



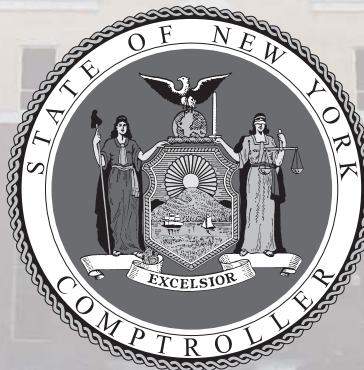
Rome City School District Internal Controls Over Purchasing, the Claims Audit Function and Fuel Purchases

Report of Examination

Period Covered:

July 1, 2006 — July 31, 2007

2008M-119



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Rome City School District, entitled Internal Controls Over Purchasing, the Claims Audit Function and Fuel Purchases. 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 Rome City 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 11 schools in operation within the District, with approximately 5,600 students and 970 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$85.5 million, which were funded primarily with State aid and real property taxes.

In June 2008, the District's Director of Facilities and a former School Grounds Supervisor were charged with using District moneys to pay for equipment that was purchased for private use. In August 2008, both individuals pled guilty to fourth degree grand larceny, a felony, and the Director of Facilities pled guilty to an additional felony charge of first degree falsifying business records. As part of their sentences, the Director of Facilities and the School Grounds Supervisor were ordered to pay the District restitution in the amount of \$7,000 and \$6,600, respectively. In addition, about \$9,500 in stolen property will be returned to the District and both employees were suspended from the District and subsequently resigned.

Scope and Objective

The objective of our audit was to evaluate the District's internal control system over purchasing, the claims audit function and fuel purchases for the period July 1, 2006 to July 31, 2007. We extended our audit of the District's purchasing practices back to July 1, 2005 and forward to May 31, 2008 due to the arrest of two employees of the Buildings and Grounds Department for misappropriating District assets. Our audit addressed the following related questions:

- Were internal controls over purchasing appropriately designed and operating effectively?
- Are internal controls over the claims audit function appropriately designed and operating effectively to adequately safeguard District assets?
- Has the District established appropriate internal controls over fuel purchases associated with its transportation contracts?

Audit Results

We identified significant weaknesses in internal controls over the District's purchasing process that enabled District employees to misappropriate assets. For example, the Director of Facilities and School Grounds Supervisor were able to initiate purchases through requisitions, receive the items, submit the invoice for payment, and convert the item to their personal use or the personal use of others. Authorities confiscated eight assets totaling nearly \$9,500 during their investigation of the Director of Facilities and the School Grounds Supervisor after they found the items off District property in the private possession of the School Grounds Supervisor or other individuals.

On at least three occasions, the Director of Facilities and School Grounds Supervisor also circumvented internal controls by asking vendors to submit false invoices totaling \$3,672. The vendors billed the District for machinery repairs and sports equipment rather than for jackets and cellular phones, which were actually purchased.

We also identified about \$9,500 in equipment purchases that were improperly made using blanket purchase orders, \$50,000 in purchases that did not match item descriptions on the related purchase orders, and over \$73,000 in purchase orders that were issued after the purchases were already made.

District officials also did not follow competitive bidding laws and the District's own procurement policy and regulation by seeking competition prior to purchasing certain goods or services. Our test of 12 contracts totaling \$253,825 disclosed that the District did not comply with bidding statutes for five of these contracts totaling \$92,570. We also reviewed 10 contracts totaling \$92,245 that were not subject to competitive bidding requirements but required verbal or written quotes and found that the District did not follow its procurement policy for nine of these contracts totaling \$77,957.

We also found that the District's claims audit function was not adequate. The claims auditor was not provided with copies of District policies and he directed any policy related questions to either the Treasurer or purchasing agent during his review of claims, rather than the Board. This practice diminished the effectiveness of the claims audit process. Our examination of 150 claims paid during our audit period disclosed several deficiencies including a contract for professional security consulting services totaling \$11,250 that was not approved by the Board, 11 claims totaling \$92,652 that were improperly paid prior to audit and no indication that the claims auditor approved six claims totaling \$13,119. Additionally, we found 10 claims totaling \$3,585 that did not comply with District policies or contracts, one fuel claim for \$85,890 that contained no documentation that the fuel was actually received, and 12 claims totaling \$21,496 that lacked required itemization.

The District contracted with a vendor (Contractor) to provide student transportation during the school year. The Contractor ordered diesel fuel for the District that was delivered to the Contractor's fuel tank and billed to the District. Because the District did not have a process in place to verify receipt of fuel deliveries prior to payment, the District paid for 8,000 gallons of diesel fuel totaling \$16,564 that it never received. The District contacted the fuel vendor and has since been issued a credit for that amount.

We also found that District officials did not request or receive adequate fuel consumption reports and supporting documentation to monitor District fuel usage in the 2006-07 fiscal year. Without accurate

and detailed supporting documentation of fuel used by the District, or proper monitoring of fuel purchases to fuel used on a regular basis, the District is unable to ensure the fuel it purchases is only being used for District purposes.

Finally, we found the District and the Contractor verbally agreed the District would provide diesel fuel to the Contractor in a gallon for gallon exchange for the Contractor providing unleaded gasoline to the District for District-owned vehicles. Based on our estimates, we determined the District could have saved approximately \$4,785 by purchasing unleaded gasoline directly off State contract rather than trading the Contractor diesel fuel for unleaded gasoline.

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 initiate corrective action. Appendix B includes our comment on the issue raised in the District's response letter.

Introduction

Background

The Rome City School District (District) is located in the City of Rome and the Towns of Annsville, Lee, Verona, and Western, in Oneida 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.

There are 11 schools in operation within the District, with approximately 5,600 students and 970 employees. The District's general fund expenditures for the 2006-07 fiscal year were about \$85.5 million, which were funded primarily with State aid and real property taxes.

In July 2006, the Board appointed a public accounting firm to serve as the District's claims auditor. An employee of the firm (claims auditor) assumes the Board's powers and duties of approving and denying claims against the District. Responsibilities related to the District's finances are largely those of the Assistant Superintendent of Business and Finance and the Treasurer. The Assistant Superintendent for Business also serves as the District's purchasing agent.

In June 2008, the District's Director of Facilities and a former School Grounds Supervisor were charged with using District moneys to pay for equipment that was purchased for private use. After an investigation by the Oneida County District Attorney's Office and the Rome Police Department, both individuals pled guilty to fourth degree grand larceny, a felony, in August 2008 and the Director of Facilities pled guilty to an additional felony charge of first degree falsifying business records. As part of their sentences, the Director of Facilities and the School Grounds Supervisor were ordered to pay the District restitution in the amount of \$7,000 and \$6,600, respectively. In addition, about \$9,500 in stolen property will be returned to the District. Both the Director of Facilities and the Grounds Supervisor were suspended by the District on November 19, 2007. The Supervisor of Grounds resigned from the District on May 1, 2008 and the Director of Facilities resigned his position at the District on July 1, 2008.

Objective

The objective of our audit was to evaluate the District's internal control system over its purchasing process, the claims audit function and fuel purchases to ensure that assets were properly safeguarded.

We focused our audit on the following questions:

- Were internal controls over purchasing appropriately designed and operating effectively?
- Are internal controls over the claims audit function appropriately designed and operating effectively to adequately safeguard District assets?
- Has the District established appropriate internal controls over fuel purchases associated with its transportation contracts?

Scope and Methodology

We examined the District's internal controls over purchasing, the claims audit function and fuel purchases for the period July 1, 2006 to July 31, 2007. We extended our audit of the District's purchasing practices back to July 1, 2005 and forward to May 31, 2008 due to the arrest of two employees of the Buildings and Grounds Department for misappropriating District assets.

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 initiate corrective action. Appendix B includes our comment on the issue 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.

Purchasing

It is important for school districts to have a system of controls in place to be sure only needed items are purchased, that they are used only for district purposes and are acquired at competitive prices. The importance of a well designed control structure was highlighted by the arrest of the Director of Facilities and the School Grounds Supervisor on felony grand larceny charges for purchasing equipment and other goods through the District for personal use. As part of our review of the District's purchasing practices, we identified significant weaknesses in controls over District procurements which created a situation in which District staff could purchase items for private use and have them charged to the District. We also found that the District did not always comply with competitive bidding statues or its own procurement policy and regulation.

Purchasing Process

The Board has adopted a procurement policy and regulation that govern all procurements of goods and services by the District. The regulation requires the use of requisition forms and purchase orders to provide formal documentation and authority for the purchase of goods and services. Except for emergencies, the purchasing agent must approve all purchase orders before the purchase is made. The purchasing agent's approval of a purchase order is intended to ensure sufficient funds are available and the purchase complies with all District procurement requirements. The regulation allows the District to use blanket purchase orders¹ in order to "...eliminate the necessity for the issuance of separate orders for groups of items that are purchased separately from the same vendor." The regulation specifies that these items are normally used in day-to-day operations and it prohibits the use of blanket purchase orders for equipment purchases. Further, the regulation indicates that blanket purchase orders should normally be issued monthly and they should show the maximum dollar amount the District is allowed to spend.

The District made extensive use of blanket purchase orders, sometimes to the detriment of good internal controls. For the 2006-07 fiscal year, the District used over 240 blanket purchase orders totaling about \$903,000 and it charged about \$778,000 against those blanket purchase orders.² We found significant weaknesses in the District's controls over blanket purchase orders. For example, the former

¹ Blanket purchase orders (also referred to as open purchase orders) are normally issued to vendors for small dollar items that are purchased frequently from the vendor.

² The number and amount of blanket purchase orders does not include blanket purchase orders issued by the District for utilities, fuel, transportation services, BOCES and certain administrative expenses.

Director of Facilities and the School Grounds Supervisor were able to order items that were not specifically approved by the purchasing agent, receive the items, submit the invoice for payment, and convert the item to their personal use or the personal use of others. On at least three occasions, District staff also circumvented internal controls by asking vendors to submit invoices that gave false descriptions of the items purchased.

Principals, Directors and Supervisors are responsible for preparing requisitions and submitting them to the purchasing agent for approval. Once the purchasing agent approves the requisition, a purchase order is prepared to authorize the purchase from a specified vendor up to the specified dollar amount. The District's regular purchase orders typically provide a description of the goods or services to be purchased; however, blanket purchase orders do not show what will be purchased — they simply indicate that it is a blanket or open purchase order. The purchasing agent does not review the invoices that are submitted by vendors after the purchases are made; therefore, he does not review the types of purchases that are ultimately applied to the blanket purchase orders. Although the accounts payable clerks match a copy of the purchase orders (including blanket purchase orders) with the related invoices and submit them to the claims auditor for approval, we found that certain purchases were made under both blanket and regular purchase orders which did not comply with District policies and procedures. For example, we identified numerous blanket purchase orders that were issued on an annual basis rather than on a monthly basis as required by the District's purchasing regulation. We also identified instances in which equipment was improperly purchased on blanket purchase orders, the goods purchased did not match item descriptions on the purchase order, and purchase orders were issued after the purchases were already made.

As part of our audit, we judgmentally selected 218 paid invoices totaling \$560,334 for review. We selected payments that we considered high risk, such as payments initiated by the Buildings and Grounds Department for equipment, appliances, tools and other goods and services that are subject to theft. Our testing included both regular and blanket purchase orders and it disclosed the following exceptions:

- We attempted to physically locate 53 items costing about \$139,066 and seven purchases of various building materials costing \$7,874. Five of the assets costing \$8,525 had been confiscated by authorities during their investigation of the Director of Facilities and the School Grounds Supervisor after they found the items off District property in the private possession of the School Grounds Supervisor or other

individuals. The assets confiscated by authorities included a riding lawn mower (\$3,200), two tankless water heaters (\$3,225), and two snow throwers (\$2,100). During our testing, we were also unable to locate a generator costing \$959. Authorities investigated the missing generator and ultimately recovered it from another District employee's house. In addition to these items, District officials were not able to locate an above ground pool pump costing \$242 which, according to the invoice, was picked up from the vendor by the Director of Facilities. Officials indicated that the District had no use for this type of a pool pump and it is believed to have been purchased for private use. Additionally, District officials did not locate polyethylene tubing and a polyethylene tubing crimp tool (used to install the tubing) costing \$357 on District property. Authorities told us that the tubing was located at a private residence they entered during their investigation. We noted that with the exception of the pool pump, all of these purchases were made using blanket purchase orders, which are intended for purchases needed for day-to-day operations and not for the purchase of equipment.

The District hires a consultant to perform an annual physical inventory of District assets, but no independent perpetual inventory records are maintained by the District and compared with the results of the annual physical inventory. As a result, the District's inventory process did not detect the assets that were missing from the District.

- On five occasions between May and August 2007, the School Grounds Supervisor signed for the purchase of "Mountain Road" green colored paint. These purchases were made under blanket purchase orders and totaled \$806 for 18 gallons of paint. We found no indication that this paint was used in any District building or facility. We interviewed two custodians and a third individual who oversees the painting at the District buildings, and showed each of them a color swatch of the "Mountain Road" green colored paint. All three indicated they were unaware of the green color paint being used at any District facilities. In addition, we reviewed the leave records for the School Grounds Supervisor whose name appeared on the invoices as having received the paint and found that he was on vacation on two of the five days in which the paint purchases were made.³

³ The cost of the paint purchased on the Grounds Supervisor's two vacation days was \$492.

- The Director of Facilities and School Grounds Supervisor circumvented the District’s purchasing controls by requesting two vendors to submit falsified invoices totaling \$3,672. The vendors submitted invoices with item descriptions that did not match the goods that were actually purchased and the invoices were all paid under blanket purchase orders. The manager who works for one of the vendors indicated that he falsified invoices in November 2006 at the request of the School Grounds Supervisor. The School Grounds Supervisor purchased ten rain jackets (nine with names embroidered on them) and 100 heat seal patches in the total amount of \$952. The vendor billed the District on two separate invoices totaling \$952 for “replacement nets” and “goal replacement parts... to fit combo football/soccer goals” rather than for the jackets and heat patches.⁴

A second vendor indicated that the Director of Facilities asked him to bill the District for machinery repairs when the Director had actually purchased jackets and cellular phones. The vendor provided an invoice showing he purchased 25 jackets (with embroidered names and patches sewn on them) from another company in December 2006 for \$1,408. The vendor added \$211 (15 percent) to his cost and then billed the District \$1,619 with an invoice for the repair and general maintenance of a machine at Rome Free Academy (RFA.) A similar situation occurred in March 2007 when the Director of Facilities requested the vendor to purchase three cellular phones (costing \$330 each) and a carrying case which together cost a total of \$1,100. According to the vendor, the Director of Facilities and the School Grounds Supervisor accompanied him to the cellular phone store to pick out the phones. The vendor paid for the phones using his credit card⁵ then billed the District \$1,100 in March 2007 for the repair and maintenance of a machine at RFA.

- Sixteen invoices totaling about \$50,000 did not match the item descriptions on the purchase orders authorizing the purchase. For instance, one purchase order totaling \$11,250 for five lawn tractors was issued on June 30, 2006, but the following items totaling \$11,260, (none of which are a lawn tractor) were charged against the purchase order:
 - o ten vacuum cleaners - \$3,368

⁴The vendor supplied a sales order that showed that the Grounds Supervisor ordered the jackets and heat patches and that he would pick them up.

⁵The vendor supplied an invoice showing the cellular phones and carrying case he purchased from the cellular phone company for the Director of Facilities.

- o ten spreaders — \$2,190
- o one 5HP air compressor — \$1,169
- o ten wet/dry vacuum cleaners — \$1,019
- o two structural foam tilt trucks — \$858
- o one hydraulic pipe bender — \$842
- o various other smaller items such as: janitor carts, compressor oil, safety signs, padlocks, a cordless nailer, overhead door opener transmitters, soap dispensers, water soluble oil, and gel odor neutralizing systems, totaling \$1,814.

In addition, on June 30, 2006, a purchase order was issued for one tractor in the amount of \$38,677. The purchase order described the make, model and the quantity (one) of the purchase. Although one tractor was eventually purchased in May 2007, two additional riding lawn mowers were purchased in June 2007 and charged against the same purchase order.⁶ Not only were these items not included on the purchase order, but the amount recorded for the purchases exceeded the amount of the purchase order by \$2,237.

On June 13, 2007, a purchase order was issued to purchase computer furniture and chairs at a cost of \$57,237 for the Stokes Elementary School. In November 2007, the vendor billed the District for a black leather couch costing about \$950. The couch does not fit the purchase order description “computer furniture and chairs” and we were informed by District officials that the couch was located in the Maintenance Facility. Upon learning of the couch purchase, the purchasing agent ordered the couch be returned. The vendor picked up the couch on January 31, 2008 and the District received a refund for the couch in May 2008.

- Seventeen invoices in the amount of \$73,652 were for goods that were purchased or services that were rendered before the related purchase orders were issued. The District’s procurement regulation requires purchase orders to be completed before a purchase is made with the sole exception of an emergency

⁶ The two lawn mowers actually cost \$16,200, but the District traded in two other mowers and paid a net amount of \$3,600. The purchase of the tractor and the two lawn mowers violated the competitive bidding statutes. See the section of this finding entitled “Competitive Bidding” for additional information.

determined by the Superintendent or Assistant Superintendent for Business. The claims included no documentation to indicate that these were emergency purchases.

Encumbrances

Encumbrances are commitments for payments related to unperformed contracts for goods or services. Encumbrance accounting is intended to guard against a school district creating liabilities in excess of approved appropriations. In order for a school district to maintain budgetary control and to arrive at an accurate estimate of its uncommitted appropriations, it is necessary to encumber all of its known obligations when contracts are approved or purchases are authorized.⁷ At the end of the fiscal year, a portion of the unreserved fund balance is set aside for the payment of goods, materials, and services that have been ordered but not received. This restricted amount of fund balance is known as the reserve for encumbrances and the following year's budget is increased by this amount.

The Assistant Superintendent of Business (who is also the purchasing agent) improperly encumbered fund balance for purchase orders that did not represent true commitments by the District and thereby overstated encumbrances and understated the resulting unreserved fund balance with the goal of accumulating funds for future purchases and upgrades of maintenance department vehicles and equipment.

We identified 30 purchase orders totaling about \$995,700 issued from June 14 to June 30, 2007 that had no expenditures charged against them as of May 31, 2008. The purchasing agent told us that he encumbered the funds to put money aside for a "rainy day" and that the purchase orders were held internally (not given to vendors). This accounting practice was improper because no actual commitments existed at the time of these encumbrances.

Encumbrances should be used to set funds aside to pay orders placed in the current year, not to carry funds over to pay for future purchases. As a result of the District's method for recording year-end encumbrances, the reserve for encumbrances was overstated and the unappropriated fund balance for the 2006-07 fiscal year was understated by \$995,700. The District's accounting practices for encumbrances distorted its financial situation and technically circumvented the Real Property Tax Law.⁸ According to the District's annual financial report, unreserved, unappropriated fund balance in the general fund at June 30, 2007 totaled \$2.3 million representing

⁷ The District encumbers funds in its accounting system when the purchasing agent approves a purchase order.

⁸ Effective in July 2007, legislation was enacted to change the Real Property Tax Law statutory limit of unappropriated fund balance to 3 percent of the 2007-08 fiscal year's budget and 4 percent of the 2008-09 fiscal year's budget.

2.5 percent of the \$91.4 million of budgeted appropriations for 2007-08 fiscal year, slightly less than the 3 percent limit. However, because the District had manipulated its fund balance using encumbrances, its actual fund balance exceeded the 3 percent limitation. We recalculated the District's year-end unreserved, unappropriated fund balance and determined that the District actually retained almost \$3.2 million, over \$518,000 more than the amount allowed by law.

By improperly encumbering funds, District officials reduced the amount of unreserved fund balance that would be available for appropriation for the subsequent fiscal year. As a result, at least \$518,000 was not used as a financing source in the subsequent year's budget, which resulted in a higher tax rate for District residents.

Competitive Bidding

General Municipal Law (GML) and the District's procurement policy and regulation require the District to advertise for bids for purchases in excess of \$10,000 and public works contracts in excess of \$20,000. School districts may also use certain contracts awarded through the New York State Office of General Services (OGS) or a county, or may participate in cooperative bidding with other governmental entities such as a Board of Cooperative Educational Services (BOCES). The purpose of obtaining bids is to encourage competition in the purchase of supplies, equipment and services which will be paid for with public funds. The appropriate use of competition provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner.

We tested 12 contracts totaling \$253,825 for compliance with competitive bidding requirements. District officials appropriately solicited competitive bids or used State or BOCES contracts for seven of these contracts totaling \$161,255. However, the District did not comply with GML for five of these contracts totaling \$92,570. As a result of the failure to solicit competitive bids, there is a risk that the District purchased these goods at higher prices than necessary.

- The District purchased a tractor (\$36,575), an enclosed scissor lift trailer (\$16,130), floor scrubbers and accessories (\$11,995), and a finishing mower (\$11,670) without soliciting bids or purchasing the items on a State, county or BOCES contract.
- The District purchased two riding lawn mowers valued at approximately \$16,200 without complying with GML bidding requirements. Although the voucher submitted by the vendor indicated that \$3,600 was paid for the two mowers and \$180 for blades, we were informed that the District traded

in two other mowers when it made this purchase. At our request, the District contacted the vendor who subsequently supplied paperwork showing that the cost of the two mowers was actually \$16,200 and the District received a trade in allowance of \$12,600, resulting in a net cost of \$3,600. The vendor indicated the invoices were prepared net of the trade in value of two other lawn mowers because District personnel making the purchase requested the invoices be prepared in this manner.

In determining whether a purchase is above the \$10,000 monetary threshold for competitive bidding, the estimated cost of the purchase, without deducting for a trade-in allowance must be considered when determining whether bidding is required. In addition to the purchasing violations, there was no indication the Director of Facilities or the School Grounds Supervisor complied with the District's surplus property policy which required them to notify the Assistant Superintendent about the surplus lawn mowers and to obtain Board approval for the sale (or in this case trade-in) of the lawn mowers. The Assistant Superintendent told us that he wasn't aware that the lawn mowers had been traded in.

In addition, the District accepted delivery of a van and three pick-up trucks costing a total of \$104,036 in November 2007 and January 2008 without following proper bidding procedures. Information supplied by the vendor as well as the requisition signed by the Director of Facilities indicates that the vehicles were purchased from a vendor holding a State contract; however, the vendor did not have the State contract. When the Superintendent and Board became aware that the vehicles were not purchased under a State contract, the District withheld payment from the dealer and it returned the vehicles to the dealer on March 3, 2008. In August 2008, the District entered into a settlement agreement with the vendor and paid the vendor \$11,500 for its use of the vehicles prior to their return. The District's failure to comply with the procedures required by law and the subsequent return of the vehicles and the title documents to the dealer led to District taxpayers incurring \$11,500 in unnecessary costs.

Procurement Policy

The Board's procurement policy and regulation provides guidance to District officials and employees on the procurement of goods and services that are not subject to competitive bidding requirements. The regulation requires District officials to obtain verbal or written quotes from vendors for purchase contracts between \$5,000 and \$10,000. The regulation also calls for the District to obtain verbal quotes for public works contracts up to \$9,999 and written quotes for

public works contracts between \$10,000 and \$20,000.⁹ Principals, Directors and Supervisors are required to attach quotations or information on telephone quotes received to the requisition submitted to the purchasing agent and the purchasing agent must certify that all required quotes have been received.

We tested 10 contracts totaling \$92,245 that were not subject to competitive bidding requirements but were subject to the District's procurement policy relating to verbal or written quotes. District officials appropriately solicited quotes for only one of these contracts totaling \$14,288 but did not follow its procurement policy for nine of these contracts totaling \$77,957. For example:

- The District paid a trucking firm \$10,698 for the removal and transport of fill, delivery of sand and gravel, spreading of sand and gravel, and various other landscape work at the Stokes Elementary School without soliciting quotes.
- The District purchased two scissor lifts costing \$9,861 and \$9,587, respectively; two pickup truck snow plows totaling \$9,370; heating and air conditioning work costing \$8,000; a wheel loader snow plow costing \$7,210, and five snow blowers costing \$5,499. There was no indication that District officials obtained quotes prior to purchasing any of these items.
- In April 2007, the District purchased seven roof vent covers costing approximately \$1,414 each for a total of \$9,900 without soliciting quotes as required by the District's policy. In June 2008, the District purchased three additional roof vent covers from another vendor for \$370 each. We were informed by personnel at the Buildings and Grounds Department that the quality of the roof vent covers costing \$370 each was the same or better than the quality of the vent covers costing \$1,414 each. Had District officials sought competition prior to purchasing the initial vent covers, the District could have potentially saved about \$7,300.
- The District purchased ice melt totaling \$7,832 without obtaining quotes. District personnel indicated the District purchased this product from a sole source provider as there was no other source available at the time because of the lateness of the season. However, there was no documentation attached

⁹ The District's procurement regulation defines a purchase contract as a contract involving the acquisition of commodities, materials, supplies or equipment. A public works contract is defined as a contract involving services, labor or construction.

to the claim indicating the vendor was the “sole source” or the measures used to find other potential suppliers.

Awarding contracts for goods or services without the benefit of competitive quotes not only violates the District’s own policies and procedures, it also increases the risk that officials will not obtain goods and services in the most economical manner and in the best interest of District taxpayers.

Recommendations

1. District officials should ensure that all employees involved in the procurement process follow the District’s procurement policy and regulation with respect to the following:
 - Blanket purchase orders should be issued monthly and only used for items needed for day to day operations, not equipment.
 - Purchase orders should be issued before goods or services are ordered, unless otherwise provided by the District’s regulation.
 - Verbal and written quotes should be obtained when required for purchases not subject to competitive bidding and documentation should be attached to the requisition to show that the required quotes were received.
 - The purchasing agent should certify that all required quotes have been received prior to approving the purchase order.
2. The District should establish perpetual inventory records and periodically reconcile the records to independent physical inventories in order to detect potential missing or stolen assets.
3. The claims auditor should only approve the payment of claims for which an approved purchase order has been issued and dollar amounts and descriptions per the invoice are consistent with those on the purchase order authorizing the purchase.
4. District officials should use encumbrances to set funds aside to pay for orders placed in the current year, not to carry funds over to pay for future commitments.
5. The purchasing agent should ensure that all items which exceed the bidding thresholds are competitively bid in accordance with purchasing statutes and the District’s procurement policy and regulation.

6. If sole source purchases are made, District officials should document proof that the goods and/or services in question were available from only one source.

Claims Audit

The audit and approval of claims is one of the most critical elements of the District's internal control system. Education Law authorizes a Board to adopt a resolution to appoint a claims auditor to audit and allow or reject all claims against the District on its behalf. The claims auditor is required to report directly to the Board on the result of the audit of claims and not to any other District staff or management. The claims auditor serves as final authorization for the Treasurer to process a check payment and provides a means for the Board to monitor the effectiveness of internal controls over expenditures. In addition, the claims auditor should confirm that paying or reimbursing a claimed expense conforms to District policies.

In January 2007, the District adopted a claims audit policy, which states that the claims auditor is responsible for formally examining, allowing or rejecting all accounts, charges, claims or demands against the District. The claims auditor is required to determine that the claim is in agreement with the purchase order or contract on which it is based, is in proper form, does not exceed available appropriations, and is for a valid legal purpose. The auditing process should also determine that the obligation was incurred by an authorized District official, the claim is mathematically accurate and the items for which payment is claimed were in fact received or the service actually rendered.

To enhance the effectiveness of the claims audit process, the claims auditor should be familiar with relevant District policies and should review claims for compliance with those policies. In addition to the claims audit policy, the District has adopted various other policies and regulations that affect the claims audit process such as policies addressing travel, conferences and employee expense reimbursement, and purchasing. The claims auditor told us he had not been provided with copies of District policies and he directed any policy-related questions during his review of claims to either the Treasurer or the Assistant Superintendent for Business and Finance (Assistant Superintendent) who also serves as the purchasing agent. The Assistant Superintendent told us that District policies are located on the District's website, and if the claims auditor was unaware of this, it was due to a lack of communication between the District and the claims auditor. However, when the claims auditor is unfamiliar with the District's policies that affect claims, the Board lacks assurance that claims will be thoroughly reviewed by the claims auditor and there is an increased risk that claims may be paid that are not in accordance with District policies.

Questionable items identified during the audit of claims should be brought to the Board's attention. We found the claims auditor prepared a monthly cumulative findings report which summarized any notable findings during his review of the claims; however, he only provided a copy of the report to the Treasurer and did not report his findings directly to the Board. The effectiveness of the claims audit process suffers under this arrangement because the Board is not alerted to questions or concerns that might arise during the claims audit process.

We reviewed 150 claims totaling \$1,762,131 (including 22 manual check claims totaling \$114,726) and identified the following discrepancies:

- Three claims totaling \$11,250 for professional security consulting services were supported by a contract signed by the Assistant Superintendent without Board approval. It is good practice for the Board to be involved in the approval of the District's professional service contracts. In addition, the District's procurement regulation requires recommendations for professional service contracts to be presented to the Board.
- We found no indication that the claims auditor approved six manual check claims totaling \$13,119. In addition, 11 other manual check payments for claims totaling \$92,652 cleared the bank prior to the claim being certified on a warrant by the claims auditor. These claims were not authorized by law to be paid prior to audit.¹⁰ Except for a few statutory exceptions, the Treasurer should pay a claim only after receiving documentation from the claims auditor authorizing the payment of the claim.
- Two claims totaling \$1,279 for expense reimbursements of the prior Superintendent did not indicate the Board approved the conference attendance in advance, as required by the prior Superintendent's employment agreement.
- Seven claims totaling \$2,132 for employee expense reimbursement did not include prior approval for conference attendance, as required by the District's Conference and Expense Reimbursement policies. Although the District subsequently provided us with documentation showing prior

¹⁰ Pursuant to Education Law, Section 1724, the Board may pass a resolution to authorize the payment of public utility services, postage, freight and express charges in advance of audit of the claim. All such claims should be presented for audit after the claim is paid.

approval for four of the claims totaling \$1,472, this approval was not attached to the claims approved by the claims auditor. Additionally, we noted one other claim totaling \$1,646 for conference attendance expense reimbursement that was approved by the supervisor after the date of travel.

- One claim for fuel totaling \$85,890 did not include delivery tickets or any indication the District actually received the fuel indicated on the claim.¹¹
- Twelve claims totaling \$21,496 lacked proper itemization or other documentation which would allow for the proper audit of these claims. This includes two claims paid to the City of Rome totaling \$16,993 which lacked itemization for overtime costs incurred for school resource officers and 10 claims totaling \$4,504 which lacked itemization for mileage reimbursements paid to the former Director of Facilities.

As a result of these deficiencies, the District lacked assurance that the payments were properly approved and supported, complied with District policies and regulations, and/or that the goods and services were actually received by the District. District officials should strengthen controls over the claims audit function to avoid paying inappropriate or unnecessary expenditures in the future.

Recommendations

7. The Board should notify the claims auditor of District policies and their location.
8. The claims auditor should report directly to the Board with respect to any problems identified during the audit of claims.
9. The claims auditor should not approve payments that are not in compliance with Board policy.
10. The claims auditor should ensure that every claim contains adequate itemization and documentation as a proper District charge, that the purchase has been properly authorized, there is documentation that the goods or services have been received, and the claim complies with District policies and regulations.
11. Unless otherwise provided by law, the Treasurer should pay claims only after they have been properly audited and approved by the claims auditor and after receiving a warrant certified by the claims auditor, directing the payment of claims.

¹¹ See our finding entitled “Fuel Purchases” for additional information on internal control weaknesses related to the District’s fuel purchases.

Fuel Purchases

It is essential that District officials ensure that the District's fuel inventory is protected from loss and that it is used effectively for its intended purpose. When District fuel is used by a transportation vendor, it is important for the District to enter into a written agreement with the vendor that clearly defines each party's responsibilities with respect to the purchase and use of fuel, the maintenance and retention of accurate and timely records, and monitoring and reporting requirements. The District should purchase and pay only for the actual amount of fuel used.

The District contracted with a vendor (Contractor) to provide student transportation (daily home to school and return regular bus runs, after school bus runs, special education bus runs, pre-kindergarten bus runs, summer school bus runs, and charter/athletic trip runs) during the 2006-07 fiscal year. The District provided the Contractor with the diesel fuel required to provide the student transportation. The Contractor ordered the diesel fuel for the District and it was delivered to the Contractor's shared fuel tank.¹² The District was billed directly by the fuel vendor. We found that the District has not established appropriate internal controls over these fuel purchases. The District did not enter into a written agreement with the Contractor outlining each party's responsibilities with respect to the purchase and use of fuel, the maintenance of accurate and timely records, and periodic reporting requirements. The District also did not confirm fuel was actually received prior to paying its fuel invoices and it did not begin monitoring fuel purchases and usage for the 2006-07 fiscal year until the time of our audit in November 2007.

The District paid for 215,120 gallons of diesel fuel, totaling \$490,550 during the 2006-07 fiscal year. The District did not have a process in place to verify the receipt of fuel deliveries prior to payment. The District's School Transportation Coordinator approved the fuel invoices without delivery tickets or any other indication the fuel was actually received by the Contractor and the claims auditor approved payment of the claims. During our audit, the District compared fuel invoices to delivery tickets and determined that the District paid for 8,000 gallons of diesel fuel totaling \$16,564 that it never received, despite being billed for the fuel in December 2006. District officials informed us that the vendor has since issued the District a credit for that amount.

¹² The Contractor stores diesel fuel for its own use and the District's use in the same tank.

We also found that District officials did not request or receive adequate fuel consumption reports and supporting documentation to monitor District fuel usage in the 2006-07 fiscal year. As a result, based on the supporting documentation provided, District officials are unable to confirm that the 154,450 gallons of fuel usage reported by the Contractor for student transportation was calculated accurately.

The District began fueling its unleaded gasoline and diesel fuel vehicles at the Contractor's site in April 2006. The 2006-07 fuel usage summary report also shows that 43,581 gallons of fuel was used by District-owned vehicles. In exchange for unleaded gas purchased by the Contractor for use in District-owned vehicles, the District allowed the Contractor to use an equal amount of its diesel fuel. Both the Contractor and the Assistant Superintendent told us this was an unwritten agreement that the District would provide diesel fuel to the Contractor in a gallon for gallon exchange for the Contractor providing unleaded gasoline to the District. No records were maintained to document this exchange or to monitor whether the District was giving and receiving fuel of equal value under this arrangement, and we found no indication that the Board approved this unwritten agreement. According to the records, the District used 18,866 gallons of unleaded gasoline purchased by the Contractor. Therefore, the Contractor received 18,866 gallons of diesel fuel from the District in exchange. The District purchased the diesel fuel at their cooperatively bid rate of \$2.2357 per gallon¹³ totaling \$42,179. This cost of diesel fuel exceeded the average State contract rate for unleaded gasoline for the 2006-07 fiscal year. Based on our estimates, we determined the District could have saved approximately \$4,785 by purchasing its own unleaded gasoline on State contract rather than trading diesel fuel for unleaded gasoline with the Contractor.

Upon our request, the Contractor provided us with a report generated from its gas recording system showing the gallons of gasoline and diesel fuel dispensed into District-owned vehicles each month. Each District-owned vehicle is assigned a vehicle fuel card and each employee authorized to receive fuel is assigned an employee fuel card. An employee must use both the employee card and a vehicle card in order to dispense fuel from the Contractor's pumps. The report shows the total gallons pumped by District-assigned vehicle identification numbers on various days each month. The Contractor told us the dates reflected on the report are the days when he queried the system. He does not query the system every day, so the report shows the cumulative gallons pumped by each District-owned vehicle (based on the identification number) since the last query.

¹³ The District participated in a cooperative bid with the Madison-Oneida BOCES for diesel fuel in 2006-07.

The report does not provide sufficient detail to allow the District to closely monitor fuel usage because it does not show who dispensed the fuel, what day and time the fuel was dispensed and how much fuel was pumped with each fill-up. The Contractor told us it was unable to generate reports with this level of detail from the system. Additionally, the summary report shows the fuel dispensed by vehicle identification (ID) number. We were informed that multiple vehicle fuel cards share the same vehicle ID number, so there is no way to determine what vehicle actually received the fuel.

Without accurate and detailed supporting documentation of fuel used by the District, or proper monitoring of fuel purchases and usage on a regular basis, the District is unable to ensure the fuel it purchases is being used for District purposes only. For example, the report shows 224 gallons of diesel fuel pumped on one Saturday, September 30, 2006 — all attributable to the same vehicle ID number. The Assistant Superintendent told us the vehicle ID number reflected on the report represented five separate vehicle fuel cards that were issued under the same ID number. The report also shows 240 gallons of gasoline pumped on the same Saturday for a different vehicle ID number. This vehicle ID number also had five separate vehicle fuel cards associated with it. District officials could not explain why the District would have needed to dispense this much fuel on a Saturday. When we discussed the reported Saturday fuel activity with the Contractor's representative, he told us he thinks these vehicle IDs were not queried in the computer system earlier in September, so the reported fuel usage reflects fuel dispensed on other days, not just on September 30. However, he said he has no documentation to support this assertion because the computer system erases the prior fuel usage data each time he performs a query.

Lastly, we found that the District does not compare fuel purchases with usage to determine the amount of fuel available. Instead, the District and Contractor estimate that 200,000 gallons of fuel will be consumed for District purposes each year, and this estimate is compared with the gallons that are delivered during the year to arrive at the estimated amount of District fuel still available to be carried over to the next year. For instance, if actual deliveries exceeded 200,000 during the year, the amount of the excess would be considered to be District fuel. Conversely, if deliveries were less than 200,000, it would be presumed that District vehicles used more fuel than was purchased and used the Contractor's fuel to make up the deficit. This method of calculating the District's fuel inventory is faulty as it totally ignores the amount of fuel actually used by the District. The inaccuracy of this method is demonstrated by a comparison of 2006-07 purchases and consumption. According to fuel invoices,

the District purchased 215,120 gallons of diesel fuel during 2006-07. The Contractor's summary usage report shows 203,377 gallons of fuel was used on behalf of the District during the year, resulting in a difference of 11,743 gallons of diesel fuel (or about \$26,250) due from the Contractor to the District. The District's failure to compare fuel purchases with actual fuel usage and to adjust future purchases accordingly could result in the District purchasing excess fuel that is not used for District purposes.

Recommendations

12. The Board should enter into a written agreement with the Contractor that clearly defines the District's and Contractor's responsibilities with respect to the acquisition, delivery and usage of fuel and the maintenance of accurate and timely inventory records. The agreement should specify how fuel usage will be determined and it should require the Contractor to provide periodic reports to allow the District to monitor fuel purchases and usage.
13. The District should maintain accurate records showing the fuel cards assigned to each vehicle and employee. Unused fuel cards should be cancelled.
14. The District should discontinue its practice of exchanging diesel fuel purchased by the District for gasoline purchased by the Contractor.
15. The District should monitor fuel purchases and inventories to ensure that fuel purchases reasonably reflect actual fuel usage.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



ROME CITY SCHOOL DISTRICT

112 East Thomas Street
Rome, New York 13440

JEFFREY P. SIMONS
Superintendent of Schools

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November 27, 2008

Office of the State Comptroller
Division of Local Government and School Accountability
State Office Building, Room 409
333 East Washington Street
Syracuse, New York 13202-1428

Attn: Eugene Camp, Chief Examiner

Dear Office of the State Comptroller:

Please accept this letter of response to the draft audit report received by the Rome City School District on November 3, 2008. The issues detailed in the audit report as well as the exit discussion that occurred with our board of education and district audit committee on November 5, 2008 will assist the district's effort to strengthen financial controls and help district officials protect the assets of the taxpayers of Rome. We appreciate the detail of the report as well as the professionalism and thoroughness with which the auditing team conducted its review of our district's financial operation.

The district's response is intended to reinforce the previous communication we've maintained with your office indicating the seriousness with which district officials are addressing the failure of district business practices and abuses within our buildings and grounds department outlined in the report.

It is noted in the report that the initial time period identified for the audit included the period of July 1, 2006 to July 31, 2007. It is also noted in the report that the Office of the Comptroller determined to extend the audit period back to July 1, 2005 and forward to May 31, 2008 due to the arrests of two of the district's supervisors in the buildings and grounds department for misappropriation of District assets.

As discussed at the exit conference, the current Superintendent, Jeffrey P. Simons was appointed on August 1, 2007. An investigation into matters related to the misappropriation of district assets within the buildings and grounds department was initiated by the Superintendent's office on August 27, 2007, less than a month after his appointment as the new Superintendent.

The Superintendent with the advice and counsel of the board of education's attorney initiated an investigation in cooperation with the Rome Police Department immediately upon receiving reports from employees and the former Board of Education President Tom Wasco regarding theft of recyclable copper and other materials from the former Rome Free Academy. These reports also included suspected theft and misuse of the district's obsolete computers. In November of 2007, after a 6 week investigation by the Rome Police Department and the Superintendent's office and upon being informed of the pending arrests of the Director of Facilities and Supervisor of Grounds, Mr. Simons notified members of the Comptroller's audit team of the matters involved. Immediately upon the suspensions of the Director of Facilities and Supervisor of Grounds in November of

2007, the Superintendent continued to receive reports and documentation from employees and informed citizens regarding the misuse of district assets, and purchases of equipment for personal use. An investigation into the misuse of district assets within the buildings and grounds department and a review of the mismanagement of the district's business office continued to be conducted by the Rome City School District, Oneida County District Attorney's Office and the Rome Police Department independently from the NYS Comptroller's Audit during the time period of November 14, 2007 through June, 2008.

It was this investigation conducted by the Superintendent's Office, the Rome Police Department and the Oneida County District Attorney's Office that lead to the filing and subsequent guilty pleas by the Director of Facilities and Supervisor of Grounds on the felony charges of grand larceny, falsifying of business records and a misdemeanor charge of perjury.

The Superintendent initiated a follow-up inquiry with the Office of the State Comptroller in the Spring of 2008, questioning whether the NYS Comptroller's Office planned any review of the matters. Based on the Superintendent's contact, the comptroller's office informed him in June of their intentions to extend the audit in light of the reported issues within the buildings and grounds operation.

Upon the extension of the comptroller's audit, the audit team was extremely helpful in detailing the lack of internal controls, violations of board procurement policies and lack of competitive bidding within the district's business office. These practices enabled significant waste and theft of taxpayer assets. Additionally, the comptroller's detailed review of purchase documents and on-going communication with the Oneida County District Attorney's Office uncovered transactions that lead to an additional felony charge filed against the Director of Facilities related to the purchase of cell phones for personal use. The comptroller's audit team also uncovered the purchase of a generator for personal use. Due to these discoveries by the NYS Comptroller's audit team and the follow-up investigation by the Rome Police Department and Oneida County District Attorney's Office, the equipment was returned to the district. The employee in possession of the generator resigned in lieu of disciplinary charges.

In regard to the timelines included within the scope of the report, it should also be noted that the mismanagement of the district's purchasing practices (detailed on pages 8-11 of the report) including the extensive use and abuse of blanket purchase order accounts, the purchase of equipment for non-district and personal use as well as the failure to ensure competitive bidding requirements were met by the district occurred during the time period of 2006-2007. We are aware that former Superintendent Thomas Gallagher, who maintained oversight over the district's business and facilities operations during this time period, was very critical of the potential for abuses in the practice of blanket purchase orders and had directed that they be discontinued or minimized in the future. Unfortunately, this did not occur. It should also be noted that throughout the 2007-08 school year almost immediately upon assuming the office, the current Superintendent of Schools supported the investigation of the Rome Police Department, Oneida County District Attorney's Office and the Office of the New York State Comptroller, providing access to numerous business office files, arranging investigatory interviews with employees, and communicating all tips of suspected wrong-doing to the authorities.

Additionally, as the investigation continued, the district took the necessary steps it could take to improve its internal controls absent a complete compilation of the facts now provided by the NYS Comptroller's office. There were also concerns that further efforts to implement changes to district practice might interfere with the authority's investigation of the district's practices and personnel.

However, the following corrective steps were taken while the investigation proceeded during the 2007-08 school year:

1. The board of education's procurement policies and regulations were reviewed with the board and affected employees. Restrictions and limits on the types of purchases allowed through blanket purchases and the dollar thresholds required by district policy and law were put into effect.
2. Upon receiving tips from whistleblowers, The Superintendent and Board of Education requested its external auditor to conduct a forensic audit of transactions charged against blanket purchase order accounts targeting purchases from specific vendors. The information gleaned from the forensic audit assisted The Oneida County District Attorney's Office and Rome Police Department in the recovery of district equipment.
3. Procedures have been changed to ensure that every purchase request is reviewed for determination and compliance with the NYS General Municipal Law. Requirements for competitive bidding or purchase from state contract for equipment and supplies in excess of \$10,000 and public works contracts in excess of \$20,000 are being followed.

We are grateful for the role the Office of the NYS Comptroller played in assisting the district with a full determination of the facts. Upon completion of the comptroller's audit and resolution of the criminal investigation, the district has been implementing further steps to improve controls. These steps will be outlined in detail through the submission of our corrective action plan.

At this time, we offer the following additional response to the findings and recommendations included within the draft audit report:

Procurement Policies and Practices

Use of Blanket Purchase Order Accounts

We agree with the findings and recommendations included within the draft report. The utilization of blanket purchase accounts for day to day operations contributed significantly to the waste and theft of the district equipment outlined in the report. Currently, the district is following policies specifying the use of blanket purchase orders for emergencies only. Purchase orders are being required for almost all transactions. Those blanket purchase order accounts that are required for emergencies are issued on a monthly basis.

Competitive Bidding Requirements

We agree with the findings and recommendations included within the draft report. The Assistant Superintendent for Business and Finance's failure to ensure that competitive bidding requirements were followed contributed to a lack of appropriate transparency regarding district purchasing of equipment to the board of education. This failure also facilitated wasteful purchasing on the part of Supervisors within the Buildings and Grounds Department.

The district is currently purchasing equipment through competitive bidding or through state contract provided through the NYS Office of General Services. For transactions in which the purchase amount does not meet required thresholds for bidding, the proper number of written and verbal quotes are being obtained and attached to requisitions as recommended.

Inventory Control and District Management of Fixed Assets

We agree with the findings in the report indicating the inadequate management and accounting of the district's physical inventory. As noted in the report, the district's practice has been to hire a consultant to perform an annual physical inventory of district assets. However, in the past there have been no independent perpetual

inventory records maintained and compared with the annual physical inventory. The district did not have a system to detect assets that were purchased with district resources or missing from the district. The district is currently completing a physical inventory of all assets. We are also investigating the utilization of integrated asset management software that includes the interface of a purchasing function, a perpetual inventory management system and receiving function.

Claims Audit

We agree with the findings indicating that in several cases the claims audit function provided insufficient internal controls over expenditures. District policies including the claims audit policy and procurement policies have been reviewed with the district’s contracted claims auditor. We have reinforced to the claims auditor that he reports directly to the board of education and not to the school business official. Further internal controls related to the claims audit function and payment of claims by the treasurer will be included within the corrective action plan submitted by the district.

Encumbrances

We agree in part with findings of the report regarding the district’s practices related to encumbrances. We agree with the auditors’ conclusion that the accounting practice of issuing purchase orders held internally in some cases did not represent true commitments by the district and were overstated. However, we note that the district’s external auditor was aware of this practice for three years and never included it as a finding in its annual report to the board of education.

We disagree with the conclusion drawn in the report that the practice of improperly encumbering funds contributed to a higher tax rate for district residents. We believe that the analysis included within the report is insufficient to draw such a conclusion.

See
Note 1
Page 31

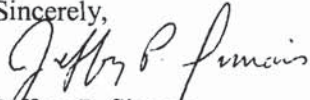
Nevertheless, the district took steps at the completion of the 2007-08 budget year to cancel any encumbrances for which there were no outstanding liabilities.


Fuel Purchases

We agree with the findings and recommendations included within the draft report. We appreciate the Office of the NYS Comptroller bringing this matter to our attention. We are reviewing our current contractual agreements with our contracted bus company with respect to acquisition, delivery and usage of fuel including the provision of accurate and timely records and reports.

In conclusion, the draft report provided by the Office of the New York State Comptroller will be extremely helpful to the Rome City School District as we continue to develop and implement corrective actions to improve internal controls over purchasing, our claims audit function, fixed asset management and fuel purchased with our contracted bus service. The professionalism and courtesy extended to the district throughout the audit process is respected and appreciated.

Should you have further questions or need more information, please do not hesitate to contact me.

Sincerely,

Jeffrey P. Simons
Superintendent of Schools


Patricia Riedel
Board of Education President

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

We maintain that if encumbrances had been correctly recorded and the District had appropriated the resulting unreserved fund balance that was in excess of the statutory limit, real property taxes required to finance the 2007-08 budget would have been reduced. The District agrees the encumbrances did not represent actual liabilities. The lack of actual liabilities or the intent to establish or increase reserves would have left the District with no alternative other than to appropriate the excess, which would have resulted in a corresponding decrease in taxes.

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, and payroll and personal services.

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 controls related to purchasing, the claims audit function and fuel purchases for further audit testing.

To accomplish the objectives of our audit, our procedures included the following:

We interviewed District staff and officials to gain an understanding of the internal controls over the purchasing function. We also met with law enforcement officials from the Oneida County District Attorney's Office and the Rome Police Department concerning their ongoing investigation of the District. To evaluate the effectiveness of internal controls surrounding the purchasing process, we selected 218 invoices totaling \$560,334 and examined the supporting documentation, including purchase requisitions, purchase orders, and vendor invoices to determine the validity of the transactions and their compliance with relevant internal control and District policies. In addition, we selected some of these invoices for additional testing, including tracing items from the invoice to the physical asset, compliance with competitive bidding statutes and compliance with the District's procurement policy and regulation.

We interviewed District staff and officials to evaluate internal controls involving the audit of claims. To determine the effectiveness of internal controls surrounding the process, we selected 150 claims (including 22 manual check claims) totaling \$1,762,131 and examined the supporting documentation, including purchase requisitions, purchase orders, claim vouchers and vendor invoices to determine the validity and authorization of the transactions and their compliance with relevant internal control and District policies. We also examined the cancelled checks (including cancellation dates) for the manual check claims to determine if the checks were paid prior to audit and approval by the claims auditor and to verify that the checks clearing the bank agreed with the records.

Lastly, we interviewed District staff, officials and the District's Contractor to evaluate controls over fuel purchases. We examined the District's student transportation contract to determine the terms of the services to be provided by the Contractor, examined invoices paid for fuel purchases in the 2006-07 fiscal year, reviewed supporting documentation for the fuel usage summary report provided by the Contractor and reviewed the Contractor's calculation of the fuel carried forward from 2006-07 to 2007-08. We determined an average State contract price of unleaded gasoline for Oneida County in the 2006-07 year by averaging the gasoline prices at the beginning of each month in the fiscal year based on prices reflected on the New York State Office of General Services website.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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APPENDIX E

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