



# Waterloo Central School District Separation Payments, Payments to Board Members and Capital Assets Report of Examination

Period Covered:

July 1, 2004 - December 31, 2005

2006M-56



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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

September 2005

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 Waterloo Central School District — Separation Payments, Payments to Board Members and Capital Assets.

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

Forty-nine people, whose benefits were governed by various employment contracts, ended their employment with the District during our audit period. Some of these individuals received separation payments, including the former Superintendent.

The Board has adopted written policies for the accounting of capital assets. The policy charged the Business Manager with accounting for general fixed assets. As of June 31, 2005, the District reported approximately \$66,000,000 in capital assets.

### **Scope and Objective**

The objective of our audit was to evaluate the management controls over separation payments, capital assets and payments to Board members to ensure that District assets are properly safeguarded. Our audit addressed the following question for the period July 1, 2004 to December 31, 2005:

- Are internal controls over separation payments, payments to Board members, and capital assets appropriately designed and operating effectively?

### **Audit Results**

The District does not have adequate internal controls over separation payments, which resulted in Superintendent Bos being inappropriately paid \$4,292 when he resigned from the District. Superintendent Bos received \$1,260 for 63 days of unused sick accruals that he was not legally entitled to be paid for, and \$3,032 for 6 days of unearned vacation accruals that were not authorized by the Board.

The Board has not adopted a written policy that authorizes reimbursements to officials for using their personal Internet service for business purposes. During our audit period, the District reimbursed eight members of the Board \$5,132 for the cost of high-speed Internet service in their homes. We also noted that Board member Victoria Bauder-Rivet is also an employee of the Waterloo Teachers' Resource Center. The holding of both positions may be incompatible. At a minimum Ms. Bauder-Rivet creates the appearance that she is not independent whenever the Board considers a matter affecting the District's teachers.

Although the Board has adopted written policies for the accounting of capital assets, virtually no capital asset records were maintained or available for us to review. These policies charge the Business Manager with maintaining fixed asset records. The Business Manager stated that the most recent inventory was conducted by a third party vendor through June 30, 2000 and that no updating to the information has subsequently been completed.

### **Comments of District Officials**

The results of our audit and recommendations have been discussed with District officials and their comments have been considered in preparing this report. The District's response letter and our related comments can be found in Appendices A and B. Except as noted in Appendix A, District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

# Introduction

## Background

The Waterloo Central School District (District) is located in Seneca County. The District is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District has been operating with an interim Superintendent since Superintendent Bos's resignation on July 31, 2005.

There are five schools in operation within the District, with approximately 1,800 students and 550 employees. The District also maintains a district office/maintenance building and a transportation facility. The District's budgeted expenditures for the 2004-05 fiscal year were approximately \$25 million, funded primarily with State aid, real property taxes and grants. The Waterloo Teachers' Resource Center is funded by New York State, through a grant awarded to the District. The Center offers a variety of equipment, training sites and programs to provide teachers with assistance in meeting the needs of their students.

Forty-nine people, whose benefits were governed by various employment contracts, ended their employment with the District during our audit period. During the six month period, June 1, 2005 through November 30, 2005, 11 of these employees received separation payments. The former Superintendent was one of these individuals that received a separation payment; his was in the amount of \$4,292.

The Board adopted written policies for the accounting of capital assets in 1997 and reaffirmed on January 1, 2006. This policy charged the Business Manager with accounting for general fixed assets according to the procedures outlined in the Uniform System of Accounts for School Districts. As of June 30, 2005, the District reported approximately \$66,000,000 in capital assets. During our audit period the District expended over \$650,000 on equipment and furniture as part of a large capital improvement project.

## Objective

The objective of our audit was to evaluate the management controls over separation payments, capital assets and payments to Board members to ensure that District assets are properly safeguarded. Our

audit addressed the following question for the period July 1, 2004 to December 31, 2005:

- Are internal controls over separation payments, payments to Board members and capital assets appropriately designed and operating effectively?

**Scope and  
Methodology**

During this audit we examined internal controls of the District for the period July 1, 2004 to December 31, 2005.

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

**Comments of District  
Officials and Corrective  
Action**

The results of our audit and recommendations have been discussed with District officials and their comments have been considered in preparing this report. The District's response letter and our related comments can be found in Appendices A and B. Except as noted in Appendix A, 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.

## Control Environment

A vital component of in any control system is the “tone at the top,” or control environment. 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. To achieve these goals, management must first establish the clear policies and procedures that will govern operations, communicate these broadly, and then ensure that all employees comply with these policies and procedures. To establish the proper control environment, management must act with the highest ethical standards and must adhere to the same rules and regulations they expect all other staff to adhere to. Management must show leadership in carefully safeguarding the public resources that are entrusted to them.

### Separation Payments

To ensure that District personnel receive only the leave benefits that the Board intends for them, District-wide policies, collective bargaining agreements and/or individual employee contracts should properly stipulate entitlement to the accrual, use and payment of leave time. In addition, payments for unused leave should occur only where authorized by the Board in these documents or by resolution.

Our audit disclosed that 49 people terminated their employment with the District during our audit period. Several collective bargaining agreements and some individual contracts with the Board established the terms of employment for these former employees. All of these agreements establish policies and procedures for the payment of unused leave upon separation of employment. Our review of the final payrolls for 26 employees who retired or resigned between June 1, 2005 and November 21, 2005 disclosed that the District made proper separation payments to all eligible employees except for Superintendent Bos, who resigned effective July 31, 2005.

Superintendent Bos was inappropriately paid \$4,292 when he resigned from the District. This included \$1,260 for 63 days of unused sick accruals that he was not legally entitled to be paid and \$3,032 for six unearned vacation days.

Superintendent Bos’ contract stated that unused accumulated sick leave may be paid at a rate of \$40 a day up to \$8,000, but only at the time of his retirement. Because Superintendent Bos did not retire, but resigned, he was not entitled to be paid for unused sick leave

according to this contract stipulation. The contract also contained a clause that entitled Superintendent Bos to receive other fringe benefits to the same extent and in the same manner as paid to other District administrative employees. Superintendent Bos was paid for his unused accumulated sick leave at a rate of \$20 a day as allowed for in the Waterloo Education Leaders' Association agreement. However, Education Law Section 1711(3) prohibits references in a superintendent's contract to other employees' contracts. Thus, Superintendent Bos's contract, signed in 2002, which contains such a reference to other employees' contracts, was not in accordance with Education Law and the Board could not authorize the reimbursement in this manner.

In addition, Board President James Spina issued a memorandum to the Business Manager granting Superintendent Bos six additional leave days, allowing him to be paid (and not work) through his resignation date. District payroll records show that Mr. Bos was credited with and used six vacation days as a result of this memo. We could find no documentation that the Board ever authorized this additional leave. In addition, we asked three members of the Board and they stated that they were unaware that additional vacation days were awarded to Mr. Bos.

These overpayments occurred because the Board and District officials did not establish and implement policies and procedures for processing payroll. Further, the Board did not designate a District official, such as the claims auditor, to review proposed separation payments to confirm they are justified by contract terms or Board resolution before the payments are authorized. Unless the District corrects these control weaknesses, it is at risk of continuing to pay employees who leave the District for benefits they are not entitled to receive.

### **Reimbursement for Internet Services**

The Board has not adopted a written policy or resolution that authorizes the reimbursement to officials for the cost of Internet service. During our audit period, the District reimbursed eight members of the Board \$5,132 for the cost of high-speed Internet service in their homes. In reviewing the claims for reimbursement, we noted that a copy of the Board members' invoices was attached and that Board members were reimbursed for 100 percent of the cost of the internet service. In addition, there was no documentation provided to illustrate why these charges were necessary in the performance of their duties.

### **Incompatible Duties**

Mrs. Victoria Bauder-Rivet has simultaneously served as a member of the Board since July 1, 2005 and as the Director of the Waterloo Teachers' Resource Center (Resource Center) since September 12,

2002. From July 1, 2005 through December 31, 2005, she received \$11,120 in wages as Director of the Resource Center.

Section 316 of the Education Law authorizes school districts to operate, with State funding, teacher resource and computer training centers (Centers). These Centers are operated by a board, the majority of which must be composed of elementary and secondary school teachers, designated by the collective bargaining agent of the teachers who are served by the Center. The powers and duties of each Center's board include the employment of staff, budget control and expenditure of funds, and any other appropriate managerial or supervisory activities not otherwise prohibited by State or local law, or regulation of the Commissioner of Education.

As Mrs. Bauder-Rivet's employer, the board of the Resource Center determines the terms and conditions of her employment. Since a majority of the Resource Center's board are teachers employed by the District, Mrs. Bauder-Rivet's employment by the Resource Center and membership on the Board creates the appearance that she is not independent whenever the Board considers a matter affecting the District's teachers. This raises several issues.

First, there is the issue of compatibility of office. This relates to whether, or under what circumstances, one person may simultaneously hold more than one public office or position of employment. It is a well-established general principle that, in the absence of a constitutional or statutory provision prohibiting one person from holding two public positions, one person may hold two public positions unless they are incompatible. Two positions are incompatible if one is subordinate to the other or if there is an inherent inconsistency between the two positions. Because the Board frequently must consider and act on matters affecting the District's teachers there may be an inherent inconsistency between Mrs. Bauder-Rivet's two positions.

In addition to the compatibility issue, Section 806 of the General Municipal Law requires every school district to have a code of ethics setting forth standards of conduct for the guidance of its officers and employees. These standards must address disclosure of interest in legislation before the local governing body, private employment in conflict with official duties, and such other standards relating to the conduct of officers and employees as may be deemed advisable. The District provided us with an ethics policy adopted in 1997. The code of ethics did not contain pertinent provisions, such as requiring disclosure, or abstention and recusal when a member of the Board holds two public positions.

Finally, the courts of this State have held public officials to a high standard of conduct and, on occasion, have negated certain actions which, although not violating the literal provisions of any law or a local government's code of ethics, violate the spirit and intent of the statute, are inconsistent with public policy, or suggest self-interest, partiality or economic impropriety. In light of these cases, even if Mrs. Bauder-Rivet's two positions are compatible, and her holding the two positions does not violate the District's code of ethics, Mrs. Bauder-Rivet could provide the appearance of impropriety by participating in the discussion of, and voting on, matters coming before the Board which affect the District's teachers.

## **Recommendations**

1. District officials should only make separation payments when specifically authorized by the Board through resolutions, policies or proper employment contracts.
2. The Board, or its designated representative such as the audit committee, claims auditor or internal auditor, should monitor separation payments to ensure that the District's policies and procedures are followed.
3. The Board should take the appropriate steps to recover the improper separation payments made to the former Superintendent.
4. The Board should request that its attorney review any written employment contracts prior to approving the agreements.
5. The Board members should reimburse the District for the cost of Internet service. The District should not pay for Internet service in the homes of Board members or District officials without documentation that it is a necessary and actual expense of the District.
6. The Board should direct the District's attorney to determine whether Mrs. Bauder-Rivet's positions as a member of the Board and as Director of the Resource Center are compatible. The District's attorney should seek assistance from the State Attorney General's office on this issue. If the positions are determined to be incompatible Mrs. Bauder-Rivet's should resign one of the positions. If the two positions are compatible Mrs. Bauder-Rivet, to avoid even the appearance of impropriety, should abstain from participating in matters coming before the Board which affect the District's teachers.
7. The Board should review the code of ethics to ensure that it is adequate to avoid appearances of impropriety when a member of the Board holds a second public position.

## Capital Assets

Capital assets are those that have a useful life of more than one year and include such things as land, buildings, furnishings, vehicles and electronic equipment such as computers. The District's inventory of capital assets represents a significant investment of resources. As of June 31, 2005, the District reported roughly \$66,000,000 in capital assets. District officials must ensure that capital assets are protected from loss, that their value is maintained, and that they are used effectively. Capital asset protection is enhanced when quality records are maintained. Detailed records help establish accountability and allow for the development of additional controls and safeguards. Maintaining an inventory of capital assets helps to safeguard assets; helps to determine the adequacy of insurance protection; provides a means of planning for future replacement; and fixes responsibility for the care and safeguarding of equipment and property. An annual physical inventory count of capital assets is an important control for monitoring the accuracy of the asset records and determining the existence and condition of the assets.

Ideally one person (the property control manager) should have overall responsibility for tracking capital assets, and for the accuracy of asset records. The detailed records maintained by the property control manager must be complete, accurate and up-to-date. Each piece of moveable property should have a record that includes a description of the item (including make, model and serial number); the District's assigned identification number; the date, amount, vendor and claim number for the purchase; the department having custody and the location; and source of funds used to purchase the item.

The Board adopted written policies for the accounting of capital assets in 1997 that was reaffirmed on January 1, 2006. The policy charges the Business Manager with accounting for general fixed assets according to the procedures outlined in the Uniform System of Accounts for School Districts. If followed properly these policies would provide for the proper management and control of capital assets. However, virtually no capital asset records were maintained or available for us to review.

The District could not provide us with a comprehensive up-to-date listing of their capital assets. The Business Manager stated that the most recent physical inventory of District assets was conducted by a third party vendor through June 30, 2000 and was conducted in order

for the District to be in compliance with GASB-34. She also indicated that no updating to the inventory records has been completed, and that the District estimates the capital asset balances presented in their financial statements.

Although we observed that some District equipment had inventory tags affixed, many items were not tagged. For example, during our audit period the District expended over \$650,000 on equipment and furniture as part of a large capital improvement project. During our walkthrough of the new High School, we noted that none of this new equipment and furniture had been tagged and that access to these items was not always secured or monitored.

## **Recommendations**

8. The Board should require that a comprehensive inventory record of capital assets be completed and updated as assets are acquired or disposed of. Physical inventories should be conducted at least annually and the results compared with the information on the property records. Any discrepancies noted between actual and recorded inventory items should be promptly investigated and resolved.
9. Each piece of property meeting the criteria for inclusion in the asset inventory should be identified through the use of an asset tag. Newly acquired property should be inventoried and tagged prior to being placed into service.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



# Waterloo Central School District

DISTRICT OFFICES

109 WASHINGTON STREET, WATERLOO, NY 13165

TERRY S. MacNABB  
Superintendent of Schools  
Telephone (315) 539-1501  
Fax (315) 539-1504

TRACEY K. FLACH  
Assistant Superintendent  
of Curriculum & Instruction  
Telephone (315) 539-1502  
Fax (315) 539-1504

PATRICIA JOHNSON  
Business Administrator  
Telephone (315) 539-1510  
Fax (315) 539-1599

JAMES SPINA  
Board of Education, President  
Telephone (315) 539-1501  
Fax (315) 539-1504

August 21, 2006

[REDACTED]  
[REDACTED]  
Local Government Services &  
Economic Development  
Office of the State Comptroller  
Public Information Office  
110 State Street, 15th Floor  
Albany, NY 12236

Dear [REDACTED]:

This letter constitutes the response of the Board of Education of the Waterloo Central School District to the draft copy of the Report of the Examination for the Period Covered from July 1, 2004 through December 31, 2005 (2006M-56) and the discussion that occurred during the closing interview on August 7, 2006. The draft report of examination has been reviewed by the Board of Education, and on behalf of the Board, I would like to provide the following response to comments contained within the control environment section of the report, as well as, to the alternatives discussed at the closing interview.

### Separation Payments

The audit questions two distinct separation payments made to former Superintendent of Schools, Randy Bos who resigned effective July 31, 2005. The report states that Superintendent Bos was inappropriately paid \$4,292.00 when he resigned from the District and that this payment included \$1,260 for 63 days of unused sick accruals and \$3,032 for six unearned vacation days. The audit further questioned the provisions in Superintendent Bos' employment contract that he was entitled to other fringe benefits to the same extent and in the same manner as paid to other District administrative employees. While the report correctly points out that Education Law 1711 (3) prohibits references in a superintendent's contract to other employees' contracts, the Board takes a

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position that the contract does not refer to other contracts and that the reference in the audit report misstates the contract provision. The contract provision, which is found at paragraph 13 of the employment agreement states in relevant part as follows:

In addition to the annual rate of compensation specified in paragraph "4" of this agreement the Superintendent of Schools shall be entitled to receive, **to the extent permitted by law**, all those fringe benefits, not otherwise provided for in this Agreement, which now are, or which during the initial term or any extension of this Agreement may hereafter be, paid to District administrative personnel by **Board policy or resolution...**"

The employment contract clearly limits other benefits to those permitted by law and which are provided by board policy or resolution as opposed to employment contract or collective bargaining agreement. There is no reference contained within former Superintendent Bos' contract to benefits provided by other employment contracts or collective bargaining agreements. Even though the Board of Education disagrees with the reference in the draft audit, it does concur with the audit findings and recommendation to the extent that the Board misread former Superintendent Bos' contract and incorrectly paid Superintendent Bos the amount of \$1,260 for 63 days of unused sick leave accruals. Accordingly, the Board of Education will communicate with Dr. Bos and request that he return to the District the amount of the overpayment for the unused sick days.

See  
Note 1  
Page 22

The second portion of the separation payment was paid as a result of a memorandum prepared by Board President, James Spina to the Business Manager providing Superintendent Bos with six additional paid vacation leave days. Board of Education President, James Spina incorrectly believed that he was authorized to grant the additional time and that the Board of Education was in support of the grant of the additional time as part of the separation and transition process that occurred immediately preceding Dr. Bos' leaving the school district on July 31, 2005.

Even though the President of the Board of Education was in error in believing that he was authorized to grant the additional vacation days, the Board believes that it was the Board's error and not the error of the former Superintendent of Schools. Moreover, the Board believes that it was the intent of the Board to provide the additional vacation time. The provisions of section 92 of the General Municipal Law permit the governing Board

See  
Note 2  
Page 22

of a school district to grant vacations, sick leaves and leaves of absences to its officers or employees with or without pay.

Given that the Board of Education was in error with respect to the conferral of this additional benefit, the Board proposes that it submit a resolution to the Board to authorize the payment of the amount of \$3,032 for six additional vacation days. The Board further concurs with the recommendation of the audit that the Board as a whole or its designated representative such as the audit committee, claims auditor or internal auditor should monitor separation payment to insure compliance with existing employment contracts, collective bargaining agreements and District policies.

#### Reimbursement for Internet Services

The Board of Education concurs with the recommendation of the audit that a written policy or resolution authorizing internet service for members of the Board of Education should be adopted, and the Board will implement this recommendation on a timely basis. Even though there is no formal policy, the Board did decide to provide such service to its members in order to insure secure communications between and among board members, the Superintendent of Schools and other district officials. The Board disagrees with the recommendation of the audit that Board members should reimburse the District for the cost of internet service inasmuch as such service was for a public purpose and to permit the board members to conduct their official duties.

See  
Note 3  
Page 22

The audit conducted of the Plainedge Union Free School District dated December 16, 2004, Report No. S8-4129 provides the following in its recommendations for internet services:

7. The Board of Education should develop a written policy documenting when it is appropriate to provide internet services in the homes of school district officials. The policy should state why home internet services are necessary a business expense and designate whom the school district will provide with this service.

The Plainedge audit did not recommend or require that board members should reimburse the school district for the costs for internet services. Moreover, the audit clearly indicates that the provision of such services can be appropriate where there is a legitimate business need for such services. Accordingly, the Board of Education does not agree with

the recommendation that there should be a reimbursement for the cost of the internet services already provided.

The Office of State Comptroller rendered a similar recommendation with respect to the Central Islip Union Free School District in its audit dated August 19, 2005, Report No. S8-5-11. The recommendation is contained on page 17 and states:

12. The Board of Education should adopt a written policy that provides guidance to officials in determining whether telephone services are reimbursable. In addition, the District should only provide home internet services to officials when it serves an actual and necessary business need. In their written policy, the Board of Education should document its business rationale for providing internet services in officials' homes, and outline which school district positions require such service.

Again, as in the Plainedge audit, no recommendation to request board members to reimburse the school district for the services was made.

#### Incompatible Duties

The audit raises a question concerning the employment of one of the members of the Board of Education as the Director of the Waterloo Teachers' Resource Center. The audit correctly points out that section 2103 (4) states that no employee of the Board of Education may be employed by the Board. The Board of Education disagrees with the statement that the Board of Education has the responsibility of setting policies, salaries and evaluating job performance for the position of the Director of the Waterloo Teachers' Resource Center or that the Waterloo Teachers' Resource Center is subordinate to the Board of Education.

See Note 4 Page 22
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In fact, the provisions of Education Law §316 provide in subdivisions 6 and 7 that the Teachers' Resource Center Board is to be governed by its own Board, the majority of whom shall be teacher members designated by the collective bargaining agent of the teachers served by the teacher resource and computer training center. Moreover, the powers and duties of each teacher resource and computer training center board shall include policy formulation, the employment of staff or consultants, budget control and expenditure of funds. Clearly, the Board of Education of the Waterloo Central School

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District has no ability to control the employment, budget or expenditures of a teacher resource and computer training center.

The Board disagrees with the audit, statements concerning incompatibility of office. The Legislature of the State of New York has limited the role of a board of education and conferred autonomy on teacher resource and computer training center board. The Board of Education clearly does not exercise oversight of the teachers' center and matters pertaining to the teachers' center are not presented to or voted upon by the Board of Education of the Waterloo Central School District.

The Board of Education is cognizant that at some future time there is a potential for a conflict of interest, as opposed to compatibility of office, issue to arise. The Board believes that the recusal of any of its members that have direct contact with the Waterloo Teachers' Center Board would be an appropriate method by which conflicts could be avoided. Accordingly, the Board of Education disagrees that its Board member who is employed by the teachers' center should resign from one or the other position due to incompatibility of office.

Moreover, during the closing interview with staff members conducting the audit, it was discussed that the Board of Education could further distance itself from the Teachers' Center board by the adoption of contractual agreements to provide certain services from the school district to the Teachers' Center. Providing that these contractual services are permissible, the Board of Education would be willing to implement such agreements.

#### Summary

The Board of Education concurs with the recommendations of the audit numbered 1, 2, and 4.

The Board of Education agrees in part with recommendation 3 that it should take appropriate steps to recover the separation payment from former Superintendent Bos for the amount of \$1,260 for 63 days of unused sick leave accruals.

The Board agrees with recommendation 5 in part. The Board disagrees that its members should reimburse the school district for the cost of internet service. However, the Board concurs that an internet policy or resolution should be adopted in accordance with the audit recommendations.

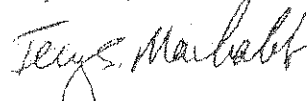
██████████  
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Finally, the Board of Education disagrees with recommendation 6 that its member should resign from employment with the Teachers' Center or the Board of Education because the Board does not believe that there is an incompatibility of office inasmuch as the provisions of Education Law §316 provide for the Teachers' Center Board to exercise control of its policy, employment, budget and expenditures and that given the statutory powers and duties of the Teachers' Center Board, that the Board of Education has no oversight function or control.

The members of the Board of Education would like to express our thanks to you for the professional manner in which the audit was conducted and for the courtesy extended to our staff and employees throughout the audit process. Should further discussion concerning this response be necessary, I would welcome the opportunity to provide you with any additional information that you need.

Respectfully submitted,



Terry S. MacNabb  
Superintendent of Schools

TM/dd

## APPENDIX B

### OSC COMMENTS TO THE DISTRICT'S RESPONSE

In response to comments in the District's response letter, we provide the following information.

#### Note 1

A reading of the complete paragraph cited and District correspondence clarifying the rationale for the rate paid to Superintendent Bos for accumulated sick leave supports the finding that the Superintendent's contract did contain a reference to the benefits provided by other employment contracts or collective bargaining agreements. The remainder of the paragraph in question follows below:

...Board policy or resolution including, but not limited to, life and other forms of insurance protection; retirement programs; tax sheltered annuities; physical examinations; and all other administrative employee fringe benefits. In the event that such benefit, not otherwise provided for in this agreement, as received by other District administrative employees exceed those which are specified in the Agreement, the Superintendent of Schools shall be entitled to receive such additional benefits to the same extent and in the same manner as paid to other District administrative employees.

#### Note 2

Regardless of who was responsible for the error, the law does not provide for making gifts of taxpayer dollars. We believe it sets an extremely bad tone at the top for the Board to ratify the Board President's actions rather than seeking recovery of this taxpayer money.

#### Note 3

During our audit, the District did not provide us with any documentation or explanation as to why home Internet services were a necessary business expense of the Board. If Internet service was not used for District business, it would be improper for the District to pay for personal Internet service.

#### Note 4

We have taken the District's response into consideration and have modified our final report.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

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

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, 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 payments to Board members, separation payments, and capital assets for further audit testing.

We determined that there were 49 individuals who left the employ of the District during the period July 1, 2004 through December 31, 2005 based on a review of the Board minutes. In addition, we reviewed any corresponding collective bargaining agreements or individual contracts for these employees to determine if the employees were eligible for such payments. We selected 26 employees to review further and then examined the payroll records for them to determine the effectiveness of internal controls pertaining to separation payments and any associated effect of deficiencies in those controls. We also interviewed the Superintendent, Business Manager and payroll clerk about the operating policies and procedures pertaining to the processing of payroll, and separation payments in particular.

Within capital assets, we interviewed appropriate District officials and employees to obtain an understanding of the District's process for recording and accounting for capital assets. We reviewed the District's financial records to determine if capital assets were properly recorded. We also conducted a walkthrough of the new high school to observe the location and security of newly acquired furniture and equipment.

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.

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