operations

## SUBJECT: INVENTORIES

The Superintendent or his/her designee shall be responsible for maintaining a continuous and accurate inventory of equipment owned by the District in accordance with "The Uniform System of Accounts for School Districts."

All supplies and equipment purchased and received by the School District shall be checked, logged, and stored through an established procedure.

Uniform System of Accounts for School  
Districts  
(Fiscal Section)

Adoption Date 12/5/07

5621  
1 of 2

Non-  
Instructional/Busin  
ess Operations

## SUBJECT: ACCOUNTING OF FIXED ASSETS

The School Business Official shall be responsible for accounting for general fixed assets according to the procedures outlined by the Uniform System of Accounts for School Districts and GASB Statement 34 Regulations.

These accounts will serve to:

- a) Maintain a physical inventory of assets;
- b) Establish accountability;
- c) Determine replacement costs; and
- d) Provide appropriate insurance coverage.

Fixed assets with a minimum value established by the Board that have a useful life of one (1) year or more and physical characteristics not appreciably affected by use or consumption shall be inventoried and recorded on an annual basis. Fixed assets shall include land, buildings, equipment and materials.

The Board shall establish a dollar threshold as a basis for considering which fixed assets are to be depreciated. Such threshold shall ensure that at least 80 percent of the value of all assets is reported. However, it is recommended that such threshold

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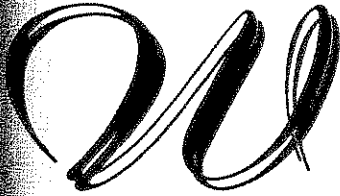
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shall not be greater than \$5,000. A standardized depreciation method and averaging convention shall also be established for depreciation calculations.

Fixed assets acquired having a value equal to or greater than the established threshold are considered depreciable assets and shall be inventoried for the purposes of GASB 34 accounting practices and placed on a depreciation schedule according to its asset class and estimated useful life as stipulated by the NY State Comptroller's Office or the IRS.

Assets shall be recorded at initial cost or, if not available, at estimated initial cost; gifts of fixed assets shall be recorded at estimated fair value at the time of the gift. A property record will be maintained for each asset and will contain, where possible, the following information:

- a) Date of acquisition;
- b) Description;
- c) Cost or value;
- d) Location;
- e) Asset type;
- f) Estimated useful life;
- g) Replacement cost;
- h) Current value;
- i) Salvage value;
- j) Date and method of disposition; and
- k) Responsible official.

The School Business Official shall arrange for the annual inventory and appraisal of School District property, equipment and material. Any discrepancies between an inventory and the District's property records on file should be traced and explained.

Adoption Date: 12/5/07

2. It was determined that the current SBA is in possession of the two laptops assigned to her. A complete district inventory has been completed and it has been determined that the laptop in question remains missing. The laptop is a Compaq Presario, serial number 1V93CFK6B1CK. It was acquired during the 1998-1999 school year for approximately \$1200.00. The approximate value of the laptop today is \$150.00. It has been reported as missing to our local law enforcement agency.

In order to prevent this from occurring again, the district is now having all laptops checked out to individual users through the school library system. A physical

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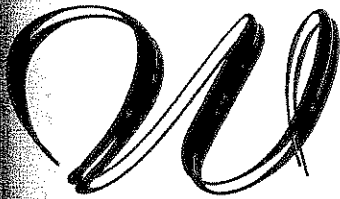
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inventory is also completed each year and discrepancies will be immediately and thoroughly investigated.

3. Procedures have been developed and implemented for the maintenance of a complete inventory of the district's capital assets. They are:

### Fixed Asset Procedures

1. All equipment valued at \$500 or higher or items deemed critical assets will be inventoried. Upon acquisition or payment of purchases, all items will be tagged for identification and recorded in the inventory change report. The reports will be submitted to Industrial Appraisal quarterly unless there is a substantial large purchase in which the named report will be submitted immediately.
2. At year-end, employees will list all equipment in their room. This will include but not be limited to desks, computers, printers and other assets with a useful life of 5 years or more and/or value of \$500 and higher. An annual inventory will be directed by the SBA following the submission of this list.
3. At year- opening, employees will list all equipment in their room. Again, this will include but not be limited to desks, computers printers and other assets with a useful life of 5 years or more and/or value of \$500 and higher.
4. The SBA will reconcile items 1, 2 & 3 annually.

In closing, thank you again for assisting us in revising, refining, and improving our procedures. The steps outlined here have been developed collaboratively with the assistance of our Business Office, Internal Audit Committee and Board of Education. We are diligently working together to protect the interests of the public and to continue earning their trust in our efforts.

Sincerely,

Kevin C. McGowan  
Superintendent of Schools

CC: Members of the Board of Education, Members of the Internal Audit Committee, Pam Sherwin, Mike Roberts

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## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

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

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its 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 cash receipts and disbursements, capital assets and purchasing for further audit testing.

For cash receipts and disbursements, we focused our attention on the procedures followed by the Secretary to the Superintendent of Buildings and Grounds, who also is the extra-classroom activity (ECA) Treasurer for the recording, depositing and disbursement of ECA funds and is responsible for depositing cafeteria receipts. We interviewed officials, observed transactions and examined financial records including bank statements, cancelled checks and deposit slips, daily cafeteria cash reports, ECA ledgers, and compositions of deposits provided by the bank. This was done to determine the effectiveness of internal controls pertaining to these functions and any associated effects of deficiencies in those controls.

For capital assets, we focused our attention on the policies and internal controls the District had in place to safeguard them. We interviewed officials, and examined capital asset records and paid claims to determine the effectiveness of internal controls pertaining to these functions and any associated effects of deficiencies in those controls.

We also selected, for review, a number of recent purchases, as well as a number of laptop computers from the District's existing asset records, based on the dollar significance and the inherent risk of loss associated with these items. We attempted to locate the selected items and verify that the asset number agreed with the capital asset records.

For purchasing, we focused our testing on compliance with the District’s procurement policy. We interviewed officials, observed transactions and examined vendor history reports, purchase orders, verbal and written quotes submitted by vendors, and paid claims to determine the effectiveness of internal controls pertaining to the purchasing function and any associated effects of deficiencies in those controls.

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

## APPENDIX C

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**AND ECONOMIC DEVELOPMENT**

Mark P. Pattison, Deputy Comptroller  
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