



East Greenbush Central School District

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — November 30, 2007

2008M-70



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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

There are seven schools in operation within the District, with approximately 4,550 students and 850 employees. The District's budgeted expenditures for the 2007-08 fiscal year are approximately \$79.5 million, which are funded primarily with State aid, real property taxes, and grants.

Scope and Objectives

The objectives of our audit were to examine internal controls over claims processing and to examine the establishment of the internal audit function for the period July 1, 2006 through November 30, 2007. Our audit addressed the following related questions:

- Are internal controls over claims processing for travel reimbursements and credit card use appropriately designed and operating effectively?
- Has the District appropriately established the internal audit function?

Audit Results

The District's claims auditor was not properly trained, which resulted in claim payments that were not consistent with District policies. Out of \$35,000 in credit card purchases and expense reimbursements we examined, over \$6,200 were not in conformance with the District's adopted policies. For example, nearly \$2,000 in credit card charges were incurred during the first day of an administrators retreat when no District-related business activity occurred.

The individual performing the District's internal audit function was not entirely independent because he is jointly employed by the District and the Rensselaer-Columbia-Greene Board of Cooperative Educational Services (Questar III) and may be required to evaluate significant services or programs that Questar III provides the District.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B contains OSC comments on issues raised in the District's response.

Introduction

Background

The East Greenbush Central School District (District) is located in the Towns of East Greenbush, Nassau, North Greenbush, Sand Lake and Schodack, in Rensselaer County; and the Town of Chatham in Columbia County. The District is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Responsibilities relating to the District's finances, accounting records and reports are largely those of the Assistant Superintendent for School Business Finance and the Treasurer.

There are seven schools in operation within the District, with approximately 4,550 students and 850 employees. The District's budgeted expenditures for the 2007-08 fiscal year are approximately \$79.5 million, which are funded primarily with State aid, real property taxes, and grants.

The District entered into an inter-municipal agreement with the Rensselaer-Columbia-Greene Board of Cooperative Educational Services (Questar III) to perform the internal audit function, and it has renewed the contract annually since 2005. The most recent agreement covers the period July 1, 2007 through June 30, 2008.

Objectives

The objectives of our audit were to examine internal controls over claims processing and to examine the establishment of the internal audit function. Our audit addressed the following related questions:

- Are internal controls over claims processing for travel reimbursements and credit card use appropriately designed and operating effectively?
- Has the District appropriately established an internal audit function?

Scope and Methodology

During this audit, we examined internal controls over claims processing and the establishment of the internal audit function of the District for the period July 1, 2006 to November 30, 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 C of this report.

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B contains OSC comments on issues raised in the District's response.

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*.

Claims Processing

In general, the objectives of internal controls over claims processing are to ensure that every claim contains enough supporting documentation to ensure that the amount claimed represents actual and necessary District expenses. Conducting a proper audit of claims before the District pays them is an integral part of any internal control system. This helps ensure that monies are spent in the most efficient manner and only for legitimate District charges.

In December 2006, the Board adopted a policy addressing the reimbursement for reasonable, actual, and necessary out-of-pocket expenses incurred by authorized individuals while traveling for school related activities. This policy did not address non-travel related expense reimbursement. The Board also adopted a credit card policy, which authorized credit card usage by certain designated officials to pay for actual and necessary expenses incurred during the performance of their duties.

However, we found that the claims auditor was not entirely familiar with these policies and was using an audit checklist that did not address the specifics of these types of claims. As a result, the audit of claims for travel reimbursements and credit cards was inadequate to safeguard District assets.

We judgmentally selected a sample of 109 claims totaling \$35,000 to determine if District policies were followed and whether the charges were incurred for proper District purposes. These claims included 61 employee reimbursements and 44 food vendor claims; and four credit card claims. The four credit card claims encompassed 12 separate transactions or purchases. Our tests disclosed the following:

- Of 61 employee reimbursements for travel, 10 totaling \$2,363 were payments for non-travel related expenses that should have been processed pursuant to the District's established procurement process. These included reimbursements of \$567 for flowers and other miscellaneous items associated with the former Superintendent's retirement party and \$1,278 for school supplies.
- Eleven of 12 credit card purchases examined and totaling \$3,960 either did not appear to be District related expenditures and/or lacked evidence of supervisory approval. For example, the District paid \$1,702 to various restaurants for meals, and \$233 to a bowling establishment on the first day of an

administrators' retreat. There was no District-related business scheduled or conducted on the first day of the retreat. The attendees were allowed to choose from several activities such as shopping, miniature golf, bowling and the Racino.¹ The Superintendent's secretary, who was not designated as an authorized user, initiated six transactions for the purchase of supplies.

There was no indication that the claims auditor questioned these payments as part of the claims audit process. When internal controls are not designed appropriately or operating effectively, it increases the risk that errors and irregularities may occur and not be detected and corrected. By the end of our fieldwork, the claims auditor had received additional instructions and training on the policies related to the payment of these claims.

Recommendations

1. The claims auditor should ensure that all credit card purchases and claims submitted for reimbursement of expenses are properly authorized and incurred in accordance with applicable Board policies.
2. District officials should not use District funds to pay for non-District related expenses incurred during staff retreats.
3. The Assistant Superintendent for School Business Finance should ensure that only authorized individuals use the District credit card.

¹ The Racino is a combined racetrack and casino.

Internal Audit Function

All school districts are required to have an internal audit function which 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; annual testing and evaluation of one or more areas of the district's internal controls, taking into account risk, control weaknesses, size and complexity of operations. It should also, at least annually, include the preparation and presentation of reports which analyze significant risk assessment findings, recommend changes for strengthening controls and reducing identified risks, and specify timeframes for implementing the recommendations.

The district may use its own employees, inter-municipal cooperative agreements, shared services to the extent authorized by Education Law, or independent contractors to fulfill the internal audit function. However, the internal auditor must be independent of other district functions, have no other responsibilities related to district business operations, and cannot be a close family member of an employee, officer, or contractor providing significant or material services to the district.

The individual performing the District's internal audit function was not sufficiently independent because he is jointly employed by the District and by the Rensselaer-Columbia-Greene BOCES (Questar III) and may be required to evaluate significant services or programs that Questar III provides the District. In June 2006, the District entered into an inter-municipal agreement with Questar III to jointly employ an internal auditor to perform the internal audit function for the 2006-07 school year. The agreement states that the internal auditor shall report directly and exclusively to the Board of Education of each organization regarding the work done on behalf of such organization alone. The jointly employed internal auditor is considered an employee of Questar III for purposes of payroll administration and benefits.

From July 2006 through June 2007, the District expended approximately \$4.6 million on services provided by Questar III. Due to the material nature of these payments, the current employment arrangement is unacceptable because the internal auditor may be asked to evaluate significant programs or services provided to the District by Questar III, the joint employer of the internal auditor. This situation creates independence impairment for the internal auditor.

Subsequent to completion of our fieldwork, we were informed by a letter dated April 30, 2008 that Questar III BOCES would no longer provide internal audit services to its component school districts and will try to assist the districts in finding independent internal audit services.

Recommendation

4. The Board should terminate the internal audit relationship with Questar III and implement an internal audit function that meets the independence requirements of the Education Law and guidance provided by the State Education Department.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



East Greenbush Central School District

ADMINISTRATION CENTER

29 Englewood Avenue, East Greenbush, New York 12061
Phone (518) 477-2755, Ext. 131 • Fax (518) 477-4833

Angela M. Guptill, Ph.D.
Interim Superintendent

June 20, 2008

Office of the State Comptroller
Glens Falls Regional Office
One Broad Street Plaza
Glens Falls, New York 12801

We are in receipt of your draft audit report entitled Internal Controls Over Selected Financial Operations for the period July 1, 2006 to November 30, 2007. Also, we are in receipt of your request to provide a response to the findings and recommendations within the report. Therefore, we have prepared this letter for your review and consideration.

Recommendations & Responses

Recommendation #1 – The claims auditor should ensure that all credit card purchases and claims submitted for reimbursement of expenses are properly authorized and incurred in accordance with applicable Board policies.

Response – The claims auditor received initial training on March 13, 2007 in a session sponsored by the State Education Department. Subsequently, the claims auditor received a copy of all Board policies relating to financial operations as well as additional training on auditing of claims relating to expense reimbursement and credit card purchases.

Recommendation #2 – District officials should not use District funds to pay for non-District related expenses incurred during staff retreats.

Response – In the future, the Superintendent of Schools and Board of Education will approve detailed written proposals on staff retreats. Expenses incurred will be approved only if District-related business is demonstrated.

Recommendation #3 – The Assistant Superintendent for School Business Finance should ensure that only authorized individuals use the District credit card.

Response – The Board of Education has authorized the Superintendent of Schools and Assistant Superintendent for School Business Finance to use the credit card for District-

related expenses. These individuals have been notified that they are the only authorized users and may not allow anyone else to initiate credit card transactions.

Recommendation #4 – The Board should terminate the internal audit relationship with Questar III and implement an internal audit function that meets the independence requirements of the Education Law and guidance provided by the Education Department.

Response – The inter-municipal agreement between the School District and Questar III terminates on June 30, 2008. There is no intention by either the District or Questar III to renew the agreement for internal audit services. Accordingly, the Board of Education will initiate a Request for Proposal (RFP) process during the 2008-2009 fiscal year to obtain new internal audit services.

Consideration for Report Modifications

As part of our review of the draft audit report, we discovered the following two minor areas that may merit consideration for modification when the final report is issued:

Item #1 – The end of the audit period in the Executive Summary is listed as November 20, 2007, whereas in the remainder of the report it is noted as November 30, 2007.

Item #2 – The description of the East Greenbush Central School District in the Introduction includes the city of Rensselaer. There are currently no properties within the city of Rensselaer that are within the East Greenbush Central School District.


See
Note 1
Page 16

We would like to take this opportunity to thank the audit staff of the Comptroller's Office for providing us with sound recommendations to further improve the District's internal control structure.

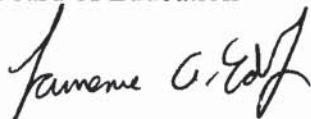
Sincerely,



JoAnn Hart, President
Board of Education



Angela M. Guptill, Ph.D.
Superintendent of Schools



Lawrence A. Edson, Jr.
Assistant Superintendent for School Business Finance

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

Clerical errors noted were corrected in the final report.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

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. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected claims processing in regards to credit cards and employee reimbursement and the internal audit function for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We interviewed appropriate District officials in order to obtain an understanding of the organization, the District's accounting system and to identify key personnel.
- We obtained copies of District policies and procedures and evaluated the adequacy of these policies and procedures.
- We judgmentally reviewed 109 claims that included 61 employee reimbursement, 44 food claims, and four credit card claims to verify that they were all accurate, in compliance with adopted District Policy, supported and audited, and approved prior to payment.

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 BOCES and potential independence issues.

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 D

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