



Onteora Central School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2005 — February 28, 2007

2007M-241



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2008

Dear School District Officials:

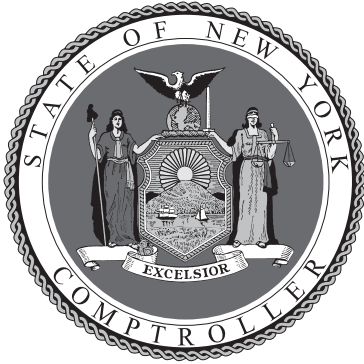
A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished 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 Onteora Central School District, entitled *Internal Controls Over Selected Financial Operations*. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and 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 Onteora 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.

There are five schools in operation within the District, with approximately 1,960 students and 390 employees. The District's budgeted expenditures for the 2006-07 fiscal year were approximately \$44 million, which were funded primarily with State aid, real property taxes, and grants.

The District processes payroll transactions through the Business Office, during our audit period this was done primarily by a payroll clerk with the assistance of a personnel clerk. For the year ending June 30, 2006, gross payroll disbursements totaled \$21.9 million. The District processes payroll transactions on a computerized financial system.

The District processes both its cash receipts and disbursements through the Business Office, primarily by the Treasurer and an accounts payable clerk. For the year ending June 30, 2006, cash receipts totaled \$45.6 million and cash disbursements totaled \$41.5 million. The District processes its financial transactions on a computerized financial system.

Scope and Objective

The objective of our audit was to determine if controls over selected financial operations are appropriately designed and operating effectively for the period July 1, 2005 to February 28, 2007. Our audit addressed the following related questions:

- Are internal controls over cash receipts and disbursements and payroll appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over computerized financial system access appropriately designed to adequately safeguard District assets?

Audit Results

We found that controls over cash receipts and cash disbursements, payroll and the computerized financial system were not appropriately designed. The duties of the Treasurer and payroll clerk were not properly segregated. Further, the computerized financial system was not being independently administered and controls could not be implemented. Based on the lack of good internal controls, we examined payroll, cash receipts and disbursements, and computer-access rights.

We found a lack of segregation of duties and oversight in the payroll process that resulted in employees receiving \$21,768 more than authorized and others receiving \$11,275 less than authorized. For example, the previous payroll clerk processed her own termination payment totaling \$30,090 without any review or oversight. This amount was \$9,900 less than she was entitled due to a calculation error. Because of the lack of segregation of duties and minimal oversight, the District did not properly compensate employees.

We also found that the Treasurer's duties over the cash receipts and disbursements processes were not properly segregated. During part of our audit period, each of the former Treasurers received cash, prepared duplicate cash receipts, made bank deposits, recorded cash receipt transactions into the accounting records, and made cash receipt journal adjustments. No other staff member verified that all receipts were properly recorded and deposited intact and in a timely manner. We traced all cash receipts for the period September 1, 2005 through December 31, 2005 from the source document to the general ledger to the bank statement to determine if they were accurately recorded and deposited timely. With one exception, a \$213 cash payment from a retiree for his/her share of the health insurance premium received in August 2005,¹ we found that all receipts were properly recorded and deposited.

In addition, District bank accounts were not reconciled for almost a one-year period, which resulted in significant record keeping errors going undetected. For example, when the September 2006 bank reconciliation was finally completed in July 2007, there were cash receipts, cash disbursements, and general ledger posting errors that resulted in the cash balance being overstated in the amount of \$90,945 for the month.

Lastly, we found that the controls over access to the computerized financial system were not appropriately designed. The Assistant Superintendent for Business controlled all administrative rights and could assign user privileges including her own without any oversight. Other employees had access to applications that were not necessary for them to perform their job duties. As a result, the District is at risk errors and irregularities occurring and going undetected and uncorrected. We conducted tests of these users, and no exceptions were noted.

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. Appendix B contains our comment on an issue raised in the District's response.

¹ The Treasurer explained that he received the money and probably put it in a drawer or folder and subsequently lost it.

Introduction

Background

The Ontario Central School District (District) is located in the Towns of Lexington, Hurley, Marbletown, Olive, Shandaken and Woodstock, located in Ulster and Greene 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 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 five schools in operation within the District, with approximately 1,960 students and 390 employees. The District's budgeted expenditures for the 2006-07 fiscal year were approximately \$44 million, which were funded primarily with State aid, real property taxes, and grants.

The District processes payroll through the Business Office, during our audit period this was done primarily by a payroll clerk with the assistance of a personnel clerk. For the year ending June 30, 2006, gross payroll disbursements totaled \$21.9 million. The District processes payroll transactions on a computerized financial system.

The District processes both its cash receipts and disbursements through the Business Office, primarily by the Treasurer and an accounts payable clerk. For the year ending June 30, 2006, cash receipts totaled \$45.6 million and cash disbursements totaled \$41.5 million.² The District processes its financial transactions on a computerized financial system.

Objective

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

- Are internal controls over cash receipts and disbursements and payroll appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over computerized financial system access appropriately designed to adequately safeguard District assets?

² These numbers also include expenditures relating to the current capital projects which are over and above the approximate \$41.5 million operating budget.

**Scope and
Methodology**

We examined the District's internal controls over cash receipts and disbursements, payroll and computer system access for the period July 1, 2005 to February 28, 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. Appendix B contains our comment on an issue 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*.

Segregation of Duties

One of the Board's managerial responsibilities is the establishment of a system of internal controls. A good system of internal controls should be designed to provide reasonable assurance that District assets are properly safeguarded; accounting transactions are authorized, recorded and reported properly; pertinent laws and regulations are complied with; work performed is monitored and reviewed routinely; and operations are efficient and effective. Furthermore, an effective system of internal controls provides for the segregation of duties so that no single individual controls all phases of a transaction. When it is not practical to segregate duties because of limited staff resources, the Board should establish compensating controls. Such compensating controls could include the Board or other administrative staff periodically reviewing the work in question.

The District's payroll function lacks proper segregation of duties. Although the District employs a personnel clerk that works on payroll related tasks, the primary payroll clerk performed multiple aspects of the payroll process without any other employee's involvement or oversight. After the retirement of this employee, the District further segregated the duties, but both clerks still have ability to perform all aspects of the payroll function.

The Board has not effectively designed the Treasurer's duties and responsibilities to ensure that incompatible duties are segregated, nor has it established sufficient compensating controls to address the lack of segregation of duties. The Treasurer performs almost all accounting functions. During part of our audit period, the Treasurer was responsible for receiving cash, recording receipts, making bank deposits, recording disbursements, signing checks, reconciling bank accounts, and preparing journal entries. The performance of all these duties by one person without compensating controls is a significant control weakness. In addition, bank accounts were not reconciled to the book balances for almost a one-year period, which further deteriorates controls over cash.

Based on the lack of segregation of duties noted and the lack of bank reconciliations, we examined the following: all payments to the two former Treasurers, bank reconciliations, wire and automated clearinghouse (ACH) transfers, payroll transactions, approval of warrants, a sample of disbursements, Treasurer's reports, and corresponding supporting documentation and cash receipts for the period September 2005 to December 2005.³ This testing was done

³ We tested numerous periods for cash; see Appendix C for further testing.

to ensure that all amounts disbursed were properly approved and authorized and cash received was accounted for properly.⁴

Payroll Clerk

The payroll clerk is directly responsible for the following duties: adding, deleting and changing employee information including salary amounts as well as preparing, processing, and distributing all paychecks and maintaining payroll records.

We judgmentally selected 60 employees and traced their existence to key supporting documentation in their personnel files. We also tested a sample of 34 employees who received more than their stated salaries, balloon payments, and/or additional checks, as well as payroll payments made to all key officials and those with access to the computerized payroll application. We noted no instances where an employee was determined to be fictitious, but found that 14 out of 47 employee compensations tested during our audit period were incorrectly calculated resulting in \$21,768 in overpayments and \$11,275 in underpayments in payroll.

- Extra-duty stipends were overpaid by \$6,400. Of this amount, \$3,689 was paid to an employee who was entitled to an extra stipend for work performed during the 2004-05 fiscal year but the payroll clerk did not adjust his salary the following year to reduce it by that amount when he was no longer entitled. The amount was automatically carried over and paid to the employee again. Another employee was erroneously paid an additional \$2,106, which was the difference between the stipend of a computer coordinator and a co-coordinator. Another employee was paid \$200 more than the standard rate for his duties as coordinator. Lastly, an employee who actually worked 1.5 hours, but was paid for 15 hours received an overpayment of \$405.
- Three buy-outs of unused vacation and sick days at retirement were overpaid by \$9,293. Of this amount, \$7,500 was paid for a flat fee retirement incentive when the employee was not eligible for the incentive; \$1,617 was paid in error because the District calculated vacation and sick days using calendar days instead of actual days worked; and \$176 of the overpayment was due to a calculation error.
- Excess salary payments to four employees totaled \$6,075 due to the payroll clerk using the wrong salary schedule.

⁴ Detailed testing and methodology can be found in Appendix C.

- Underpayments for unused vacation and sick days at retirement totaled \$11,275. Of that amount, \$9,929 was an underpayment to the past payroll clerk, who processed her own payment totaling \$30,050 without any review or oversight. All underpayments were the result of spreadsheet calculation errors.

The failure to segregate duties within payroll processing can, and did, result in errors and irregularities occurring that are undetected and uncorrected. After the retirement of the prior payroll clerk, the current payroll clerk instituted additional authorizations for payroll payments that resulted in increased management oversight and review.

Treasurers

One of the former⁵ Treasurers worked for the District from March 1999 to September 2006. In mid-October 2006, a new Treasurer was appointed by the Board. This Treasurer's employment ended with the District during our fieldwork in July 2007.

Cash Receipts — During part of our audit period, each of the former Treasurers received cash, prepared duplicate cash receipts, made bank deposits, recorded cash receipt transactions into the accounting records, and made cash receipt journal adjustments. No other staff member verified that all receipts were properly recorded and deposited intact and in a timely manner.

We traced all cash receipts for the period September 1, 2005 through December 31, 2005 from the source document to the general ledger to the bank statement to determine if they were accurately recorded and deposited timely. With one exception, a \$213 cash payment from a retiree for his/her share of the health insurance premium received in August 2005,⁶ we found that all receipts were properly recorded and deposited.

We also found that cafeteria cash receipts were overstated by a total of \$1,126 for the period November 2005 to February 2006, due to the incorrect recording of a journal entry.

In March 2006, the District instituted a cash receipt collection log which was maintained by an employee not involved in the cash receipts recording or reconciling process. However, at the end of our fieldwork, no one from the Business Office had used the cash receipt log to reconcile to the District's cash receipts per the bank statements or general ledger. This mitigating control, while appropriately designed, was not working effectively.

⁵ We refer to both Treasurers as former.

⁶ The Treasurer explained that he received the money and probably put it in a drawer or folder and subsequently lost it.

Cash Disbursements — Each of the former Treasurers also performed all aspects of the accounts payable process including: recording cash disbursement transactions and journal entries in the accounting records and signing all District checks.

We performed tests of the cash disbursements process, including reviewing 76 claims, totaling \$805,270, paid to key officials and vendors for appropriateness, authorization, and duplicate payment. We also tested for gaps in the check sequence, and looked at checks dated between normal run dates and on weekends. Despite the internal control weaknesses, our audit testing did not identify any significant discrepancies in the District's cash disbursements.

Bank Account Reconciliations — The District should reconcile the bank balance to the book balance of all bank accounts to determine the reasons for any differences and to correct any errors in the accounts. The reconciliation is one tool used to safeguard assets, check the accuracy and reliability of District-maintained accounting data, and permit the timely reporting of cash assets to the Board. To promote proper segregation of duties, an employee who is involved in the recording of receipts and disbursements should not perform the reconciliation.

The Treasurer who left in September 2006 did reconcile the bank accounts, although we found that no other official reviewed the bank reconciliations and they contained errors in them.

The Treasurer appointed in September 2006 did not reconcile the bank accounts and the accounts were not reconciled through the end of our field work in August 2007. The lack of timely bank account reconciliations significantly increases the risk that errors and/or irregularities might occur in the handling, recording and reconciling of cash balance and such occurrences may not be detected and corrected in a timely manner. This also kept the Board from receiving timely and accurate financial information in order to make informed management decisions. While Board members requested this information, they did not aggressively pursue timely and accurate financial information until our audit.

In July 2007 the Business Office contracted with an outside consultant to perform the reconciliations. The District determined that because of the magnitude of errors in the accounting data, the underlying general ledger could not be relied on for the time period of September 2006 through June 2007. This limited our testing to the period in which the previous Treasurer completed the bank reconciliations. For example:

- When the September 2006 bank reconciliation was completed in July 2007 by the District’s Business Office and consultant, there were cash receipts, cash disbursements, and general ledger posting errors that resulted in the cash balance being overstated in the amount of \$90,945 for the month. This overstatement was primarily due to a \$51,725 check that was not included as an outstanding check and a State aid payment of \$37,565 that was recorded twice in the general ledger. Furthermore, the Treasurer recorded a \$2,331 deposit in the general ledger so that the cash balance would reconcile to adjusted bank balance.
- The District carried forward multiple “stale” outstanding checks for periods greater than allowed for under General Municipal Law. These checks totaling \$5,324 should have been written off and the amount returned to the fund which was originally charged. The outstanding check listing for the period ending June 30, 2006 included \$1,423 from 2003, \$1,854 from 2004 and \$2,047 from 2005. The effect of the stale checks remaining on the outstanding check listing and being included in the bank reconciliations is that cash is understated on June 30, 2006 for that amount. We also found that one check in the amount of \$99 was physically voided, but was not voided in the financial accounting system.

The failure to reconcile bank accounts accurately and in a timely manner can, and did, result in errors and irregularities occurring and not being corrected or detected. Furthermore, the lack of reliable and timely financial information, based upon accurate and current accounting data, impedes the Board’s ability to exercise its financial oversight and limits the ability of District officials to develop constructive solutions to budgetary concerns within their areas of responsibility.

Recommendations

1. District officials should develop policies and procedures to ensure that the duties of the processing of cash receipts and disbursements are properly segregated so that no one person can perform all aspects of the process.
2. The Board should adopt a policy that requires the receipt of timely financial information including bank reconciliations and follow-up procedures when financial information is not presented in a timely manner.
3. The Treasurer should periodically audit the receipt log that is maintained by the receptionist.

4. The Business Manager should ensure that bank account reconciliations are prepared in a timely manner and by someone not directly involved in the cash receipts and disbursements process, including payroll processing.
5. The Treasurer should cancel all outstanding checks dated 12 months prior to the reconciliation date and return the amounts to the funds which were originally charged.
6. District officials should develop policies and procedures that ensure that job duties for the processing of payroll are properly segregated so that no one person can perform all aspects of the payroll process.
7. The Business Official should review prior termination payments made during a Board- approved time frame and ensure that they were calculated properly. For overpayments and/or irregularities, the Board should take action to seek reimbursements. For underpayments, the Board should provide additional compensation.

Computer System Access

To ensure proper internal controls, the computerized financial system should allow access to users only for those functions that are based on their job descriptions and responsibilities. Having access controls in place prevents users from being involved in multiple aspects of financial transactions. A system administrator has the ability to add new users as well as change users' rights. With this ability, administrators are able to control and use all aspects of the software. A good system of controls would segregate the duties of administering access to the computerized financial system and the Business Office function to reduce the risk of District financial information or resources being misused. System access rights should also be assigned to users based on their specific needs to perform their job duties.

During our audit period, the District's Assistant Superintendent for Business (Business Official) had administrative access rights to the computerized financial system. The Business Official also had the responsibilities of purchasing agent, was involved in the day-to-day Business Office operations and was significantly involved in financial transactions. These duties are incompatible when performed by the same person. We also found that several Business Office employees with no payroll duties had full access to the payroll system. This was in part caused by weaknesses in the payroll software. The District uses an older version of the financial software that does not allow for the proper assigning of user access.

Based on certain users and user access designations, we examined all payments to the applicable individuals and tested their payrolls to ensure that all amounts were properly approved and authorized. Specifically, we tested 13 claims totaling \$1,148. This included tracing their payroll histories to authorization documents such as Board minutes, appointments letters and notification letters. We also tested the accuracy of payments to them as vendors or payments to vendors at their addresses. We did not note any exceptions or irregularities.

Prior to the end of our field work, the Business Official reassigned all administrative rights over the computerized financial system to the network specialist. The network specialist will control the assignment of user access rights/privileges based on signed documentation provided by the Business Office. Further, the Business Official who had administrative access rights has been reassigned restrictive rights consistent with her job description. Other user privileges will be fully restricted when the District completes its software upgrade after the 2007-08 fiscal year.

Recommendations

8. The Board should implement a policy detailing who has administrative rights over key financial applications.
9. The Business Official should review all employees who have access to the payroll application system and determine if their job functions require such access.
10. The Superintendent should implement a procedure detailing mitigating controls to be used until the District's financial application system can properly restrict user privileges.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

ONTEORA CENTRAL SCHOOL DISTRICT

BOARD OF EDUCATION

Mary Jane Bernholz, President
Cindy O'Connor, Vice President
Rita Vanacore
Maxanne Resnick
Herbert Rosenfeld
Michelle Friedel
Richard Wolff

P.O. Box 300
Boiceville, NY 12412

(845) 657-6383 Ext. 264

Jeanne Shultis, District Clerk

December 21, 2007

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

Dear [REDACTED]:

This letter is in response to the exit discussion and preliminary draft provided by [REDACTED] and [REDACTED] representatives of the Office of the State Comptroller for the conclusion of a state audit. The meeting with Trustees and members of the district Audit Committee was held December 4, 2007.

The Board welcomes the opportunity to review district functions with trained observers. The Central staff of Onteora School District is committed to continuous improvement, and appreciates the thorough review of current job functions. We agree with the findings included in the audit. Remedy to each of these areas is already in progress, and will continue. An overall review of these actions is mentioned in this letter and can be found in the attached Action Plan.

The Board respectfully disagrees with one area mentioned in the audit. Regarding the evaluation of action taken with the former Treasurer, the Board would like the Comptroller to know that aggressive action was taken by the Board through the interim Superintendent and Assistant Superintendent to evaluate, discipline, and end the employment of a particular employee. This was accomplished at a time when a series of interim Superintendents assisted the district until a permanent Superintendent was selected. The Board and permanent Superintendent aggressively addressed issues in the Central Office through termination and the extension of tenure for key personnel. The Board also worked proactively to ensure that the tax levy did not increase for community members during this time.

The Board would like to assure the Comptroller that a combination of involved Board members, an Audit Committee that sets the example for Ulster County, a stable Assistant Superintendent for Business, and attention to the areas of need are focused on correcting the areas mentioned in the Audit as well as improving overall Business Department function.

The audit results can be characterized as occurring in two general areas: segregation of duties, including design controls, oversight, and performance in duties, including policy and oversight.

- continued -

See
Note 1
Page 21

Review of Audit findings:

There are three areas that directly affect the efficiency of Central Office services regarding financial issues.

First, the District has been using a DOS –based system for financial management. The lack of discretionary control in this system does not allow employees access to discrete areas. It also does not have proper controls expected currently for password protection. The Board has approved the purchase of [REDACTED] as a new tool for Business functions. Training has already begun for this system, which will be implemented in July 2008. The new system will allow the assignment of administrative rights and assignment to specific financial areas.

Second, there has been considerable turnover within the Business Office and it has been some time since the tasks of each position have been evaluated and assigned to maximize segregation of duties among the small staff. The District is utilizing the comments of the Comptroller to redesign the flow of transactions in order to insert controls and segregation.

The third area had to do with the training and effectiveness of one certain employee, the former Treasurer. Onteora Central School District resides in a set of rural communities. When the Treasurer interviews were held in the beginning of the 2006-07 school year, the most experienced candidate was selected. It was assumed that, with training and time, he could successfully assume the role of Treasurer. This proved not to be the case, and the employment was ended. The period of time involved in employing and then terminating this employee was affected by the change from interim to permanent Superintendent that occurred in February 2007. The Board was aware of this issue, concerned, and involved in making sure that this issue was resolved.

Segregation of duties:

Design controls over cash receipts, cash disbursements, payroll, and computerized financial systems to ensure safety are key to this area. Following an internal control assessment, Assistant Superintendent Victoria McLaren has reassigned tasks relative to accounts payable. The cash receipt log that has been instituted will be utilized by the Internal Auditor to compare cash receipts from the Treasurer. Cash receipts from sport events will be deposited after each game. Cash deposits will also be further separated for the Cafeteria, an area of high cash flow.

Performance in Duties:

Multiple errors were noted in the duties of the former payroll clerk. It is assumed that the segregation of duties, additional oversight, and updated financial system will address this level of error. Further controls also include a review for one additional year (2004-2007) of any over or under payment error through the Internal Auditor.

The role of Treasurer experienced the highest level of performance error. This included the inability to produce bank reconciliations in a timely manner for a prolonged period of time. While that particular person is no longer employed by the district, controls have been put in place to assure that this series of events could not occur in the future.

- continued -

The Board and Central Office staff wish to express our thanks to [REDACTED] and [REDACTED] for their thorough review. We appreciated their comments during the exit interview, which indicated that many of the concerns noted during the time of the audit had already been addressed.

Sincerely,



Mary Jane Bernholz
Board President

Enclosure (Action Plan)

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We recognize that the District took action relating to the performance of the former Treasurers. However, these actions do not change any of the conditions in the audit 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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected segregation of duties over cash receipts and disbursements and payroll; and access to the computerized financial system for further audit testing.

When testing cash receipts and disbursements, we focused our testing on the reconciliation of support documentation to the bank statement and general ledger. We tested cash receipts for the period September 1, 2005 to December 31, 2005. We were unable to test the period November 2006 to February 2007 due to the inaccuracies noted during the reconciliation of the September 2006 bank statement to general ledger data. We also tested beginning July 1, 2005 cash balances with June 30, 2005 ending cash balances. We focused on adherence to District policies and procedures, as well as pertinent laws and regulations pertinent to cash receipts and cash disbursements and claims processing. We examined the following records to determine the effectiveness of internal controls pertaining to the cash receipts/disbursements function and to identify any associated effect of deficiencies found in those controls:

- Bank statements
- Validated deposit slips and support documentation
- Cash receipt log (as of March 2006)
- Transaction history reports
- Warrants

- Purchase orders
- Claims packets
- Cancelled checks
- Bank reconciliations
- Detail general ledgers
- Board minutes
- Cash flow statements

When testing cash disbursements, we focused our testing on the claims audit function, authorized signatures and segregation of duties. We tested a judgmental sample of various claims for multiple procedures (authorization, reasonableness, compliance and data reliability). We focused on adherence to District policies and procedures, as well as pertinent laws and regulations pertinent to cash disbursements and claims processing. We examined the following records to determine the effectiveness of internal controls pertaining to the cash disbursements function and to identify any associated effect of deficiencies found in those controls:

- Bank statements
- Transaction history reports
- Purchase orders
- Claims packets
- Cancelled checks
- Cash control accounts
- Bank reconciliations
- Board minutes

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

- Employee personnel files
- Collective bargaining agreements and individual employment contracts
- Leave time accrual records

- Payroll registers and employee earnings records generated from the software accounting system
- Salary notification letters
- Board of Education minutes

We interviewed employees in the District's IT Department and the Business Office concerning the access rights to the software accounting system. We reviewed user rights and permissions documentation and judgmentally selected users to determine if their user rights were appropriate.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such 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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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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

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