



Duanesburg Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2005 — June 20, 2007

2007M-279



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 Duanesburg Central School District, entitled *Internal Controls Over Selected Financial Activities*. 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 Duanesburg 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.

Although the President of the Board (President) is the chief fiscal officer of the District, many of the financial management functions are the responsibility of the Superintendent and the Business Administrator. The Superintendent is authorized to certify payroll and manages the educational affairs of the District. The Business Administrator, who reports to the Superintendent, manages the fiscal affairs of the District and is also designated by the Board as the District's purchasing agent, responsible for administering all purchasing activities. The Treasurer reports to the Business Administrator and is responsible for all cash receipt and disbursement activities. The District appointed a claims auditor to audit and approve each claim before payment.

Scope and Objective

The objective of our audit was to determine if controls over payroll, purchasing, information technology, and the internal audit function were appropriately designed and operating effectively for the period July 1, 2005 to June 20, 2007. Our audit addressed the following related questions:

- Are internal controls over payroll and benefits appropriately designed and operating effectively to ensure that District officers and employees are paid in accordance with established rates and policies?
- Are internal controls over purchasing and claims processing appropriately designed and operating effectively to protect District assets against fraud, abuse, and professional misconduct?
- Are internal controls over information technology (IT) appropriately designed to adequately safeguard District assets?
- Is the District's internal audit function appropriately designed?

Audit Results

Duties in the payroll function were not adequately segregated and, although the District had mitigating controls in place, they were not sufficient. These internal control weaknesses over payroll increase the chance that errors or irregularities could occur and not be detected and corrected in a timely manner. Further, District officials did not consistently comply with provisions in the District's employment agreements concerning the accumulation of leave time. As a result, some District employees received benefits that the District did not intend to provide.

The District's internal controls over purchasing and claims processing were weak in some aspects. While District officials did establish a procurement policy, the policy did not provide proper guidelines for purchases in amounts less than the bidding minimum. In addition, 18 out of 31 claims tested, totaling \$426,292, were paid prior to being audited by the claims auditor. Unless the claims auditor thoroughly audits claims prior to payment, the District could process payments that are not authorized or valid District expenses; make duplicate payments; or pay for goods and services that were not actually received. Further, the Treasurer does not retain control of her signature disk, which is used by other employees, increasing the risk of unauthorized payments.

The District also needs to strengthen internal controls over information technology. The District does not have a formal disaster recovery plan and, although District personnel back up the District's data and store it in a locked fireproof cabinet, the storage location is on-site. As a result, the District's IT system and electronic data are subject to an increased risk of loss.

Lastly, the Capital Region Board of Cooperative Educational Services (BOCES) employee serving as the District's internal auditor is not independent in performing the internal audit function. Accordingly, the District's current arrangement with the BOCES may put this individual in the position of evaluating significant District services or programs that are provided by the BOCES, the individual's employer.

Comments of District Officials

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

Introduction

Background

The Duanesburg Central School District (District) is located in the Towns of Duanesburg, Charleston, Knox, Wright, Princetown, Florida, and Schoharie in the Counties of Schenectady, Montgomery, Albany, and Schoharie. 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.

Although the President of the Board is the chief fiscal officer of the District, many of the financial management functions are the responsibility of the Superintendent and Business Administrator. The Superintendent is authorized to certify payroll and manages the educational affairs of the District. The Business Administrator, who reports to the Superintendent, manages the fiscal affairs of the District and is also designated by the Board as the District's purchasing agent, responsible for administering all purchasing activities. The Treasurer reports to the Business Administrator and is responsible for all cash receipt and disbursement activities. The District appointed a claims auditor to audit and approve each claim before payment.

There are two schools in operation within the District, with approximately 960 students and 190 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$13.2 million, which were funded primarily with real property taxes and State aid.

Objective

The objective of our audit was to determine if controls over payroll, purchasing, information technology, and the internal audit function were appropriately designed and operating effectively. Our audit addressed the following related questions:

- Are internal controls over payroll and benefits appropriately designed and operating effectively to ensure that District officers and employees are paid in accordance with established rates and policies?
- Are internal controls over purchasing and claims processing appropriately designed and operating effectively to protect District assets against fraud, abuse, and professional misconduct?

- Are internal controls over information technology appropriately designed to adequately safeguard District assets?
- Is the District's internal audit function appropriately designed?

Scope and Methodology

We examined District internal controls over payroll, purchasing and claims processing, information technology, and the internal audit function for the period July 1, 2005 to June 20, 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 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*.

Payroll

Payroll is the District's most significant operating cost. Therefore, it is essential that management design and implement effective controls over the payroll process comprising well-developed policies, practices and procedures; adequate managerial oversight; and proper segregation of duties. Effective controls over payroll should also ensure that all employees are paid for leave time in conformance with their employment contracts.

We found weaknesses in internal controls over payroll. Duties were not adequately segregated and, although the District had mitigating controls in place, they were not sufficient to compensate for the control weaknesses we identified. Further, District officials did not consistently comply with provisions in the District's employment agreements concerning the accumulation of leave time. As a result, some employees received benefits that the District did not intend to provide.

Segregation of Duties

Proper segregation of duties is a key internal control that helps to reduce the risk of fraud and professional misconduct by dividing payroll functions between multiple employees so that no one employee performs all aspects of the payroll function, including the ability to add new employees to the computer system, update salary information, enter leave time data, process payrolls, and print checks. If it is not feasible for the District to adequately segregate duties over the payroll process, mitigating controls (i.e., additional procedures or reviews) can limit the risk.

The District has no written policies to address the lack of segregation of duties in processing payrolls. The payroll clerk handles most aspects of payroll processing with little managerial oversight: adding new employees into the computerized payroll system, inputting and updating salaries, inputting biweekly payroll information, inputting leave time, and printing the payroll checks. As a result of this lack of segregation of duties, the payroll clerk could initiate and conceal inappropriate payroll transactions. Although District officials instituted mitigating controls, such as having the Superintendent certify each payroll, these controls did not adequately compensate for the identified weaknesses. The Superintendent's review of the payrolls was limited to briefly viewing the payroll register – an alphabetical listing of employees receiving a paycheck – to ensure that only valid employees were being paid. The Superintendent did not compare the actual paychecks issued with the payroll register. In addition, there is

no independent verification of leave accruals and usage against leave balances.

We selected 25 employees and tested adopted pay rates to approved contract schedules. Although our testing did not reveal any significant exceptions, the internal control weaknesses over payroll increase the chance that errors or irregularities could occur and not be detected and corrected in a timely manner.

Leave Time

An effective system of internal controls includes policies, practices, and procedures to guide the use of employees' leave time, and to ensure that leave time usage and accruals are properly documented and in compliance with applicable employment contracts. For employees to receive the benefits the District intends for them, such benefits must be clearly defined and authorized by the Board. Adherence to employment contracts is essential to ensure that employees do not receive benefits that the District did not intend to provide.

The District has two collective bargaining agreements (one for instructional employees and one for non-instructional employees) and two conditions-of-employment agreements for non-instructional employees. Two of the agreements¹ state that if an employee wants to roll forward vacation time, the roll-forward must be approved by the Superintendent. In addition, one conditions-of-employment agreement limits personal leave usage to a maximum of four accumulated sick leave days.

We selected 25 employees (10 non-instructional and 15 instructional) and tested leave accruals and leave time usage. (Of these 25 employees, nine were substitute employees and therefore did not accrue leave time.) We found that the District did not always follow the policies set forth in the non-instructional contracts. For example, District officials allowed three non-instructional employees to roll forward vacation days from the 2005-06 fiscal year to the 2006-07 fiscal year when their contracts specifically stated that vacation days would roll forward only upon approval of the Superintendent. District officials were not able to provide documentation for the approval of the vacation roll-forwards. In addition, two non-instructional employees each received five days of personal leave accruals in the 2005-06 fiscal year, even though their contract allowed only a maximum of four accumulated sick leave days to be used as personal leave.

Because District officials did not consistently adhere to employment contract provisions for leave time accruals and usage, some employees received benefits that the District did not intend to provide.

¹ A collective bargaining agreement and a conditions-of-employment agreement

Recommendations

1. District managers should assign payroll and personnel duties to employees so that the work of one individual independently verifies another's work in the course of their regular duties. The duties of adding new employees to the system and updating salary information should be segregated from the duties of processing payrolls. If it is not possible to segregate duties, District officials should establish effective mitigating controls.
2. District managers should ensure that leave time roll-forwards and accruals are made in accordance with employment contracts.

Purchasing and Claims Processing

An effective system of internal controls over purchasing and claims processing includes policies and procedures to provide reasonable assurance that the District is expending funds in the most economical and prudent manner. Accordingly, an effective procurement process helps to ensure that the District obtains goods and services of suitable quality at the best available prices. Additionally, the Board or its appointed claims auditor should conduct a proper audit of claims before approving them for payment. The proper review of claims is intended to determine that the proposed payment is valid and legal and represents a necessary obligation incurred by an authorized District official. With rare exceptions,² the Treasurer should pay vendors only after receiving a warrant of the claims approved by the claims auditor. The Treasurer should retain custody of his or her signature disk and not surrender or delegate that responsibility to any other individual. Additionally, the Treasurer should be present and should control the use of the signature when checks are run, and should compare the checks against the approved warrant and certified payroll.

We found certain weaknesses in internal controls over purchasing and claims processing. While the District did establish a procurement policy, the policy did not provide proper guidelines for purchases in amounts less than the bidding minimum. Some claims were paid prior to the claims auditor's review and approval of the warrant, and the payroll clerk and the accounts payable clerk were allowed to routinely use the Treasurer's signature disk in the Treasurer's absence.

Policies and Procedures

General Municipal Law (GML) requires that the Board adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. According to the GML, these policies and procedures should contain provisions describing how such goods and services will be purchased (e.g., through the use of requests for proposal, written quotations, or verbal quotations); set forth each method of procurement and the procedures for determining which method to use; and provide for adequate documentation of the actions taken by the District's personnel who administer the procurement process.

The District adopted a procurement policy in January 2005, which provides guidance to District officers and employees involved in

² 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.

procuring goods and services. Although the procurement policy requires that District personnel facilitate the acquisition of goods and services of maximum quality at the lowest possible cost, there is no written guidance on the procedures or method District officials should use to implement and document adherence to this policy. Without clear and specific guidelines on the proper methods to use in acquiring goods and services, there is an increased risk that goods and services which fall below the bidding threshold may not be purchased at the lowest possible cost.

Claims Processing

With few exceptions, the Education Law requires school districts to audit and approve each claim before making payment. If the Board chooses to appoint a claims auditor, the individual in that position assumes the powers and duties of the Board to audit each claim to determine whether it is properly authorized and accurate; whether the purchase represents a valid District expense for goods or services; and whether the goods or services were actually received. Audited claims should be included on warrants certified by the claims auditor.

The Board had appointed a claims auditor to audit and approve District claims. However, we found that 18 out of 31 claims tested, totaling \$426,292, were paid prior to being audited by the claims auditor. Although the checks were for appropriate District expenditures, the purchases did not qualify as statutory exceptions, such as public utility services or postage, that can be paid prior to audit when properly authorized by the Board. Unless the claims auditor thoroughly audits claims prior to payment, the District could process payments that are not authorized or valid District expenses; make duplicate payments; or pay for goods and services that were not actually received.

Signature Disk

In school districts, the Treasurer is the custodian of all school district moneys. As such, the Treasurer should sign accounts payable checks, payroll checks, and other disbursements on behalf of the District. The Board may, at its discretion, require that another officer of the District countersign such checks, other than checks for salary. When authorized by the Board, checks may be signed with the facsimile signature of the Treasurer and any other District officer whose signature is required. The Treasurer should retain control over the signature disk to ensure that unauthorized payments are not processed, and should not delegate the use of the signature disk to other employees without the Treasurer being present.

The Board annually appoints the Treasurer and grants the authority to sign checks. The Treasurer is at the District for only one day a week and does not control the signature disk. The signature disk is secured by the Business Administrator, who retains it in a locked cabinet and

requires it to be signed out by either the accounts payable clerk or the payroll clerk, either of whom can affix the Treasurer's signature on checks without the Treasurer being present. Although we found no indication that the signature disk was used for improper purposes, when the Treasurer does not retain control of the disk containing her signature and allows other employees to use it in her absence, there is an increased risk that unauthorized disbursements could be made.

Recommendations

3. The Board should amend the procurement policy to include clear guidelines for the procurement of goods and services not subject to competitive bidding.
4. The District should not pay for goods and services prior to audit of the claim vouchers by the claims auditor, unless properly authorized by the Board in compliance with statutory exceptions.
5. The Treasurer should be present and should control the use of her electronic signature when checks are run.

Information Technology

An effective system of internal controls to safeguard computerized data includes policies and procedures to minimize the loss of essential data. Such policies and procedures work to protect data from loss and to restore lost or corrupted data in the event of threats or disasters including fire, flood, and other environmental damage; computer viruses; and inadvertent or intentional employee actions. Effective internal controls include a disaster recovery plan and systematic backup procedures to enable lost or damaged computer data to be restored and operations to resume with minimal liability or lost productivity.

We found weaknesses in internal controls for information technology (IT) related to disaster recovery and backup file storage. As a result, there is an increased risk of the loss of computer data as well as a reduced ability to recover computer data and restore operations in the event of a disaster.

Disaster Recovery — A disaster recovery plan describes how a district should deal with potential disasters, i.e., any sudden, catastrophic event (such as a fire, flood, computer virus, power outage, or inadvertent or intentional employee action) that compromises the integrity, data, or operations of the IT system. A formal plan consists of precautions to minimize the effects of the disaster and to enable the District to either maintain or quickly resume its mission-critical functions. Typically, disaster recovery planning involves an analysis of threats to business processes and continuity needs, and may also address disaster prevention.

The District has not developed a formal disaster recovery plan. Consequently, in the event of a disaster, District personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data, and no guidance on how to implement data recovery.

Backup File Storage — Data stored on computers and servers should be backed up (a duplicate copy of information made) on a routine basis to enable it to be restored in the event of the loss of the original data. Furthermore, backup data kept at an off-site location helps ensure against loss of data in the event of a disaster at the server location site.

District officials had instituted procedures to back up files on a daily basis. Although the current day's system backup tape was placed in a locked, fireproof filing cabinet at the end of each day, the filing cabinet was stored in the District's offices instead of a sufficiently removed off-site location (such as the District's elementary school building about one mile away). Storing the backup tapes in or near the District's offices subjects them to the same risks as the original data and defeats the purpose of this control procedure. As a result, the District's financial information and other mission-critical data, such as student and human resources information, are at risk of loss in the event of a disaster.

Recommendations

6. District officials should develop a formal disaster recovery plan.
7. District officials should investigate the feasibility of storing the District's backup data at an alternate location to improve the security and protection of the backup data.

Internal Auditor

By law, school districts are required to have an internal audit function in operation that includes, at a minimum, the development of a risk assessment of district operations. The risk assessment should include, but not be limited to, a review of financial policies, procedures and practices; an annual review and update of such risk assessment; and annual testing and evaluation of one or more areas of the district's internal controls. The internal auditor should prepare reports (at least annually, or more frequently as the Board may direct) that analyze significant risk assessment findings, recommend changes for strengthening controls and reducing identified risks, and specify timeframes for implementation of such recommendations.

A district may use its own employees, inter-municipal cooperative agreements, shared services, or independent contractors to fulfill the internal audit function. The internal auditor must have professional auditing qualifications and be independent of other district functions; must have no other responsibilities related to district business operations; and cannot be a family member of an employee, officer, or contractor providing significant services to the district. In addition, an individual or consultant hired for the internal audit function may not have a significant or material interest in any other contracts with the district.

The District entered into an inter-municipal agreement with the Capital Region Board of Cooperative Educational Services (BOCES) to perform the internal audit function as of December 31, 2006. The BOCES and the District agreed to employ an internal auditor who would report directly and exclusively to the Board of Education of each organization regarding the work done. The internal auditor would have suitable qualifications that allowed him or her to undertake internal audit functions, and would be considered an employee of the BOCES for purposes of payroll administration and benefits.

In the 2005-06 fiscal year, the District spent \$1.7 million on services provided by the BOCES. Based on the significant nature of these payments by the District to the BOCES, we conclude that the BOCES employee serving as the internal auditor is not independent in performing the District's internal audit function. The current arrangement is likely to put this individual, as a BOCES employee, in the position of evaluating significant District services or programs that are provided to the District by the BOCES, the individual's employer.

Recommendation

8. The Board should terminate the internal audit relationship with the BOCES and replace this position with an internal auditor who meets the independence requirements in Education Law and State Education Department guidance.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Duaneburg Central School District

Central Office
133 School Drive
Delanson, NY 12053
518-895-2279

Elementary School
165 Chadwick Road
Delanson, NY 12053
518-895-2580

Jr./Sr. High School
163 School Drive
Delanson, NY 12053
518-895-2355

"To be a socially responsible school community where learning and the pursuit of excellence are valued."

February 27, 2008

Office of the State Comptroller
110 State Street, 15th Floor
Albany, NY 12236

Dear [REDACTED]

On behalf of the Duaneburg Central School District, this letter is response to the draft of your Report of Examination on internal controls over selected financial operations for the period of July 1, 2005 – June 20, 2007. The District would like to recognize the professionalism exhibited by the auditors while conducting their review. The purpose of this audit was to examine internal controls to ensure that appropriate safeguards are in place to protect the financial assets of the school district. Based on the results of the examination, the district is pleased that the audit did not identify any exceptions, improprieties or improper practices. This reinforces the District's position of high standard work performed by its staff. The District would like to acknowledge the recommendations contained in the audit report to further strengthen our internal controls over financial activities.

PAYROLL

1) Segregation of Duties:

The District recognizes that by being small compensating controls must be in place and has implemented additional internal controls over payroll in order to limit any risk of human error as well as fraud. The Treasurer monitors every change in payroll by printing out the payroll change report. These reports are kept in the payroll audit binder with all supporting documentation. Upon verification, it is signed. The Treasurer also takes a sample of checks and verifies the amount against each payroll register. This independent verification will eliminate the possibility of any errors, irregularities or inappropriate payroll transactions. The payroll audit binder will become an intricate part of the Superintendent's payroll certification process.

Fax Numbers
Central Office: 518-895-2626
Elementary School: 518-895-2957
High School: 518-895-9971

Auto-Attendant Numbers
Central Office: 518-895-5350
Elementary School: 518-895-8310
High School: 518-895-5350

2) Leave Time

The payroll clerk reconciles timesheets to leave forms for every payroll. An Independent Verification of roll over accrued time is in place and will be added to the payroll audit binder to insure that it is in accordance with appropriate contracts. Limits have been set in the District's financial accounting software to ensure that leave time roll-forwards and accruals are made in accordance with their contracts.

PURCHASING AND CLAIMS PROCESS

3) Purchasing Policies & Procedures

The Board will seek to expand its procurement policy adding a regulation to include clear guidelines for the procurement of goods and services not subject to competitive bidding.

4) Claims Processing

The check processing and claims auditing schedule has been adjusted so no payment for goods and services are permitted prior to the claims auditor's approval. Additional language will be added to the Board Policy that allow statutory exceptions of making payments for public utility services (including electric, gas, water, sewer and telephone services), postage and freight, and express charges prior to claims audit.

5) Signature Disk

To ensure that no unauthorized payments are processed, the Treasurer has adjusted her schedule and will be present when checks are run. If she is unable to be present when accounts payable checks are run, the District's other appointed Treasurer will serve as back up in her absence. Each will maintain personal control of their respective signature disks.

INFORMATION TECHNOLOGY

Disaster Recovery Plan

The District will collaborate with BOCES to develop a formal disaster recovery system since all financial and human resource programs are currently hosted remotely at NERIC.

Backup File Storage

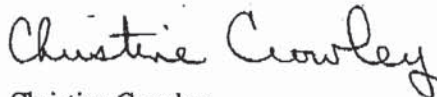
The process for back-up file storage will be altered to include off-site storage facilities to improve the security and protection of the back up data.

INTERNAL AUDITOR

8) Like many other school districts across the State, we have sought to comply cost effectively with the recently enacted requirement to perform the internal audit function. We respectfully submit that there is nothing in the law or regulation that would preclude this district and other Capital Region school districts from arranging for the provision of this service through an inter-municipal agreement (IMA) in association with other districts and the Capital Region Board of Cooperative Education Services. Rather than a separately contracting for this function, we sought to utilize the local BOCES for facilitating means by which the regions' school districts can most efficiently satisfy their shared obligations. Should an IMA through a BOCES be declared illegal, the District will take prompt action to terminate the contract.

The Duaneburg Central School District views this audit report as an important tool in maintaining the high level of accountability. We appreciate the constructive comments and feedback and thank you for the opportunity to respond to the preliminary draft audit report.

Sincerely,



Christine Crowley
Superintendent of Schools

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, payroll and personal services, information technology, and the internal audit function.

During the initial assessment, we interviewed 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 payroll, purchasing and claims processing, information technology, and the internal audit function for further audit testing. Certain observations and lesser findings related to fuel inventories and cafeteria receipts were discussed with District officials to help them strengthen internal controls in that area.

When testing payroll, we examined the following records and reports in an effort to determine if the District had properly designed and implemented internal controls over payroll:

- Payroll registers and employee earnings records generated from the financial software
- Employee personnel files
- Collective bargaining agreements and individual employment contracts
- Salary notification letters and timesheets for hourly and salaried employees
- Leave time accrual records
- W-2 reports
- Board of Education minutes.

Within the fuel inventory area, we examined the following records to determine the effectiveness of internal controls pertaining to the fuel inventory:

- Fuel activity detail report by driver
- Driver vehicle inspection reports
- Fuel key listing.

Within the purchasing area, we focused our attention on the approval of purchases and approval of payment for various types of goods and services acquired, including claims for reimbursement of expenses for officials and employees. We also focused on adherence to District policies and procedures, as well as pertinent laws and regulations related to purchasing. We examined the following records to determine the effectiveness of internal controls pertaining to the purchasing and claims processing function and to identify any associated effect of deficiencies found in those controls:

- Purchase orders
- Requisition forms
- Warrants
- Claims
- Appropriation status reports
- Policy manual
- Board of Education minutes.

Within the cash receipts area, we interviewed the cafeteria supervisor and examined the following records to determine the effectiveness of internal controls pertaining to the receipt of cafeteria cash:

- Monthly cafeteria sales reports
- Cafeteria rosters
- Daily register tapes
- Bank deposit tickets
- Bank statements
- Cash collection listing.

We interviewed District officials to obtain an understanding of internal controls over the District's computerized financial system. We also viewed reports of District employees' access rights to the computerized financial system in conjunction with their duties and responsibilities.

When reviewing the internal audit function, we reviewed the independence of the contractual relationship between the BOCES and the District, total expenditures between the District and the BOCES, and potential independence issues.

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 C

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Steven J. Hancox, Deputy Comptroller
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