



Cortland City School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2005 — June 26, 2007

2007M-302



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

March 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 Cortland City School District, entitled Internal Controls Over Selected 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 Cortland City 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 Board is responsible for managing operations to ensure that assets are safeguarded from unauthorized use or disposition and are accounted for properly. Proper oversight and management provides reasonable assurance that purchases are audited and approved prior to payment, payments are authorized, supported and proper, and that cash disbursements are accurately recorded and supported. The Board is responsible for appointing a claims auditor in compliance with regulations and a Treasurer to be responsible for the custody, receipt and disbursement of District moneys.

Scope and Objective

The objective of our audit was to determine if internal controls are appropriately designed and operating effectively for selected financial operations for the period July 1, 2005 to June 26, 2007. Our audit addressed the following related questions:

- Did District officials ensure that the Board's purchasing policies and procedures are implemented and working as designed?
- Did the Board provide for a proper audit of claims prior to payment?
- Did the Board ensure that internal controls over the cash disbursements process are appropriately designed and operating effectively?

Audit Results

District officials did not ensure that purchasing policies and procedures were implemented and working as designed. The purchasing agent did not approve 135 of the purchase orders or any of the 41 blanket purchase orders for the 2006-07 fiscal year. Further, there was no documentation to enable us to determine the legitimacy of 62 purchases, if goods and services were received for 11 purchases, or to explain why vendor invoices for two purchases exceeded the purchase order amounts. We also found there was no supporting documentation to indicate who made 20 credit card purchases or to indicate if they were authorized users. As a result, the District may have paid for improper expenses and there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

The Board did not provide for a proper audit of claims. There was no effective system in place prior to May 8, 2007, to ensure that 7,211 claims totaling approximately \$57.2 million were properly authorized, documented, itemized, approved and reviewed to verify expenses were appropriate. Although the Board appointed a claims auditor effective May 8, 2007, she did not perform a complete and thorough audit of claims or approve warrants to authorize the Treasurer to disburse funds. Further, her appointment was not in accordance with regulations, resulting in a possible conflict of interest. The claims auditor approved 10 of 16 claims totaling over \$19,500 even though they were not approved by the appropriate District officials prior to purchase. Although our review of 415 non-payroll disbursements did not disclose additional discrepancies, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

The Board did not ensure that internal controls over cash disbursements were appropriately designed and operating effectively. The Board failed to segregate the Treasurer's duties or implement compensating controls. We also found the Treasurer did not supervise and control the use of her facsimile signature or compare signed checks to certified warrants for accuracy and consistency before distributing checks to ensure payments were correct and appropriate. Although related testing did not disclose material discrepancies, there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix B, have been considered in preparing this report. Except as specified in Appendix B, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix C includes our comments on the issues raised in the District's response letter.

Introduction

Background

The Cortland City School District (District) is located in the City of Cortland and five towns in Cortland 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.

There are six schools in operation within the District with approximately 2,800 students and 720 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$39.7 million, which were funded primarily by State aid, real property taxes and grants. The District uses the Onondaga-Cortland-Madison Board of Cooperative Educational Services (OCM BOCES) for certain educational and administrative services. During the 2006-07 fiscal year the District paid OCM BOCES approximately \$3.4 million for services provided to the District.

The Board is responsible for designing internal controls to safeguard assets and ensure the prudent and economical use of moneys when purchasing goods and services. The Board has designated the Business Official to be the purchasing agent, who, under the supervision of the Superintendent, is responsible for managing purchasing activities in compliance with Board policies and procedures.

The Board is also responsible for appointing a claims auditor in compliance with State Education Department (SED) regulations. In May 2007, the Board appointed the OCM BOCES to be the claims auditor for non-OCM BOCES claims and a District employee to be the claims auditor for OCM BOCES claims. Annually, the Board appoints a Treasurer, who, under the supervision of the Superintendent, is responsible for the custody, receipt and disbursement of District moneys.

Objective

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

- Did District officials ensure that the Board's purchasing policies and procedures are implemented and working as designed?

- Did the Board provide for a proper audit of claims prior to payment?
- Did the Board ensure that internal controls over the cash disbursements process are appropriately designed and operating effectively?

Scope and Methodology

We examined the internal controls over purchasing, claims auditing and cash disbursements of the District for the period July 1, 2005 to June 26, 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 D 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 B, have been considered in preparing this report. Except as specified in Appendix B, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix C includes our comments on the issues raised in the District’s response letter.

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*.

Purchasing

The objectives of a procurement process are to obtain services, materials, supplies or equipment of desired quality, in the specified quantity, at the lowest price and in compliance with applicable Board and legal requirements. This helps to ensure that taxpayer dollars are expended in the most efficient manner. The Board must adopt policies and procedures to provide reasonable assurance that assets are properly safeguarded, and the procurement of goods and services is done in a prudent and economical way, in compliance with applicable laws and regulations. Preventive controls must be established to prevent errors and irregularities from occurring.

The Board has adopted policies and procedures, which provided reasonable assurance that assets were properly safeguarded and purchases were prudent, economical and in compliance with laws and regulations. However, District officials failed to ensure that the policies and procedures were properly implemented and operating effectively. As a result, purchase orders were not always signed by the purchasing agent or used as required, purchase documentation did not always include itemized receipts or evidence of receipt and the cost of certain items exceeded approved amounts. Further, credit card charges were not always approved before orders were placed and we could not always determine who used the District credit cards or if they were authorized users.

The Board's policies and procedures detail the approval process and provide procedures for all purchases¹ including food and beverages for District meetings and functions. The policies and procedures require:

- The purchasing agent to sign purchase orders for all purchases before purchase orders are issued
- Authorization, approval and monitoring of credit card use
- Verification that goods have been received prior to the processing of claims for payment
- Claims packets (for the claims auditor to use when auditing claims) to include all relevant documentation (i.e., requisitions, purchase orders, reimbursement claim forms, vendor invoices, packing slips, etc.)

¹ A purchase is defined as a line item on a claim for payment. For example, a claim for office supplies, with one charge for paper and one charge for pencils would represent two purchases.

- Competitive bids to be solicited for all purchases exceeding \$5,000.

Had all these policies and procedures been properly implemented and operating effectively, there would have been reasonable assurance that errors and irregularities could have been prevented. However, during our initial assessment of internal controls, we found indications that this was not the case. As a result, we reviewed 252 purchases totaling \$236,082 and all 41 blanket purchase orders² for the 2006-07 fiscal year, totaling \$207,870. Although we found bids were awarded in accordance with District policies, we also found that District purchases, in many cases, had more than one deficiency.³ Our review disclosed:

- Purchase Orders — 135 purchases had purchase orders that were not signed by the purchasing agent to evidence his approval. In addition, 10 purchases for meals, classroom supplies, and a library professional text lacked purchase orders. The purchasing agent did not sign any of the 41 blanket purchase orders for the 2006-07 fiscal year.
- Documentation — 62 purchases lacked sufficient documentation to determine if they were for legitimate expenses. The District paid 30 of the 62 purchases based only on credit card statements. There were no individual receipts to provide descriptions for the items or their purposes.
- Evidence of Receipt — 11 purchases lacked evidence of receipt. For example, four credit card charges for classroom supplies totaling \$267 did not include a signature or other identification to verify that the District actually received the supplies.
- Authorization — Two purchases for classroom supplies totaling \$1,368 exceeded their purchase order amounts by more than \$330, and eight purchases totaling \$664 for gasoline and restaurant meal credit card charges were not approved before the orders were placed, as required by District policies. Further, due to the lack of documentation, we were unable to determine if the four credit card charges for restaurants

² Blanket purchase orders are used for efficiency and take the place of multiple purchase orders to the same vendor. For example, if District officials select a vendor to provide general cleaning and janitorial supplies, and plan to order on a bi-weekly or monthly basis, using a single blanket purchase order would be more efficient than issuing a separate purchase order for each period.

³ See Appendix A for a summary of our findings.

totaling \$558 were legitimate. No documentation other than credit card statements and cancelled check images⁴ existed.

- Credit Cards — 20 credit card purchases lacked documentation to indicate who used the credit cards or if they were authorized users. For example, four credit card charges for gasoline totaling \$107 had no signature or other identification to indicate who initiated the charges.

These deficiencies occurred because the Business Official acting as the purchasing agent failed to perform his duties in accordance with Board policies, the Board and Superintendent failed to provide adequate oversight for the purchasing agent, and District officials failed to provide proper control and oversight over the use of credit cards. As a result, the District may have paid for improper expenditures and there is an increased risk that errors or irregularities could occur and remain undetected and uncorrected.

Recommendations

1. The purchasing agent should adhere to and monitor compliance with purchasing policies and procedures, including the approval of all purchases and signing all purchase orders prior to obligating the District for goods or services.
2. District officials should periodically monitor internal controls to ensure that purchasing policies and procedures are properly implemented and operating effectively and that District employees are following them.
3. District officials should ensure that all claims packets include all relevant purchasing documents (i.e., requisitions, purchase orders, reimbursement claim forms, vendor invoices, packing slips, etc.).
4. The Board should investigate the propriety of the purchases previously mentioned to ensure they were for legitimate expenses and verify that all goods purchased were actually received.

⁴ These checks had been written to the credit card companies.

Claims Auditing

The audit and approval of claims is one of the most critical elements of the District's internal control system. The Board is responsible for auditing all claims against the District. The Board may either audit claims itself or appoint a claims auditor for this purpose. An appointed claims auditor must have a clear and definite understanding of the duties and responsibilities of the position and be sufficiently independent to carry out his/her duties with the same fiduciary responsibility as if the Board members were to perform the function themselves. The claims audit serves as the final authorization for the Treasurer to pay claims and provides a means for the Board to monitor the effectiveness of internal controls over expenditures.

The Board has adopted a policy that requires all claims to be audited. However, the Board did not audit claims or appoint a claim auditor until May 2007. Further, the Board did not provide policies and procedures for, or monitor the work of, the claims auditor, and her appointment was not in accordance with regulations, resulting in a possible conflict of interest. As a result, claims were paid without proper documentation and approvals and there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Claims Audit

The Board is responsible for auditing all claims against the District. Policies and procedures must be adopted to ensure that the vendor invoice for each claim agrees with the claim form and accompanying documentation, and that each claim contains sufficient itemization and documentation to determine that it complies with District policies (e.g., the purchasing agent must authorize all claims) and that the charges are proper. Should the Board appoint a claims auditor to audit claims on its behalf, the Board must provide proper guidance to, and monitor the work of, the claims auditor.

The Board adopted a policy⁵ that required all claims to be audited. However, the Board did not audit claims or appoint a claim auditor to do so until May 8, 2007. As a result, there was no effective system in place to ensure that any the 7,211 claims totaling approximately \$57.2 million paid prior to that date, included in our audit period, were properly authorized, documented, itemized (description of purchase), approved, and reviewed to verify the charges were proper.

⁵ Business Operations Policy #5412, adopted January 1, 1984, revised February 1, 1997

Effective May 8, 2007, the Board appointed an OCM BOCES employee to serve as the claims auditor, who, through June 26 2007, audited 321 claims totaling approximately \$4.9 million. However, the Board did not provide written policies and procedures to the claims auditor or monitor her work. As a result, she was not familiar with all aspects of a proper claims audit. She told us that she verified that the amounts on the vendor invoices agreed with the claim forms and accompanying documentation. However, she did not verify that each claim contained sufficient itemization and documentation to determine that it complied with District policies and that the charges were proper.

Due to these control weakness, we reviewed 128 claims totaling \$192,704 paid prior to May 18, 2007, and 16 claims totaling over \$43,300 paid thereafter⁶ to ensure they were properly authorized, documented, itemized (description of purchase), approved and reviewed to verify the charges were proper. Nine of 21 claims totaling \$1,187 paid to key officials prior to May 18, 2007, did not include approved reimbursement claim forms. Of these nine, one for \$362 was paid to a Board member for conference reimbursements, four totaling \$670 were paid to the Business Official for mileage reimbursement, and four totaling \$155 were paid to the Treasurer for mileage reimbursement. Further, 10 of the 16 claims totaling over \$19,500 paid thereafter were approved by the claims auditor even through they lacked the approval of an appropriate District official prior to purchase; which was a violation of the District's adopted purchasing policies.

The failure of the Board to audit claims or to provide proper guidance to, and monitor the work of, the claims auditor has resulted in expenses being reimbursed without proper documentation. It also caused claims to be paid without proper approvals and an increased risk that payments could be made for the wrong amount or paid twice, moneys could be expended for inappropriate purposes, or that other errors and irregularities could occur and not be detected and corrected in a timely manner.

Certified Warrants

To ensure that only approved claims are paid and to reduce the risk that incorrect or inappropriate payments will be made, the claims auditor is responsible for certifying warrants (lists of claims) to indicate her audit and approval of the underlying claims and to authorize the Treasurer to disburse moneys.⁷

⁶ From May 18, 2007 through June 26, 2007

⁷ General Municipal Law provides limited exceptions for claims that may be paid in advance of an audit. However, in those cases, the claims must still be audited and listed on the next warrant.

Although Business Office staff members create unsigned warrants for use in the disbursement process, we found the claims auditor does not sign or otherwise certify the warrants to indicate her audit and approval and to authorize the Treasurer to disburse moneys. Due to this control weakness, we reviewed 415 non-payroll disbursements totaling \$5.08 million. Although our review did not disclose any material discrepancies, the failure of the claims auditor to certify warrants increases the risk that District funds could be subject to fraud, abuse or professional misconduct, and that errors and irregularities could occur and not be detected or corrected in a timely manner.

BOCES as Claims Auditor

The Board may delegate its claims auditing responsibilities to a sole claims auditor, who would then be responsible for auditing all claims against the District. SED guidance on interpreting regulations⁸ states it may not be appropriate for a BOCES to provide claims auditing services to its component districts, because most of these districts would have material and significant contract payments⁹ to that BOCES. There is no provision in law to permit the Board to appoint more than one claims auditor.¹⁰

The Board appointed the OCM BOCES to audit all non-OCM BOCES claims and a District employee to audit all OCM BOCES claims for part of the 2006-07 fiscal year and all of the 2007-08 fiscal year. In addition, the District paid the OCM BOCES approximately \$3.4 million for goods and services during the 2006-07 fiscal year.

These appointments were not in accordance with SED regulations. Further, these appointments may have resulted in a conflict of interest, due to the OCM BOCES providing its own employee to audit claims while it was receiving material and significant contract payments from the District, and an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Recommendations

5. Board members should audit District claims themselves or appoint only one individual to do so in accordance with SED regulations.
6. Board members should ensure that they, or their appointed claims auditor, conduct a deliberate and thorough review of all claims to

⁸ An amendment of the Regulations of the Commissioner of Education may be found at: http://www.emsc.nysed.gov/mgtserv/accountability_regs06.htm

⁹ Contract payments include all payments paid to a BOCES for goods and services provided to the District, which if significant or material may impair the claims auditor's independence and result in a conflict of interest.

¹⁰ See questions 7, 12, and 13 of the SED document entitled *School District Accountability Questions and Answers*, dated August 25, 2006. This document may be found at: http://www.emsc.nysed.gov/mgtserv/fiscal_accountability_legislation/htm/claims_auditor.htm

determine that all claims are proper and valid charges against the District, are incurred by authorized officials, and that the warrants are certified before claims are paid.

Treasurer's Duties

The Board is responsible for establishing an internal control system to provide checks and balances to ensure that no individual exercises control over all or most of the aspects of the cash disbursement process. As the official responsible for signing checks, the Treasurer plays a critical role in this process. Should a facsimile signature be used to sign checks, the Treasurer must supervise and control its use to ensure that checks are for correct amounts and appropriate purposes.

The Board has not properly segregated cash disbursement duties, and the Treasurer does not supervise and control the use of her facsimile signature and compensating controls have not been implemented. As a result, there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Segregation of Duties

Duties must be segregated to ensure the same individual does not receive and deposit cash, prepare and disburse checks, perform electronic banking transactions, record transactions, and perform bank reconciliations. If this is not feasible, the Board should, at a minimum, implement compensating controls such as appointing someone independent of the process to review the accounting records on a periodic basis to ensure they are up-to-date, complete and accurate, and to review the bank statements and reconciliations on a monthly basis to ensure that cash disbursements are accounted for properly.

The Board did not segregate the Treasurer's cash disbursement duties or implement compensating controls. As a result, the Treasurer was responsible for preparing and signing checks, preparing and recording journal entries, performing electronic banking transactions, depositing cash receipts, and preparing monthly bank reconciliations with little or no oversight.

Because of the lack of segregation of duties and lack of compensating controls, we reviewed cash disbursements totaling over \$5.08 million, verified check sequences, tested checks totaling \$64,232, reviewed electronic transfers, and compared online banking transactions totaling \$5.09 million to disbursement records to ensure that the records were up-to-date, complete and accurate, and that the disbursements were accounted for properly. Although our review did not disclose any material errors or irregularities, the concentration of duties with one individual with little to no oversight increases the risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Facsimile Signature

The Treasurer may sign checks with a facsimile signature.¹¹ However, this should be done under the supervision and control of the Treasurer. If the Treasurer does not personally apply her signature, it should be done under her control and she should maintain custody of her facsimile signature.

The Treasurer does not supervise and control the use of her facsimile signature. The Treasurer's facsimile signature is imprinted on checks by the OCM BOCES' computer software program when disbursements are processed. She is not notified when her signature is applied to checks, and neither the Treasurer nor other District officials are aware of how the OCM BOCES controls the facsimile signature. Although the OCM BOCES forwards signed checks to the Treasurer, she does not compare signed checks to certified warrants to assess accuracy and consistency before distributing the checks.

Due to these control weaknesses, we reviewed a sample of 41 disbursements totaling \$54,110¹² to determine if they were for proper charges against the District. Our review did not disclose any material errors or irregularities. However, the failure to ensure that adequate controls are in place over the Treasurer's facsimile signature increases the risk that unauthorized persons may disburse District moneys for incorrect amounts or improper purposes.

Recommendations

7. The Board should segregate the Treasurer's duties to the extent possible or implement compensating controls.
8. The Treasurer should directly supervise and control the use of her facsimile signature.

¹¹ When authorized by the Board

¹² During the 2005-06 fiscal year, OCM BOCES issued checks totaling approximately \$58.9 million for District expenditures.

APPENDIX A
PURCHASES TESTED

Category	Number of Purchases	Total Cost of Purchases
Purchase Orders		
Food and beverages	56	\$20,053
Speaker fees	1	\$4,500
Vehicle rental and repairs	3	\$3,202
Cafeteria supplies	3	\$3,139
Postage	1	\$3,000
Clinical support/instructional services	2	\$2,765
Classroom supplies	8	\$2,567
Bus garage supplies	2	\$1,825
Cleaning supplies	1	\$1,513
T-shirts	1	\$1,238
Telephone and software support	2	\$1,025
Hotel lodging	2	\$696
Tax reimbursement	1	\$558
Florist services	2	\$202
Pizzeria expense	1	\$196
Cortland Country Club golf driving range	1	\$93
Credit card purchases ^a	48	\$4,935
Total	135	\$51,507
Documentation		
Restaurant meals	7	\$648
Hotel lodging	3	\$310
Gasoline	6	\$151
Ticket to a play ^b	1	\$54
Pens for the Business Office	1	\$44
Other purchases	12	\$990
Food and beverages ^c	23	\$1,081
Take-out meals	2	\$402
Groceries	2	\$259
Computer services	1	\$125
Travel reimbursements	1	\$128
Retirement party	2	\$72
Holiday party	1	\$50
Total	62	\$4,314

Category	Number of Purchases	Total Cost of Purchases
Evidence of Receipt		
Classroom supplies	5	\$1,493
Gasoline	1	\$31
Business Office supplies	1	\$75
Bus supplies	1	\$289
Meals	2	\$57
Hotel lodging	1	\$112
Total	11	\$2,057
Authorization		
Classroom supplies	1	\$1,226
Gasoline	4	\$106
Office supplies	1	\$142
Restaurant	4	\$558
Total	10	\$2,032
Credit Cards		
Bus parts	1	\$289
Hotel lodging	2	\$198
Gasoline	4	\$107
Meals	3	\$84
Ticket to a play ^b	1	\$54
Other purchases	9	\$583
Total	20	\$1,315
<p>^a These credit card purchases were for conferences, meals, travel, and bus and teaching supplies.</p> <p>^b This ticket was purchased using a District credit card.</p> <p>^c Food and beverages were supplied by the school cafeteria for District meetings.</p>		

APPENDIX B

RESPONSE FROM DISTRICT OFFICIALS

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



March 12, 2008

Kaufman Center
1 Valley View Dr.
Cortland, NY 13045
Phone: 607-758-4100
Fax: 607-758-4128
www.cortlandschools.org

Superintendent

Laurence T. Spring

Board of Education

Thomas H. Brown
President

Christine T. Place
Vice President

William R. Doughty

Dr. Bonni C. Hodges

Lisa W. Hoeschele

Paul E. Marshall

William F. Young

[REDACTED]
Binghamton Regional Office
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear [REDACTED]

This letter is in response to the *Report of Examination: Cortland Enlarged City School District Internal Controls Over Selected Financial Operations* which was reviewed on February 20, 2008 with representatives of the Cortland Board of Education, myself and Arthur Martignetti, Director of Business Services. All the members of the Cortland Enlarged City Schools educational community are appreciative of the efforts put forth by you and your staff in assisting us in becoming more efficient and effective with our business operations.

The response to the recommendations outlined in the report are as follows:

- I. *The purchasing agent should adhere to and monitor compliance with purchasing policies and procedures, including the approval of all purchases and signing all purchase orders prior to obligating the District for goods or services.*

CORTLAND ENLARGED CITY SCHOOL DISTRICT RESPONSE

The new Director of Business Services has reviewed the purchasing policies and procedures with all departments within the school district.

- II. *District officials should periodically monitor internal controls to ensure that purchasing policies and procedures are properly implemented and operating effectively and that District employees follow them.*

CORTLAND ENLARGED CITY SCHOOL DISTRICT RESPONSE

District officials will monitor adherence to purchasing policy through regular reports from the Internal Auditor to the Board of Education and Audit Committee.

- III. District officials should ensure that all claim packets include all relevant purchasing documents (i.e., requisitions, purchase orders, reimbursement claim forms, vendor invoices, packing slips, etc.)*

CORTLAND ENLARGED CITY SCHOOL DISTRICT RESPONSE

District officials have hired a claims auditor through BOCES who provides regular statistical reports of compliance.

See
Note 1
Page 24

- IV. The Board should investigate the propriety of the purchases to ensure they were for legitimate expenses and verify that all goods purchased were actually received.*

CORTLAND ENLARGED CITY SCHOOL DISTRICT RESPONSE

The Board is provided with regular reports from the claims auditor which lists any non-compliance issues together with frequency of occurrence and corrective action.

See
Note 2
Page 24

- V. Board members should audit District claims themselves or appoint one individual to do so in accordance with SED regulations.*

CORTLAND ENLARGED CITY SCHOOL DISTRICT RESPONSE

The Board has appointed a claims auditor through BOCES in July 2007.

See
Note 1
Page 24

- VI. Board members should ensure that they, or their appointed claims auditor, conduct a deliberate and thorough review of all claims to determine that all claims are proper and valid charges against the District; are incurred by authorized officials; and that the warrants are certified before claims are paid.*

CORTLAND ENLARGED CITY SCHOOL DISTRICT RESPONSE

The Board has appointed a claims auditor as of July 1, 2007, and the practice has been established that no warrant is presented to the Board until certified by the claims auditor.

- VII. The Board shall segregate the Treasurer's duties to the extent possible or implement compensating controls.*

CORTLAND ENLARGED CITY SCHOOL DISTRICT RESPONSE

The Board will review the Treasurer's duties with District officials, reassign some duties and establish effective mitigating controls to assure checks and balances are in place.

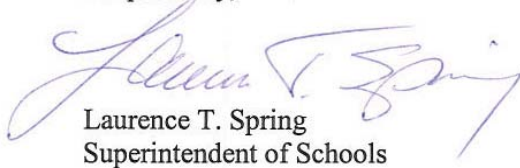
VIII. The Treasurer should directly supervise and control the use of her facsimile signature.

CORTLAND ENLARGED CITY SCHOOL DISTRICT RESPONSE

The Treasurer now supervises and controls the use of her facsimile signature.

In conclusion, on behalf of the Cortland Enlarged City School District and the residents of the District, I wish to express my thanks to you and the members of your staff for your recommendations. Our Board of Education and staff members have eagerly applied your recommendations so as to assure the public that we are maintaining the highest ethical standards in our daily operations and are employing sound practices to protect the taxpayers and reinforce their faith in us as stewards of their tax dollars.

Respectfully,



Laurence T. Spring
Superintendent of Schools

LTS:av

cc: Audit File

APPENDIX C

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

As we stated in our audit report, “SED guidance on interpreting regulations states it may not be appropriate for a BOCES to provide claims auditing services to its component districts, because most of these districts would have material and significant contract payments to that BOCES.” In our opinion, the District should not contract with BOCES for claims auditing services.

Note 2

The response seems to address reporting requirements. However, the recommendation states “the Board should investigate the propriety of the purchases above to ensure they were for legitimate expenses and verify that all goods purchased were actually received.” As stated in the report, there were dozens of purchases that lacked documentation to indicate whether they were for legitimate purposes, made by authorized personnel, or were actually received. This documentation was required by the Board adopted policy. We provided a list of the claims we questioned to the Business Official at the exit conference. We reiterate our recommendation that the Board follow up on the propriety of these claims.

APPENDIX D

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, payroll and personal services, and information technology systems.

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 objective and scope by selecting for audit those areas most at risk. We selected purchasing, claims auditing, and cash disbursements for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We obtained an understanding of the purchasing process (including credit card purchases), claims auditing and cash disbursements through interviews with staff members and by reviewing adopted policies and procedures.
- We reviewed 252 purchases totaling \$236,082 to ensure they were made in accordance with adopted policies and procedures and that the claims contained enough documentation to determine if the purchases were for legitimate expenses. Among these were five purchases totaling \$69,625 in excess of bidding thresholds, which we tested to determine if bids were awarded as required by the purchasing policy, and 96 credit card purchases totaling \$13,208, which we tested to determine if the purchases were made in accordance with the purchasing and credit card policies.
- We examined 41 blanket purchase orders for the 2006-07 fiscal year totaling \$207,870 to determine if they were signed by the purchasing agent to evidence his approval.
- We reviewed 128 claims totaling \$192,704 paid prior to May 18, 2007, 16 claims totaling over \$43,378 paid thereafter, and 415 non-payroll disbursements totaling \$5.08 million to ensure they included authorization, documentation, itemization (description of purchase), evidence of

approval, and review and reimbursement claim forms, as required, to verify the charges were proper, and to verify that the claims auditor reviewed and approved them and performed a deliberate and thorough audit prior to payment.

- We reviewed all warrants for our audit period to determine if they were reviewed and approved prior to payments being sent to vendors.
- We verified the check number sequence integrity for all funds to determine if all hand-drawn checks were entered into the account system and appeared on approved warrants.
- We judgmentally selected a sample of 10 hand-drawn checks totaling \$17,835 from a population of 192 hand-drawn checks totaling \$9.01 million. We tested to determine if the checks were properly authorized, approved and accurately entered into the accounting system.
- We judgmentally selected and tested a sample of 20 non-payroll checks totaling \$46,397 to determine if they were accurately recorded on warrants and if the endorsements appeared valid.
- We traced all electronic fund transfers performed during May 2007 to source documents to determine if they were for proper District expenses.
- We extracted a block of 364 checking transactions totaling \$5.09 million from the District's online banking system for two time periods (364 total) within our audit period and compared them to the cash disbursement records to determine if all transactions were recorded.
- We reviewed a sample of 41 disbursements totaling \$54,110 to determine if they were proper charges against the District.

We conducted this 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 E

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