



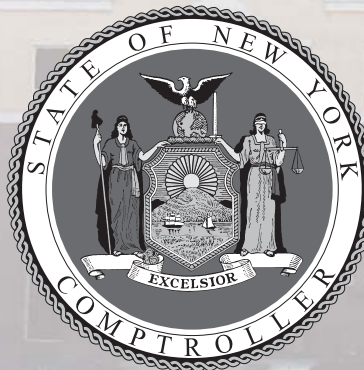
Newark Valley Central School District Internal Controls Over Selected District Operations

Report of Examination

Period Covered:

July 1, 2006 — January 23, 2008

2008M-144



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 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 Newark Valley Central School District, entitled *Internal Controls Over Selected District 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 Newark Valley Central School District (District) is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District Treasurer (Treasurer) is responsible for the custody, receipt, and disbursement of District moneys. The Assistant Superintendent of Business was responsible for overseeing the District's payroll operations,¹ and also served as Treasurer.² New York State Education Law requires that all employees and independent contractors who have direct contact, or are reasonably expected to provide services that involve direct contact, with students under the age of 21 must have fingerprint-supported criminal background history checks.

The District contracted with the Broome-Tioga Board of Cooperative Educational Services (BT BOCES) to provide payroll services³ and claims auditing services⁴ and to fulfill the function of Treasurer,⁵ in addition to other educational and related services. The District paid the BT BOCES approximately \$4 million for services provided to the District during our audit period.

Scope and Objective

The objective of our audit was to examine internal controls over selected District operations for the period July 1, 2006 to January 23, 2008. Our audit addressed the following related questions:

- Did District personnel fully comply with Education Law by performing the required fingerprint-supported criminal background checks for all prospective school employees and independent contractors who are expected to have direct contact with students?
- Did the District officials provide adequate oversight of the payroll process to ensure that wages and benefits payments were in accordance with Board authorizations and approved employment contracts?
- Was the Board's appointment of a claims auditor in accordance with New York State Education Department (SED) regulations?

¹ The Assistant Superintendent of Business retired from District service in May 2008.

² From July 1, 2006 through December 31, 2007

³ Effective January 1, 2008

⁴ Effective for claims paid after January 1, 2008

⁵ Effective January 1, 2008

Audit Results

District officials did not adopt comprehensive policies or develop procedures to ensure that fingerprint-supported criminal background checks as required by Education Law were performed for District employees or independent contractors who had direct contact with students. Either the required background checks were not performed or District officials did not have required supporting documentation on file to confirm that the background check was performed for three of the District's independent contractors who had direct student contact. District officials did not have documentation of updated clearance for an employee who also had direct contact with students. While none of these individuals were listed in the State's sex offender registry database,⁶ the District is potentially placing the welfare of its students at risk unless it establishes procedures to ensure that District personnel perform these required background checks.

Although District officials did not provide adequate oversight of the payroll process during most⁷ of our audit period, we identified no improper payments or errors, and found that wages and benefits were paid in accordance with Board authorizations and approved employment agreements. Further, District officials implemented corrective measures at their own initiative by contracting with the BT BOCES to perform the District's payroll function effective January 1, 2008. Through this arrangement, District officials have established adequate procedures for authorizing, recording, and processing payroll and benefit payments.

However, the Board's appointment of a BT BOCES employee as its claims auditor was not in accordance with State Education Department regulations,⁸ which prohibit a school district's appointment of a BOCES as claims auditor if the district makes "material and significant" contract payments to the BOCES for other services. Because the District paid the BT BOCES approximately \$4 million for other contract services during the audit period, the individual serving as claims auditor is not independent from the BOCES, the individual's employer, while providing claims auditing services to 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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

⁶ Maintained by the New York State Division of Criminal Justice Services (DCJS)

⁷ July 1, 2006 through December 31, 2007

⁸ Amendment of the Regulations of the Commissioner of Education

Introduction

Background

The Newark Valley Central School District (District) is located in ten towns⁹ in Broome, Cortland, Tioga, and Tompkins counties. 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 District's chief executive officer and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Annually, the Board appoints a Treasurer who is responsible for the custody, receipt, and disbursement of District moneys. The District's Assistant Superintendent of Business was responsible for overseeing the District's payroll operations¹⁰ and also served as Treasurer.¹¹

There are three schools in operation within the District, with approximately 1,320 students and 261 employees. The District's budgeted expenditures for the 2006-07 fiscal year totaled approximately \$21.4 million, funded primarily with State aid, real property taxes, and grants. To protect the safety and well-being of students, New York State Education Law requires that all employees and independent contractors who have direct contact, or are reasonably expected to provide services that involve direct contact, with students under the age of 21 must have criminal background history checks including fingerprinting.

Payroll expenditures, which comprised a significant portion of the District's annual expenditures, totaled over \$9 million for the 2006-07 fiscal year. District officials contracted with the Broome-Tioga Board of Cooperative Educational Services (BT BOCES) for payroll services,¹² claims auditing services,¹³ and the function of Treasurer,¹⁴ as well as other educational and related support services. The District paid the BT BOCES approximately \$4 million for services provided to the District during our audit period.

⁹ The Towns of Maine, Nanticoke, Harford, Lapeer, Berkshire, Candor, Newark Valley, Owego, Richford, and Caroline

¹⁰ The Assistant Superintendent of Business retired from District service in May 2008.

¹¹ From July 1, 2006 (the start of our audit period) through December 31, 2007

¹² Effective January 1, 2008

¹³ Effective for claims paid after January 1, 2008

¹⁴ Effective January 1, 2008

Objective

The objective of our audit was to examine internal controls over selected District operations. Our audit addressed the following related questions:

- Did District personnel fully comply with Education Law by performing the required fingerprint-supported criminal background checks for all prospective school employees and independent contractors who are expected to have direct contact with students?
- Did the District officials provide adequate oversight of the payroll process to ensure that wages and benefits payments were in accordance with Board authorizations and approved employment contracts?
- Was the Board's appointment of a claims auditor in accordance with New York State Education Department (SED) regulations?

Scope and Methodology

During this audit we examined internal controls over selected District operations of the Newark Valley Central School District for the period July 1, 2006 to January 23, 2008.

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. 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 did determine that risk existed in the areas of criminal background checks, payroll, and the claims audit function and, therefore, we examined internal controls over those areas.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B 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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Criminal Background Checks

To protect the safety and well-being of students, Education Law requires that all employees and independent contractors who have direct contact, or whom the District reasonably expects to provide services that involve direct contact (i.e., face-to-face communication or in-person interaction), with students under the age of 21 must undergo a fingerprint-supported criminal history background check. This includes a criminal history record search by the New York State Division of Criminal Justice Services (DCJS) and the Federal Bureau of Investigation (FBI).¹⁵ Further, the law requires that the DCJS and FBI file these fingerprint-supported criminal background checks with the New York State Education Department's Office of School Personnel Review and Accountability (OSPRA), which then provides the school district with certification clearing the individual for employment. If an individual is arrested subsequent to providing fingerprints to OSPRA, the DCJS files a notice of the arrest with OSPRA. OSPRA then notifies the school district of the individual's name, the arresting agency, the date of arrest, and the court jurisdiction. The Board is responsible for adopting a comprehensive written policy to help ensure that all applicable prospective employees and independent contractors undergo the required criminal background checks.

Although District officials adopted a policy entitled "Conditional Hire Supervision"¹⁶ which stated that officials "shall take steps prudent and necessary to ensure the protection of children" as required by Education Law, they did not adopt a comprehensive policy to address fingerprint-supported criminal background checks. We reviewed records for five employees¹⁷ and 35 independent contractors who may have had direct contact with students and found that District officials did not fully comply with requirements of Education Law regarding fingerprint-driven criminal background checks. Specifically, for three of the 35 independent contractors tested, either the required background check was not performed or District officials did not have required supporting documentation on file to confirm that the background check was performed. These independent contractors

¹⁵ Individuals previously fingerprinted by a covered school (i.e., a BOCES, a charter school, or a school district in New York State excluding the City School District of the City of New York) do not need to be fingerprinted again when seeking employment at another covered school. However, officials of the school to which the application is made must request an updated clearance for employment of the prospective employee.

¹⁶ Board Policy 6160

¹⁷ These employees were hired after the legislation became effective in 2000.

included the District physician (who provided student and employee physicals), a physical therapist, and one individual who performed timekeeping at District sporting events. While OSPRA officials indicated that the physical therapist's criminal background check was completed on November 22, 2007, District officials did not receive documentation of a full background clearance from OSPRA until September 11, 2008. Additionally, District officials lacked sufficient documentation to determine if another individual (one of the five employees we tested) had a proper criminal background check. Although this employee received a criminal background check from previous employment with another school district and District officials submitted a clearance request form to OSPRA on August 2, 2006, officials could not verify that the required updated clearance had been performed, because they did not receive certification from OSPRA.¹⁸ We reviewed the DCJS sex offender registry database to determine if the four individuals who did not have adequate criminal background checks were convicted of any such crimes. None of the individuals' names appeared on this database.

District staff told us they were required to perform criminal background checks on District employees (including teachers, cafeteria workers, and administrators) but did not perform such checks on timekeepers at sporting events because they did not feel that these contractors had any direct student contact. However, based on our review of the independent contractors' job functions as well as our discussions with District officials, we concluded that timekeepers did have direct student contact. District officials also told us they felt they could properly administer the required fingerprint-supported background check process without a formal policy and related procedures.

However, without sufficient policies and procedures, there is an increased risk that officials will fail to consistently and effectively comply with Education Law. The failure to perform required criminal background checks increases the possibility that District officials may hire or contract with someone convicted of a sexual crime and allow that person direct contact with District students, potentially placing the students' welfare at risk.

Recommendation

1. District officials should develop a comprehensive policy and implement procedures to ensure they obtain and maintain documentation for the required fingerprint-supported criminal background checks on all employees and independent contractors who are expected to have direct contact with students.

¹⁸ District officials informed us that the delay in obtaining a background clearance on this employee was the result of transitional changes at OSPRA and officials' failure to follow up with OSPRA on the clearance.

Payroll

District management is responsible for establishing internal controls over payroll to ensure that disbursements are made only to authorized personnel for authorized amounts. Such controls include proper segregation of duties, independent review and verification of payroll transactions, and active management oversight. The proper segregation of payroll duties ensures that the same individual does not perform the key payroll duties of authorization, recordkeeping, and cash asset custody. User access rights to the payroll software application help preserve the segregation of duties by restricting employees' access to those areas required for their job functions. Routine management review of computer activity recorded on audit logs¹⁹ is also an important control for detecting unusual or unauthorized transactions. Finally, as the official responsible for signing the District's payroll checks, the Treasurer must supervise and control the use of his or her digital signature to ensure that all checks issued are for the correct amount and for appropriate purposes.

For most²⁰ of our audit period, District officials did not provide adequate oversight of the payroll process. The duties of the payroll clerk were not adequately segregated, and her access rights to the financial system allowed her to add employees to the payroll, update salary information, initiate direct-deposit payments, and print the payroll checks without independent review. District management did not review audit logs for system activity, and the Treasurer²¹ did not control the use of his digital signature on the payroll checks. These control weaknesses placed the District at an increased risk of errors or irregularities occurring in the payroll process without timely detection and correction.

To address this risk, we reviewed 66 payroll disbursements made during the audit period, totaling over \$1.14 million, to ensure that payments were proper District charges, accurately calculated, and paid in accordance with Board-authorized pay rates and employment contracts. We found no improper payments or errors, and wages and

¹⁹ An audit log is a system-generated report that provides information such as the identity of each person who accesses the system, the time and date of access, the activities that occurred, and the time and date of logoff. Audit logs can be used for tracing individual accountability, reconstructing events, and monitoring problems.

²⁰ From July 1, 2006 through December 31, 2007. The District's Assistant Superintendent of Business, who retired from District service in May 2008, was responsible for overseeing payroll operations.

²¹ The Assistant Superintendent of Business served as Treasurer from July 1, 2006 through December 31, 2007.

benefits were provided in accordance with Board authorizations and approved employment contracts.

In December 2007, District management independently took corrective action by contracting with the Broome-Tioga Board of Cooperative Educational Services (BT BOCES) to perform the District's payroll function effective January 1, 2008. Through this arrangement with the BOCES, District officials established adequate procedures for authorizing, recording, and processing payroll and benefit payments. Internal controls over the payroll services that the BOCES now provides to the District are as follows:

- BT BOCES officials have adequately segregated the payroll duties of payroll personnel.
- The user access rights of BT BOCES officials are based on, and appropriately restricted to, their job functions.
- BOCES staff periodically monitor computer activity by reviewing audit logs.
- The Treasurer, a BT BOCES employee, adequately controls her digital signature.

Based on our review of internal controls over payroll at the BOCES and discussions with BOCES officials and staff, we concluded that the BOCES' controls over the payroll process were properly designed and operating effectively. Therefore, these controls provide adequate assurance that District wages and benefits payments are in accordance with Board authorizations and approved employment contracts.

Claims Auditor

Education Law requires the Board to audit claims before they are paid, or to appoint a claims auditor to perform that function. If the Board appoints a claims auditor, that individual assumes all the powers and duties of the Board to audit and approve each claim before authorizing its payment. A thorough claims audit must determine whether the claim is properly authorized, accurate, and for a valid District expense; whether it is in compliance with statutory and regulatory requirements, as well as District policies and contracts; and whether the goods or services were actually received. The Board may delegate the claims audit function by using inter-municipal cooperative agreements, shared services, or independent contractors. However, New York State Education Department (SED)²² regulations prohibit a school district from appointing a Board of Cooperative Educational Services (BOCES) to provide claims auditing services if the district makes material and significant contract payments to that BOCES.

The Board did not appoint its claims auditor in accordance with SED regulations. At the end of December 2007, the Board appointed an employee of the BT BOCES as its claims auditor effective for claims paid after January 1, 2008. This arrangement was not appropriate because District officials paid the BOCES over \$4 million for goods and services during our audit period. This amount includes two claims totaling over \$300,000 for BOCES services provided in January 2008, which the BOCES employee audited. Because the BOCES is providing its own employee to audit claims while it receives significant contractual payments from the District, the individual serving as claims auditor is not independent in performing the duties of that position.

We reviewed the two BOCES claims approved by the claims auditor and paid during January 2008 to determine if the payments were properly supported and accurate. While we found no errors or irregularities, when the District's claims auditor is an employee of an organization providing significant services to the District, there is an increased risk that irregularities could occur and not be detected and corrected in a timely manner.

BT BOCES officials asserted that the employee whom they assigned to audit District claims could effectively review and approve the District's monthly BOCES claims because any BOCES claim

²² Amendment of the Regulations of the Commissioner of Education

for payment would be based on an executed contract (including amendments) between the District and the BT BOCES; therefore, District management or the claims auditor would know if an audited monthly charge was inaccurate. District officials decided that the benefits of contracting for claims auditing services with the BT BOCES outweigh any potential problems associated with having a claims auditor who is a BOCES employee reviewing BOCES claims.

Although we found no deficiencies with the two BOCES claims we reviewed, when a BOCES directly provides claims auditing services to a school district using its own employee, the BOCES qualifies as an independent contractor only if it has no other contracts with the District and does not provide other goods and services to the District. Since the BT BOCES receives significant and material contract payments from the District, the BOCES employee is not an independent contractor. Accordingly, this individual cannot be independent from his or her responsibility to the BOCES as employer, and District officials do not have assurance that the District's claims are audited with full objectivity.

Recommendation

2. The Board should appoint an independent claims auditor in accordance with SED regulations.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

NEWARK VALLEY CENTRAL SCHOOL DISTRICT
Administrative Office, 79 Whig Street, PO Box 547, Newark Valley, NY 13811



October 8, 2008

[REDACTED]
Office of the State Comptroller
Division of Local Government and School Accountability
44 Hawley Street, Room 1702
Binghamton, NY 13901

Dear [REDACTED]

This letter is in response to the “Newark Valley Central School District – Internal Control Over Selected District Operations Report of Examination July 1, 2006 – January 23, 2008”. This Report was reviewed on September 17, 2008 in an Exit Interview attended by representatives of the New York State Comptroller’s Office, representatives of the Newark Valley Central School District Board of Education, Business Administration and the Superintendent of Schools. The two (2) recommendations contained in the Preliminary Draft Report will allow us to demonstrate our District’s Vision of “Learning – Always All Ways”.

I. Criminal Background Checks

The District’s comments and response to the one recommendation outlined in this Section of the report are as follows:

Recommendation: District officials should develop a comprehensive policy and implement procedures to ensure they obtain and maintain documentation for the required fingerprint-supported criminal background checks on all employees and independent contractors who are expected to have direct contact with students.

NVCSD response: As noted in conversations with the auditors, the only policy required by Education Law concerning fingerprinting is one requiring the district to develop a plan to assure the safety of students supervised by an employee working under an emergency conditional appointment. As this Report notes, the NVCSD adopted this policy – Policy - 6160 Conditional Hire Supervision in August 2001.

In keeping with our legal counsel’s guidance, the district has not adopted policies in areas governed by laws (e.g. Education Law, General Municipal Law) or regulations (e.g. New York State Commissioner of Education), unless required to do so. In this way, a policy does not have to be changed by the Board of Education each time a law or regulation is changed, and our policy book does not become a reprint of laws and regulations. However, in order to comply with this recommendation, the Board of Education will adopt a policy indicating that we will comply with NYS Education Law §1804 (9) and NYCRR Part 87 and NYCRR Part 80 – 1.11.

See
Note 1
Page 18

Regarding the two independent contractors not undergoing the required background check:

Since the district physician is licensed by the state of New York and governed by a separate and thorough set of rules and regulations, the district was unaware that he needed to be fingerprinted. A conversation with staff in the Legal Services Office at UHS indicates that they will inform the physician and physician assistant of their need to comply, based upon this decision by the Comptroller's Office. In the future, any Request for Proposal (RFP) issued by the district for Medical Services will include a requirement that medical staff must comply with all fingerprinting requirements under NYS Education Law.

The district felt that that the referenced shot clock operator worked only at public events - basketball games – and that in this capacity did not have the direct contact with students that requires fingerprinting. In the future, the district will ensure that all individuals who need fingerprint clearance to work in this capacity will have the clearance before they begin this assignment.

Regarding the lack of a Clearance Form in the file of one employee and one Independent Contractor, the district will be increasingly vigilant to ensure that the Clearance Form is printed and placed in the file so that this does not occur in the future.

A procedure has always been in place in the district for fingerprint process compliance – for both OSPRA 101 and OSPRA 102. Effective with the receipt of this Preliminary Draft Report, the duties of each potential employee, and each independent contractor, will be carefully reviewed to determine if they will have direct contact with students and, if there is any doubt, will be fingerprinted. Those specific Procedures outlining the entire fingerprinting process will be documented.

II. Payroll

The district is pleased to note the auditors' findings that "wages and benefits were provided in accordance with Board authorization and approved employment contracts" and believes this is an indication of the oversight of the payroll process that occurred before, and throughout, the audit period. As noted in the Report, the district recognized that complete segregation of payroll duties was impossible due to the size of the business office staff, and thus sought out and entered into a contract with the Broome-Tioga BOCES Central Business Office (CBO) to further strengthen the payroll process. The district is pleased that the Comptroller's Office auditors concur with the district that the BOCES (CBO) controls now in place over payroll are "properly designed and operating effectively."

III. Claims Auditor

The District's comments and response to the one recommendation outlined in this Section of the report are as follows:

Recommendation: The Board should appoint an independent claims auditor in accordance with SED regulations.

NVCSD Response: It is the belief of the NVCSD District that the hiring of a BOCES employee to perform the Claims Auditor duties is not only fiscally responsible, but also is in alignment with the recommendation found in many statewide reports supporting the consolidation and sharing of services. The district recognizes the perceived potential conflict of interest when a BOCES employee audits NVCSD BOCES bills for payment to their employer (BOCES). We believe there are significant controls in place at the CBO, and in the district, which mitigate this question of independence, whether perceived or actual.

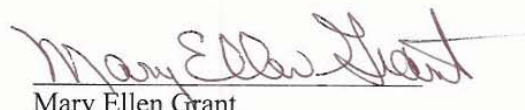
See
Note 2
Page 18

As noted in the report, two BOCES claims approved by the claims auditor and paid during January 2008 were reviewed and "no errors or irregularities" were found. The district believes that this indicates that the Comptroller's Office auditors have a very real indication of the fiscally responsible controls which are in place.

It is the district's understanding that conversations are being held by a statewide committee at SED to develop a regulatory solution that will allow BOCES to continue to offer the claims auditor service--by permitting a BOCES Co-Ser to appoint a Claims Auditor to approve the payment of all bills *except* those from BOCES, and permit a non-BOCES employee to approve the BOCES bills. The Newark Valley CSD will comply with all regulations currently set forth and enforced by the NYS Education Department and will consider any new regulations that may result from the work of the statewide committee.

In conclusion, the Board of Education and Administration of the Newark Valley Central School District have always taken pride in the proper stewardship of the taxpayer's money. We are pleased that this report recognizes the overall financial propriety of the district. We will continue to manage all assets of the district (human and financial) in a way which returns the greatest benefit to the children and taxpayers of our district.


Randal H. Kerr
NVCSD Board President


Mary Ellen Grant
Superintendent

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We acknowledge the District's desire to avoid redundancy in its policies with regard to statutory requirements. However, a comprehensive written policy provides specific guidance to District personnel in fulfilling the legal requirements for fingerprint-supported background checks and is an important tool to protect the safety and well-being of District students.

Note 2

Since the BT BOCES receives significant and material contract payments from the District, the BOCES employee is not an independent contractor. In addition, SED guidelines state that there would be a lack of independence if a BOCES employee audited material and significant goods and services provided by the BOCES, or the claims for such goods or services. Accordingly, this individual cannot be independent from his or her responsibility to the BOCES as employer, and District officials do not have assurance that the District's claims are audited with full objectivity.

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 criminal background checks, payroll, and the claims audit function for further audit testing.

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

- We gained an understanding of District procedures over criminal background checks, the payroll process, and the claims auditing process through interviews of key business staff and District management; and by reviewing adopted policies and procedures, including the existing internal controls over payroll systems regarding segregation of duties and controls over the computerized software to process payroll.
- We reviewed five employees' personnel files to determine if required criminal background checks were performed.
- We reviewed the District's 2006 and 2007 IRS Form 1099 information returns and identified 35 independent contractors paid during our audit period who may have had direct student contact.
- We selected a sample of five independent contractors who provided services with direct student contact and reviewed their invoices to determine if they had direct student contact more than five times in a District fiscal year.

- We reviewed the New York State Division of Criminal Justice Service's sex offender database²³ to determine if five individual independent contractors and one employee we selected for review had a criminal background.
- We reviewed personnel files to verify that 15 employees receiving compensation were not fictitious.
- We reviewed 23 employee compensation payments made during our audit period to determine if employees were paid in accordance with Board-established rates and approved employment contracts.
- We reviewed 12 employee biweekly payroll disbursements and verified that they agreed to employees' timesheets.
- We reviewed 10 employee overtime payments and verified that they were properly approved.
- We reviewed employee Federal and State tax withholding forms for the quarter ended September 30, 2007 and verified that they agreed to the payroll records.
- We reviewed 14 payroll tax remittance cancelled checks totaling over \$400,000 to verify that they were appropriate District charges.
- We verified that six employees' balloon payments, amounting to \$30,018, were properly authorized by employment contracts.
- We reviewed all payroll payments to employees for the 2006-07 fiscal year to ensure that no employee received more than 26 payments.
- We interviewed appropriate managers and staff at the BT BOCES and reviewed the BOCES' contract with the District to determine whether payroll duties were adequately segregated. We also reviewed reports of user access to the financial system in conjunction with users' job duties, and interviewed the Treasurer, a BOCES employee, to gain an understanding of the controls over the use of her digital signature on District checks.
- We reviewed two BOCES claims to determine if they contained proper supporting documentation and to verify that the contractual payment calculations were accurate.

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.

²³ http://criminaljustice.state.ny.us/nsor/search_index.htm

APPENDIX D

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Albany, New York 12236
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<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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

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