



Adirondack Central School District Internal Controls Over Financial Operations

Report of Examination

Period Covered:

July 1, 2005 — March 31, 2007

2007M-274



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2008

Dear School District Officials:

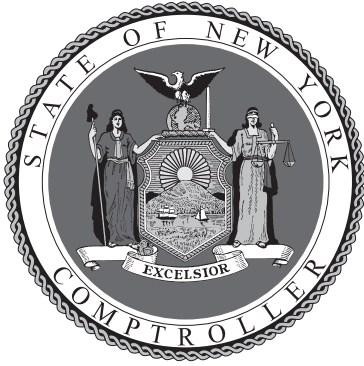
A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Adirondack Central School District, entitled *Internal Controls Over Financial Operations*. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Adirondack 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. The Treasurer is primarily responsible for the District's finances, accounting records, and reporting.

The District's financial and recordkeeping functions are performed by three employees in the Business Office: the Treasurer, the payroll clerk, and the accounts payable clerk. In addition, a Board-appointed Business Administrator is responsible for overseeing the operations of the Business Office. The Board appointed a claims auditor, effective October 1, 2005, to assume the powers and duties of approving and denying claims against the District.

Scope and Objective

The objective of our audit was to review the controls over cash disbursements and claims processing for the period July 1, 2005 to March 31, 2007. Our audit addressed the following related questions:

- Are internal controls over cash disbursements appropriately designed and operating effectively to adequately safeguard District assets?
- Did District management establish sufficient internal controls over the duties of the payroll clerk?
- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?

Audit Results

District officials failed to establish adequate controls over cash disbursement functions and, specifically, did not provide adequate segregation of duties over financial transactions. The Treasurer performed key incompatible duties of recordkeeping, cash custody, check processing, and online payments. Further, there was a lack of proper authorization and supervisory approval of wire transfers and journal entries performed by the Treasurer, increasing the risk that inappropriate wire transfers could occur without

being detected. The Business Administrator did not provide sufficient oversight of the Treasurer's duties, and other compensating controls were inadequate. Finally, there was no routine review of computer-generated activity reports by District management to monitor employees' activity on the accounting system. Because of the inadequate segregation of duties and supervisory oversight in the cash disbursement function, there is an increased risk that errors or irregularities could occur without being detected and corrected by District officials.

District officials did not adequately segregate the duties of the payroll clerk, whose duties included making changes to employee data and pay rates, and printing, signing, and distributing payroll checks with limited management oversight or independent review. The computerized payroll system did not have adequate controls over changes to payroll data, and there was no periodic review of computer-generated reports to monitor employees' activities on the payroll system. Our examination did not find any significant exceptions in the payroll clerk's function. However, weak internal controls over the segregation of duties and inadequate managerial oversight of the payroll process increase the risk of unauthorized changes being made to employee or payroll data without being detected or corrected.

The Board did not ensure that claims against the District were properly audited prior to being paid. After appointing a claims auditor, the Board did not provide that individual with adequate training. The claims auditor did not begin regularly auditing claims until nine months after her appointment. We found 99 payments of claims against the District totaling over \$275,000 which were not audited by either the Board or the claims auditor. In addition, approximately \$32,000 in workers' compensation claims that were not audited was paid after the Board had improperly authorized the payment of workers' compensation claims in advance of audit. Lastly, credit card claims totaling over \$8,800 did not have adequate supporting documentation. Our tests did not disclose any inappropriate payments; however, when the Treasurer pays claims without prior audit and approval by the Board or by the claims auditor, there is an increased risk that the District's funds could be expended for unauthorized purposes.

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 that they have initiated, or planned to initiate, corrective action.

Introduction

Background

The Adirondack Central School District (District) is located in the Towns of Annsville, Ava, Boonville, Forestport, Lee, Remsen, Steuben, and Western in Oneida County; Lewis, Leyden, Lyonsdale, and West Turin in Lewis County; and Ohio, Russia, and Webb in Herkimer County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Treasurer is primarily responsible for the District's finances, accounting records, and reporting.

There are four schools in operation within the District, with approximately 1,500 students and 260 employees. The District's budgeted general-fund expenditures for the 2006-07 fiscal year were approximately \$23.2 million, funded primarily with State aid, real property taxes, and grants.

The District's financial and recordkeeping functions are performed by three full-time employees in the Business Office: the Treasurer, the payroll clerk, and the accounts payable clerk. A Board-appointed Business Administrator is responsible for overseeing the operations of the Business Office. The Board appointed a claims auditor, effective October 1, 2005, to assume the powers and duties of approving and denying claims against the District.

Objective

The objective of our audit was to review the controls over cash disbursements and claims processing. Our audit addressed the following related questions:

- Are internal controls over cash disbursements appropriately designed and operating effectively to adequately safeguard District assets?
- Did District management establish sufficient internal controls over the duties of the payroll clerk?
- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?

**Scope and
Methodology**

We examined selected financial activities of the Adirondack Central School District for the period July 1, 2005 to March 31, 2007.

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 that they have initiated, or planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law 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 Disbursements

An effective system of internal controls over cash disbursements requires that key duties be segregated so that no one employee controls all the transaction steps related to expenditures. In general, transaction approval, accounting, and asset custody should be separated. For example, the same individual should not collect and record cash receipts, make bank deposits, prepare and post journal entries, sign checks, and perform or supervise the reconciliation of District bank accounts. The proper segregation of duties helps to prevent and detect errors, and reduces the potential opportunities for employees to initiate and conceal improper payments or make unauthorized changes to the accounting records. Written job descriptions establishing the day-to-day responsibilities for each person are an excellent tool for designing such controls. If it is not practical to adequately segregate duties, District officials should institute compensating controls such as independent review of the accounting records by someone who is not involved in key transactions. Additionally, the periodic review of computer-generated reports, such as exception/change reports and audit logs,¹ can help District officials monitor employees' work on the computerized accounting system. Once adequate internal controls are in place, the Board should monitor them periodically to ensure they are operating effectively.

The assignment of job duties at the District did not provide for adequate segregation of duties over financial transactions. Assigning key duties to one individual with little or no oversight weakens internal controls and significantly increases the risk that inappropriate transactions could be initiated and go undetected and uncorrected. District management did not establish written job descriptions for Business Office employees, and the Business Administrator's limited oversight of key transactions was not an adequate compensating control.

Our audit also found significant internal control weaknesses over the cash disbursement activities of the Treasurer, who performed key duties without proper segregation or management oversight. The Treasurer received, recorded, and deposited District moneys, made all journal entries, processed all electronic wire transfers, processed

¹ Exception/change reports detail specific activities that meet predefined criteria (for example, new employee additions or salary increases). Audit logs record users' activity by system or application, including time of access and transactions processed.

checks, signed District checks (along with the Deputy Treasurer), and made online payments to vendors. District officials attempted to segregate some of the financial duties by having an employee other than the Treasurer – the accounts payable clerk – perform bank reconciliations, but this assignment did not sufficiently reduce the risk of irregularities occurring and not being detected. Although the accounts payable clerk reconciled all bank statements (which can serve as a mitigating control over checks disbursed), she did not verify the accuracy and appropriateness of cash journal entries and the electronic bank transfers shown on bank statements. Further, the Treasurer reviewed the bank reconciliations after the accounts payable clerk performed them and could make corrections at that point – i.e., journal entries could be adjusted to match the bank statements, potentially concealing improper payments or cash shortages. Lastly, none of the Treasurer’s key duties were independently reviewed as a compensating control for the inadequate segregation of duties. As a result, the District is at risk of errors, irregularities, or fraud occurring without being detected.

Based on the risks resulting from inadequate segregation of duties, we traced a judgmental sample of disbursements, both for claims against the District and for payroll, as follows:

- 98 checks totaling \$189,850 traced from bank statements back to the cash disbursement records
- 18 disbursements totaling \$41,786 traced from cash disbursement records to the corresponding checks and supporting documentation
- 18 disbursements totaling \$16,653 that were not included on the 2006-07 warrants, traced to the corresponding checks and supporting documentation. The majority of these disbursements were for workers’ compensation and long-term disability payments. The Treasurer believed these payments could be made prior to audit, and thus did not submit them to the claims auditor.

Of the 134 disbursements we reviewed, 114 checks totaling \$218,343 were payments for claims against the District, and 20 checks totaling \$29,947 were payroll disbursements. Of the 114 checks, 100 totaling \$207,956 were not listed on a warrant, nor was there any other evidence certifying them as audited and approved by the Board or the claims auditor (see Claims Processing in this report). For each of these payments, we examined the claim voucher to determine if the payments were for appropriate District purposes. Our tests did not

disclose any inappropriate payments. However, when the Treasurer pays claims without prior audit and approval by the Board or the claims auditor, there is an increased risk that the District's funds could be expended for unauthorized purposes.

Wire Transfers — Wire transfers provide a means of direct access to the monies held in the District's name. Appropriate controls over wire transfer activity include management authorization of a transaction before the transaction is initiated; itemized documentation to support the purpose, source, destination and amount of the transaction; and documentation to appropriately account for and record the transaction. District officials should also segregate the duties involved in wire transfer activity. If the same individual both initiates wire transfer and performs bank account reconciliations, the individual could make an error that may not be detected, or conceal an unauthorized transfer.

We judgmentally selected eight electronic funds transfers shown on District bank statements and traced them to corresponding journal entries in the accounting records and/or deposits to other District accounts. Our tests did not disclose any inappropriate transfers. However, no supervisory approval was required for journal entries and wire transfers. Although the Superintendent told us he believed that the Business Administrator provided oversight of duties performed by the Treasurer and other Business Office employees, the Business Administrator told us that, unless the Treasurer approached her with concerns, she was not involved in overseeing the Treasurer's duties. Additionally, District officials told us that no one periodically reviewed computer-generated exception/change reports or audit logs to monitor employees' activities on the accounting system. Without proper authorization and supervisory oversight of wire transfers and entries in the computerized accounting system, there is an increased risk that errors or inappropriate wire transfers could occur without being detected and corrected.

Recommendations

1. District officials should review the duties of the Business Office employees and institute internal controls to ensure a proper segregation of duties. Bank statements and cancelled checks should be received and reviewed by someone independent of the cash receipt and cash disbursement functions; if practical, bank reconciliations should also be performed by someone independent of the cash receipt and disbursement functions.
2. District officials should ensure that journal entries and wire transfers are properly authorized, and that someone independent of the Business Office periodically reviews computer-generated exception/change reports and audit logs to monitor data modifications and financial transactions.

Payroll Clerk

Effective internal controls over payroll processing ensure that employees are paid salaries and provided benefits to which they are duly entitled. Such internal controls include written policies and procedures to define employee responsibilities in preparing and disbursing payroll, and to provide guidance on employee entitlements. Management oversight of the payroll process is another important internal control.

Proper segregation of duties over payroll disbursements reduces the risk of errors and fraud. Transaction authorization, recordkeeping, and custody of payroll checks should be distributed so that no one employee controls all aspects of the process. The same person should not add and delete employees in the computer system, update salary information, and process and distribute payroll checks. When adequate segregation of payroll duties is not feasible, District management can implement mitigating controls such as payroll certification and independent review of computer-generated reports to monitor users' access to the system and track the transactions processed.

The District did not adequately segregate key duties related to payroll processing. The payroll clerk added, updated, and deleted employees in the payroll system; made changes to pay rates; and printed, signed,² and distributed payroll checks. The payroll clerk performed the majority of her duties with limited management oversight. Such duties could allow the payroll clerk to initiate inappropriate transactions which may not be detected. Although the Superintendent told us that he certified the payroll and consulted the payroll clerk about any item that appeared unusual, he did not review the actual payroll checks, and no one else routinely reviewed the payroll clerk's work. In addition, the computerized payroll system did not have adequate controls to prevent changes to the payroll data. District officials also told us that no one periodically reviewed system-generated exception/change reports or audit logs to detect irregularities, such as unauthorized changes to payment amounts or payees.³

² The payroll clerk could apply the Treasurer's electronic signature to the District's checks. The payroll clerk also served as the Deputy Treasurer and, as such, was authorized to sign her name on the District's bank accounts in the Treasurer's absence.

³ Exception/change reports detail specific activities that meet predefined criteria (for example, new employee additions or salary increases). Audit logs record users' activity by system or application, including time of access and transactions processed.

Based on the risks resulting from the inadequate segregation of duties during our audit period, we reviewed personnel folders and Board minutes to verify the existence of, and authority for hiring, 12 out of 33 new employees hired during the audit period. We also tested the compensation paid to the Superintendent, the Business Administrator, the Treasurer, the payroll clerk, and the accounts payable clerk by comparing each employee's Board-approved salary to payroll reports, earning histories, and cancelled checks. Our examination did not find any significant exceptions. As a result of weak internal controls over the segregation of duties and inadequate managerial oversight of the payroll process, there is an increased risk of unauthorized employees being added to the payroll, unauthorized changes being made to pay rates, or other errors and irregularities occurring without detection by District officials.

Recommendations

3. District officials should segregate duties currently performed by the payroll clerk.
4. District officials should ensure that someone independent of the payroll processing function generates the payroll checks or, as a mitigating control, reviews the payroll checks before they are distributed.
5. District officials should ensure that someone independent of the payroll process periodically reviews exception/change reports and audit logs from the computerized payroll system.

Claims Processing

The audit and approval of claims is a critical element of the District's internal control system. With rare exceptions,⁴ Education Law prohibits District Treasurers from paying claims without written authorization from either the District Clerk or the claims auditor. This authorization is usually documented by a certified listing of claims attesting that the claims listed have been audited and approved for payment. Education Law requires the Board to audit claims against District funds before they are paid, or to appoint a claims auditor to assume the Board's powers and duties to approve or disapprove claims. The claims auditor should have a clear understanding of the position's duties and responsibilities, and by reporting regularly and directly to the Board, can increase the effectiveness of the District's internal controls. A written job description outlining the specific duties of the position is an effective way for the Board to communicate its expectations and clearly define the claims auditor's responsibilities.

Our audit identified internal control weaknesses in the District's claims processing operations. From July 1, 2005 to September 30, 2005, the District did not have a claims auditor. Effective October 1, 2005, the Board appointed an employee of the District as claims auditor. During the 2005-06 fiscal year – both before and after the Board appointed the claims auditor – the Board received and approved reports from the Treasurer entitled “Bills Paid Prior to Audit” and “Bills Ready to be Paid for Audit,” indicating the vendor payee, the amount of payment, and a brief description of the claim. Although the Board minutes referred to these reports as warrants, the Board did not review the individual claims unless a specific listed claim was questioned. Further, our review of warrants on file found that, except for one warrant in February 2006 with 171 claims, the claims auditor did not audit claims and certify warrants until July 1, 2006 – nine months after her appointment.

For the subsequent period of July 1, 2006 to March 31, 2007, we examined 17 general-fund warrants with approximately 1,600 claims and found that eight warrants with 152 claims totaling \$645,724 were not certified by the claims auditor. These comprised 49 claims for postage and utilities totaling \$201,848; 57 claims for self-insured

⁴ Education Law authorizes the Board to authorize by resolution the payment of certain claims in advance of audit, including those for public utility services, postage and freight, and express charges. All such claims must, however, still be presented for audit subsequent to being paid.

workers' compensation claims totaling \$32,191; two claims from Jefferson-Lewis BOCES totaling \$352,429 for shared services; and 44 other miscellaneous claims totaling \$59,256. The Board had properly authorized (by resolution) the Treasurer to pay utilities and postage claims in advance of audit; however, its authorization to also pay negotiated agreements⁵ and the workers' compensation claims prior to audit was improper, because Education Law does not allow the payment of negotiated agreements and self-insured workers' compensation claims prior to audit.

The claims auditor told us that, in addition to not having a written job description or formal training, she was unaware she was to report to the Board on claims audit activities or issues, and therefore would consult the Treasurer. Further, the Treasurer did not realize she had to present the 152 claims to the claims auditor for audit, either prior to or subsequent to payment as required by law, and the claims auditor confirmed that she never saw any of the 152 claims. In addition to these 152 claims against the general fund, neither the claims auditor nor the Board audited any of the claims for the school lunch or special aid funds. The lack of internal controls over the claims audit function, together with the Board's failure to provide sufficient guidance and training to the claims auditor for carrying out the duties of her position, increases the risk to the District that inappropriate payments could be made and not detected.

To address this risk, we examined another 160 judgmentally selected claims totaling \$356,344 paid during our audit period. We found no significant deficiencies in 112 of these claims totaling \$155,936, all paid from the general fund. The remaining claims comprised 18 special aid fund claims totaling \$148,780; 15 school lunch fund claims totaling \$34,408; and the entire population of credit card claims (15) paid from the general fund, totaling \$17,220. As noted above, the claims against the school lunch and special aid funds were not audited by either the Board or the claims auditor. Additionally, 14 of the 15 credit card claims against the general fund were not audited. Six of the 14 unaudited credit card claims contained nine charges totaling \$5,498 that did not have adequate supporting documentation, such as invoices or receipts from the vendor. The one audited credit card claim (audited by the claims auditor) lacked vendor invoices or receipts for a \$3,240 charge from the U.S. Postal Service and a \$140 charge for a truck rental. As a result of these deficiencies, District officials do not have adequate assurance that the purchases were properly approved

⁵ Our audit did not identify any negotiated agreements that were paid without audit.

and comply with District policies and regulations, or that the goods and services were actually received by the District.

Recommendations

6. The Board should develop written procedures and guidelines for the examination and approval of claims to clearly communicate its expectations for the position of claims auditor, and should monitor the activities of the claims auditor to ensure compliance or provide guidance when necessary.
7. The claims auditor should receive training in her job duties and report directly to the Board with any questions or concerns pertaining to claims. District officials should also ensure that the Treasurer is aware of the claims auditor's responsibilities.
8. With the exception of those claims allowed by law to be paid prior to audit, all claims from all funds should be submitted to, audited, and approved by the claims auditor before payment. Claims allowed by law and authorized by Board resolution for the Treasurer to pay prior to audit should subsequently be presented to the claims auditor for audit and approval.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Frederick J. Morgan
Superintendent

Sharon Cihocki
School Business
Administrator

Edward Niznik
High School Principal

TBA
High School Assistant
Principal

Patricia Thomas
Middle School Principal

Elizabeth Lemieux
Forestport Principal/
Director of Curriculum,
Instruction and Assessment

Marie McDonald
Boonville Elementary
Principal

Maria Fallacaro Smith
West Leyden Principal/
Director of Technology

Sarah T. O'Hara
Director of Special
Education

Adirondack Central School District

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Boonville, New York 13309
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Fax: 315-942-5522
www.adirondackcsd.org**

January 18, 2008

Office of the State Comptroller

[REDACTED]
Syracuse Regional Office
State Office Building, Room 409
333 East Washington Street
Syracuse, New York 13202

Re: Adirondack Central School
State Comptroller's Audit

Dear [REDACTED]:

On behalf of the Board of Education, we are most appreciative of the State Auditor's recommendations and evaluations.

The recommendations raised in the report will serve to assist the District in developing policy modifications in those areas cited. The recommendations in the report, in some cases, have already been completed.

The attached document is a response to the report.

Thank you again for the time you spent in our District.

Sincerely,

Frederick J. Morgan
Superintendent

mlk
Enclosure

Recommendations

1. District officials should review the duties of the Business Office employees and institute internal controls to ensure a proper segregation of duties. Bank statements and cancelled checks should be received and reviewed by someone independent of the cash receipt and cash disbursement functions; if practical, bank reconciliations should also be performed by someone independent of the cash receipt and disbursement functions.
 - The district agrees with the recommendation. Prior to the arrival of the comptroller's office the district had already started segregating duties to protect against fraud. The district is still working with the Internal Auditor to review job descriptions, segregate duties and institute checks and balances.
 - Bank statements will be provided to the school business official who will spot check cancelled checks throughout the year. Bank reconciliations will also be provided to the Business Administrator for periodic review and the Business Administrator will spot check them throughout the year. In addition, the Internal Claims Auditor will spot check bank reconciliations throughout the year.
 - Management will work with Internal Auditor to institute segregation of duties.

2. District officials should ensure that journal entries and wire transfers are properly authorized, and that someone independent of the Business Office periodically reviews computer generated exception/change reports and audit logs to monitor data modifications and financial transactions.
 - The journal entries and wire transfers are signed off by the Business Administrator prior to completion.
 - The District Treasurer is keeping a binder that includes all journal entries and wire transfers.
 - The binder will be kept in the business office for quarterly review by Internal Claims Auditor.

3. District officials should segregate duties currently performed by the payroll clerk.
 - Management has addressed this by additional oversight by reviewing the contractual salaries on a regular basis as well as change reports for each payroll.
 - In addition the Internal Claims Auditor will spot check this on an annual basis.
 - The Account Clerk has been crossed trained to perform the payroll function and will do so at least once per year.

4. District officials should ensure that someone independent of the payroll processing function generates the payroll checks or, as a mitigating control, reviews the payroll checks before they are distributed.
 - Management has addressed this by reviewing the contractual salaries on a regular basis as well as the change reports for each payroll.
 - The Internal Claims Auditor will spot check the contractual salaries on an annual basis.
5. District officials should ensure that someone independent of the payroll process periodically reviews exception/change reports and audit logs from the computerized payroll system.
 - At the beginning of the school year the Business Administrator will review the Contractual Earnings by Account report. This includes all contractual employees and the amount they are contracted for in the school year.
 - Each payroll the payroll change report will be printed and reviewed by the Business Administrator. This report shows changes to the contractual salary for that specific payroll. These reports will be kept in binder at the business office for review by the Internal Claims Auditor.
6. The board should develop written procedures and guidelines for the examination and approval of claims to clearly communicate its expectations for the position of claims auditor, and should monitor the activities of the claims auditor to ensure compliance or provide guidance when necessary.
 - Management will formulate a job description for Internal Claims Auditor. The Internal Claims Auditor will periodically report to the board in accordance with the job description.
 - Management will review the audit committee charter.
7. The Claims Auditor should receive training in her job duties and report directly to the Board with any questions or concern pertaining to claims. District officials should also ensure that the Treasurer is aware of the Claims Auditor's responsibilities.
 - The Internal Auditor will train the Internal Claims Auditor on the duties associated with the position.
 - The Internal Auditor will review the job description with the Internal Claims Auditor and District Treasurer.
8. With the exception of those claims allowed by law to be paid prior to audit , all claims from all funds should be submitted to, audited, and approved by the Claims Auditor before payment. Claims allowed by law and authorized by Board

resolution for the Treasurer to pay prior to audit should subsequently be presented to the Claims Auditor for audit and approval.

- All claims are approved by the Internal Claims Auditor prior to being paid.

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: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

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 disbursements, claims processing, and payroll for further audit testing.

Our audit tests included the following procedures:

Cash disbursements:

- We judgmentally selected 98 checks shown on bank statements and traced them to listings on certified warrants and payrolls. We judgmentally selected 18 disbursements from cash disbursement records and 18 disbursements not included on the 2006-07 warrants, and traced them to the checks and supporting documentation.
- We reviewed all general fund warrants for the 2006-07 school year for check sequence and followed up on any check numbers that were not on the warrants.
- We judgmentally selected eight electronic transfers shown on bank statements and traced each to its supporting general journal entry.

Claims processing:

- During our testing of cash disbursements, we examined all claims to determine if the claim was authorized, supported, and for appropriate District purposes.
- We judgmentally selected a sample of higher-risk claims during our audit period based on a

review of the electronic data, and examined them to ensure that they contained proper support and authorization and were for valid District purposes.

Payroll:

- We reviewed personnel folders and Board minutes to verify the existence of and authority for hiring 12 new employees.
- We compared the Superintendent's, Business Administrator's, Treasurer's, payroll clerk's and account clerk's Board-approved salary to payroll reports, earning histories, and cancelled checks.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
John C. Traylor, Assistant Comptroller

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