



# Sandy Creek Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2006 — June 30, 2007

2008M-29



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

June 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Sandy Creek Central School District, entitled Internal Controls Over Selected Financial Activities. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in 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

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### EXECUTIVE SUMMARY

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

The District employs a Business Administrator who also serves as the purchasing agent. She oversees a Business Office staff of four who handle the District's business operations. During the 2006-07 fiscal year, the District issued 2,135 disbursement checks totaling \$5.1 million for non-payroll claims, excluding debt service payments.

#### **Scope and Objective**

The objective of our audit was to determine if internal controls over selected financial operations were appropriately designed and operating effectively for the period July 1, 2006 to June 30, 2007. Our audit addressed the following related questions:

- Are internal controls over non-payroll cash disbursements appropriately designed and operating effectively to safeguard District assets?
- Are internal controls over claims processing appropriately designed and operating effectively to safeguard District assets?
- Are internal controls over purchasing activities appropriately designed and operating effectively to safeguard District assets?

#### **Audit Results**

Our audit disclosed internal control weaknesses resulting from inadequate segregation of key cash disbursement and accounting duties and purchasing, receiving, and accounts payable duties. The Treasurer controls cash disbursements, makes adjusting journal entries to the accounting records and reconciles the District's bank accounts without adequate supervisory reviews or other checks on his work. In addition to processing vendor invoices for payment and having access to the resulting computer-signed checks, the accounts payable clerk also controls the purchasing function by entering requisitions into the financial system and generating the computer-signed purchase orders. In addition, she handles the receiving for most goods and services. As a result, there is increased risk that the

Treasurer could process and conceal improper cash disbursements and that the accounts payable clerk could initiate improper purchases and process payment without detection. These control deficiencies are compounded by the absence of an effective claims audit function at the District. While our testing of cash disbursements did not reveal any impropriety, this does not diminish the need for District officials to either segregate incompatible duties or implement effective compensating controls.

The Board retained its statutory responsibility and authority to audit claims and authorize their payment during our audit period. However, the Board did not perform a proper audit of claims. Board members simply reviewed computer generated warrant reports listing the claims; they did not review the actual claims and supporting documentation. Furthermore, the District regularly issued payments for claims well in advance of the Board meetings when they reviewed and approved the warrants. Without a proper audit of claims, prior to payment, the District is at risk for making erroneous or illegal payments. As a result of this weakness, we examined 63 claim payments totaling \$812,278 for proper supporting documentation including prior authorization for the purchases and certification that the purchased goods or services were received. Claims supporting 18 payments lacked purchase orders or other documentation evidencing that the purchasing agent or another responsible official had given prior authorization for the purchase and claims supporting 21 payments lacked certifications that the District had received the purchased goods or services.

Finally, weaknesses exist within the District's system of internal controls over purchasing practices. Although the Board adopted a purchasing policy, District officials did not always comply with the prescribed provisions in the policy. As a result, the District may have incurred higher costs than necessary for goods and services purchased. Three purchases out of 14 tested did not comply with competitive bidding requirements. In addition, the Board's purchasing policy left the specifics on how to handle purchases not subject to competitive bidding up to District officials. However, officials did not establish any policies or procedures for such purchases. We selected seven purchases in amounts that were below statutory bidding thresholds and found that District officials did not obtain quotes for three of those purchases totaling over \$74,000.

### **Comments of District Officials**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take or had already taken corrective action. Appendix B includes our comment on the issue raised in the District's response letter.

# Introduction

## Background

The Sandy Creek Central School District is located in the towns of Sandy Creek, Orwell, Redfield, Boylston, Williamston and Richland in Oswego County, the town of Osceola in Lewis County and the town of Ellisburg in Jefferson County. 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. A Business Administrator who is also the purchasing agent, a Treasurer/payroll clerk, a Deputy Treasurer, an accounts payable clerk, and one other account clerk administer the District's business affairs.

There are three schools in operation within the District, all at one campus location, with approximately 1,040 students and 300 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$20.5 million, which were funded primarily with State aid, real property taxes, and grants. During that fiscal year, the District issued 2,135 disbursement checks totaling \$5.1 million for non-payroll claims, excluding debt service payments.

## Objective

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

- Are internal controls over non-payroll cash disbursements appropriately designed and operating effectively to safeguard District assets?
- Are internal controls over claims processing appropriately designed and operating effectively to safeguard District assets?
- Are internal controls over purchasing activities appropriately designed and operating effectively to safeguard District assets?

## Scope and Methodology

We examined the internal controls related to non-payroll cash disbursements, claims processing and purchasing at the Sandy Creek Central School District for the period July 1, 2006 through June 30, 2007.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

**Comments of District  
Officials and Corrective  
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take or had already taken 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, 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

District officials are responsible for ensuring an effective system of internal controls is designed and implemented to provide for the separation of duties, so that no single individual controls most, or all, phases of a transaction. Duties should be segregated so that the work of one employee is routinely verified in the course of another employee's regular duties. This reduces the risk that errors or irregularities could occur and go undetected and uncorrected. Where it is not practicable to segregate all duties, good internal control practices require management to install compensating controls. These controls could include having management or a different staff member review the work performed.

District officials have not established an appropriate system of internal controls over cash disbursements because the duties of two of the four Business Office staff were not adequately segregated. The Treasurer and the accounts payable clerk each control significant phases of the cash disbursement transaction process without independent oversight. As a result, both may be in a position to process improper disbursements without detection. The risks resulting from the weakened control over disbursements were compounded during the audit period because the Board was not performing an adequate audit of claims.

### **Treasury and Accounting Duties**

The Treasurer has full control over the District's treasury and cash disbursement accounting functions without adequate supervision or monitoring. As Treasurer, he has sole authority to sign District checks and make wire transfers. However, he also prepares and posts journal entries and prepares the bank account reconciliations without supervisory review. These duties are incompatible when performed by one individual without an effective review of his work.

The Business Administrator provides some compensating control over the Treasurer's activities by receiving and reviewing all bank statements and cancelled checks and reviewing budget status and Treasurer's reports. However, these procedures do not adequately mitigate the risk of irregularities occurring and not being detected because the Business Administrator does not review the bank account reconciliations or journal entries. When an individual who has authority to sign District checks and make wire transfers can also make journal entries and reconcile the bank accounts without review, there may be opportunities to initiate improper payments and conceal them through false reconciliation and/or inappropriate adjustments to the cash account records.

## **Purchasing and Payment Duties**

The accounts payable clerk controls all phases of the purchasing and payment process. She receives department purchase requisitions, enters them into the financial system, and prints the computer-generated purchase orders bearing the purchasing agent's signature. In addition, she personally handles receiving for most deliveries of goods, processes invoices for payment, posts to the accounts payable record, and has the ability to and sometimes does print the computer-generated checks bearing the Treasurer's signature. Therefore, a risk exists that the accounts payable clerk could initiate and process improper purchase and payment transactions without detection and would have easy access to the resulting unauthorized goods or disbursement checks.

The Board recently engaged an auditing firm as the District's internal auditor. The firm's report on District internal controls, dated May 31, 2007, recommends that officials segregate both the purchasing function and the receiving function from the accounts payable and cash disbursement functions.

Given the internal control risks relating to the lack of separation of duties for both the Treasurer and the accounts payable clerk, we judgmentally selected 264 cash disbursements totaling \$1.2 million and examined the associated cancelled checks and endorsements to verify that payees and amounts agreed with the printed warrants and accounting system data. We also selected 89 of these transactions, totaling \$815,664, and examined supporting documentation to ensure that each transaction was a proper District expenditure. While our testing did not reveal any impropriety, this does not diminish the need for District officials to either segregate incompatible duties or implement effective compensating controls.

## **Recommendations**

1. District officials should review internal controls over the treasury and accounting functions and take steps to segregate cash disbursement, cash recordkeeping, and bank account reconciliation duties to the extent judged to be practical and cost-effective. Where incompatible duties cannot be appropriately segregated, District officials should establish effective supervisory review procedures.
2. District officials should review the internal controls over purchasing and claims payment functions and take steps to segregate cash disbursement, purchasing, accounts payable and receiving functions to the extent judged to be practical and cost-effective. Where incompatible duties cannot be appropriately segregated, District officials should establish effective supervisory review procedures.

## Claims Processing

An effective system of internal controls over claims processing is intended to ensure that every District claim contains enough supporting documentation to determine that it complies with District policies, and that the amounts claimed represent actual and necessary District expenses. Education Law and good business practices dictate that a Treasurer pay claims only after the school board, or an appointed claims auditor, have audited the claims and provided the Treasurer with written authorization to pay. The authorization is documented by an approved warrant, signed by either the District Clerk or an appointed claims auditor, attesting that the claims have been audited and approved for payment. An independent claims audit can detect abuses or improprieties, and help ensure that funds are expended for authorized purposes and in accordance with Board policies.

### Claims Audit

During our audit period, the Board elected to retain its authority and responsibility to audit and approve District claims rather than appoint a claims auditor. However, the Board's audit of claims consisted only of reviewing a computer-generated listing of claims (warrant) prepared by the accounts payable clerk. Board members did not receive and review the supporting documentation necessary to assess the propriety of each claim, such as purchase orders, receiving documents, or itemized invoices. This process was not sufficient to detect improper or wasteful purchases and payments and, as a result, the District may have made inappropriate payments.

Board members may not have understood their statutory responsibility to properly audit and approve claims because they lacked adequate training. Both the President and Vice President of the Board told us that they were not aware of the Board's claims auditing responsibilities until they heard it discussed at a conference in May 2007. In July 2007, the Board appointed a claims auditor for the 2007-08 fiscal year. We also noted that three Board members, elected on or after July 1, 2005, have not completed the minimum six hours of training on financial oversight, accountability and fiduciary responsibilities that is mandated by Education Law.

Due to the internal control weakness noted above, we examined 63 claim payments totaling \$812,278 for proper supporting documentation including prior authorization for the purchases and certification that the purchased goods or services were received. Our testing disclosed that:

- Claims supporting 18 payments lacked purchase orders or other documentation evidencing that the purchasing agent or another responsible official had given prior authorization for the purchase. These exceptions included a \$23,632 payment for the installation of vinyl tiles and carpeting, three payments, totaling \$16,854, for the services of a negotiations facilitator, three payments, totaling \$4,900, for seven months of drug-detector dog services, and two payments, totaling \$2,000, for two months of trash removal services. The District did not have contracts for the facilitator, detector dog, or trash removal services.
- Claims supporting 21 payments lacked certifications that the District had received the purchased goods or services. These exceptions included two payments, totaling \$278,518, for three buses; one \$23,324 payment for five interactive white boards; two payments, totaling \$16,766, for musical instruments and chairs; and two payments, totaling \$14,924, for 130 calculators.

### **Payment Authorization**

The Treasurer routinely pays claims prior to Board approval. The District generates warrants at the middle and end of each month. The Business Administrator told us that the District routinely pays the claims listed on the end-of-month warrants before they are submitted to the Board for audit. She also stated that it is sometimes necessary to pay vendors prior to receiving Board approval in order to avoid late fees or service interruptions. Our testing disclosed that 107 of the 264 sampled checks (41 percent) were paid by the bank prior to the date that the Board approved the related warrants for payment. In addition, one warrant supporting eight checks totaling \$22,576, was never presented to the Board for audit. Our testing of the eight claims paid that were never presented to the Board for audit did not reveal any improper payments.

The Treasurer's practice of paying a significant percentage of claims prior to audit and approval from the Board violates statutes and increases the risk that erroneous or illegal claims may be paid.

### **Recommendations**

3. The Board should ensure that each member elected on or after July 1, 2005, completes statutorily mandated fiscal training within 12 months of the member's election.
4. The Board should review the internal controls over claims processing and take steps to ensure that all claims are properly audited.

5. The District Treasurer should only pay claims based on a proper written authorization from the claims auditor.

# Purchasing

A good system of internal control consists of policies, practices and procedures that allow a school district to provide reasonable assurance that it is using its resources effectively and that it is complying with applicable laws and regulations. District officials are responsible for implementing internal controls that ensure the prudent and economical use of District moneys when procuring goods and services. Adequate internal controls need to be established to meet these responsibilities and to protect against favoritism, extravagance, fraud and corruption. The objectives of a procurement process are to obtain services or materials, supplies and equipment of the desired quality in the quantity needed at the lowest price in compliance with applicable Board and legal requirements. This helps ensure that taxpayer dollars are expended in the most efficient manner.

Our review disclosed that internal controls over purchasing were not operating effectively.

## Competitive Bidding

The purpose of obtaining bids is to encourage competition in the procurement of supplies, equipment and services, which will be paid for with public funds. Bidding is required when an item or commodity group exceeds dollar limits established under the General Municipal Law (GML). Current dollar thresholds require school districts to advertise for bids for purchase contracts of \$10,000 or more and public work contracts of \$20,000 or more. In lieu of advertising for bids, school districts may also use contracts awarded through the New York State Office of General Services (OGS) or participate in cooperative bidding with other governmental entities such as BOCES.

Management has not complied with the GML and Board policy requiring bidding for purchases above \$10,000 and public work contracts above \$20,000. We reviewed 14 purchase contracts totaling \$647,790, selected using risk-based criteria, to test adherence to competitive bidding requirements. Eleven purchase contracts complied with competitive bidding laws. However, we found three purchases that did not comply. These purchases were for carpet & vinyl flooring installation (\$23,632), a student assistant counselor (\$21,600), and a portable fence (\$10,841).

District officials stated that they did not solicit bids or receive quotes for the flooring installation. The Administrator stated that the flooring installation purchase was an emergency and had to be completed prior to the start of the school year. The Superintendent and Administrator told us that the vendor providing the student assistant counselor service

was a sole source vendor and it would not have been economical to perform a request for proposal because the service was subsidized by other sources. The accounts payable clerk claimed she received quotes from other vendors regarding the portable fence purchase. Since the value of the portable fence exceeded the competitive bidding threshold, the purchase should have been bid. In all three cases, there was no documentation of Management's action regarding, or approval of, the claims. The District's explanations for the departure from competitive bidding statutes and the District's procurement policy would be acceptable if properly documented and approved by the Board.

District officials did not monitor compliance with bidding statutes and the District's adopted policy. As a result, the District may have lost savings opportunities by limiting their ability to choose from among competitive proposals or bids.

## **Purchasing Policy**

GML requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. The Board's procurement policy, adopted in 2005, requires that alternative proposals or quotes be secured for procurements that are not subject to competitive bidding requirements, and instructs the Superintendent and purchasing agent to establish and implement purchasing procedures for the District.

During our audit period, District management had not established policies or procedures regarding purchases that are not subject to competitive bidding requirements. As a result, the District may have incurred higher costs than necessary for goods and services purchased. The Superintendent informed us that he was not aware of the Board policy.

To assess the impact on District purchasing practices, we selected seven purchases, totaling \$74,636, that were for amounts below the statutory bidding thresholds. The District did not obtain quotes for three of these purchases, totaling \$33,043. The purchases were for a negotiations facilitator (\$16,854), music chairs (\$8,789) and music instruments (\$7,400). By failing to obtain competitive proposals or price quotes, the District may have spent more on the items and services than necessary.

## **Recommendations**

6. District officials should establish purchasing procedures and documentation requirements for the procurement of all goods and services; both those that are subject to competitive bidding requirements and those that are not subject to the competitive bidding requirements of the GML.

7. District officials should monitor compliance with GML and Board-adopted policy, and wherever necessary, document reasons for not competitively bidding a purchase or soliciting requests for proposals for services.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# SANDY CREEK CENTRAL SCHOOL DISTRICT

Stewart R. Amell  
*Superintendent of Schools*

Shelley H. Fitzpatrick  
*Business Administrator*



Board of Education

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*President*

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May 12, 2008

Office of the State Comptroller  
Syracuse Regional Office  
State Office Building, Room 409  
333 East Washington Street  
Syracuse, New York 13202


Dear [REDACTED]

The Sandy Creek Central School District welcomed the opportunity to receive feedback from your organization regarding our financial practices. We recognize the value of your efforts as evidenced by our expedient response with alterations to our practices and procedures. We are firm believers that your constructive criticism will strengthen and improve our internal controls and overall financial operations of the Sandy Creek Central School District.

Attached to this letter please find our action plans that have been drafted as the District's response to the audit report. As you will note, all areas of finding have been addressed by either correction of the error, implementation of procedure, or further segregation of duties. Please advise us as to any items that you feel were not accurately or adequately addressed in compliance with the intent or your audit.

Thank you for your collaboration in this and future matters.

Sincerely,

  
Stewart R. Amell  
Superintendent of Schools

Cc: Shelley H. Fitzpatrick, Business Administrator  
Board of Education

Att.

P.O. Box 248, 124 Salisbury Street, Sandy Creek, NY 13145 (315) 387-3445; Fax: (315) 387-2196

*"Believing All Students Can Learn"*

Sandy Creek Central School District  
District Response to Report of Examination  
Of Internal Controls over Selected Financial Activities  
For the period covered: July 1, 2006 - June 30, 2007. (2008M-29)

Segregation of Duties:

Upon investigation the District agreed that the segregation of duties was not clearly defined. The District has since performed the following steps and/or implemented the following procedures to mitigate the risk of/and to provide early detection of irregularities.

The District compiled a Business Office Procedure Manual. This process allowed the District to review control areas of weakness. Through this review the District has implemented the following procedures:

Treasury and Accounting Duties:

- The Business Administrator is the primary recipient of all bank statements. After documenting beginning and ending balances, the Treasurer receives the statements for reconciliation. Upon completion, the Business Administrator reviews the reconciliation and then signs off on it. The same procedure is now in place for all journal entries.

Purchasing and Payment Dates:

- Through changes in our financial system authorizations, the accounts payable clerk no longer has the ability to authorize purchase orders (only the Purchasing Agent/Business Administrator can) as well as authorize payment (only the Treasurer has that ability).
- Additionally the Purchasing Agent (Business Administrator) reviews each claim for completeness prior to initiation of payment.

Certainly in small, rural districts the difficulty of segregation of duties exists. Simply put, after all practicable procedures are in place there must be an element of trust instilled in the organization. The leadership of this district has demonstrated and continues to exhibit through its actions that all financial transactions are open, honest, and properly accounted for. We believe that perception IS reality and conduct business as such.

### Claims Processing:

As of this writing, all Board members with the exception of one, who is not statutorily required until June 30, 2008, have completed the training for fiscal oversight accountability, and fiduciary responsibility as mandated by Education Law.

#### Claims Audit

Additionally through the review of process while completing the Business Office Procedures Manual the following adjustments were made to provide evidence of sufficient review of claims prior to payment:

- The District purchased several stamps for receiver, claims auditor, and internal auditor to use for "proof" of review. Each individual uses the appropriate stamp and initials their approval. This process ensures that all claims have the supporting documentation and authorization necessary for payment of the claim. The district is in the process of securing contracts or requests for proposal for all services received.

#### Payment Authorization

- The District through segregation has identified and implemented the position of Internal Claims Auditor. With the implementation of this position the Board of Education is no longer the identified party of claim approval. The Internal Claims Auditor now reviews and approves all warrants/payments prior to payment by the Treasurer.

### Purchasing:

Again, through the process of compiling the Business Office Procedure Manual, the District further clarified the purchasing process. In the appendix of the manual are District internal office forms and directions for purchasing goods. These forms are both for documentation of oral and written quotations.

#### Competitive Bidding

- As noted within the report the District did not bid out flooring or fencing. These purchases were deemed emergency purchases by the Business Office.
  - The flooring issue was discovered during mid summer and had to be replaced prior to the start of school. The District used due diligence to find a contractor and vendor to complete the installation within the short time frame. Unfortunately, the work was done all verbally and the documentation of the conversations was not kept.
  - A similar incidence occurred with the fencing. It was deemed an emergency however, the documentation of the quotations used (catalogs, phone conversations, etc) was discarded once the goods arrived.

The District has implemented procedures to eliminate such instances of noncompliance in the future.

- As for the student assistance counselor, the District respectfully disagrees with the Office of the State Comptroller. This vendor is provided by a third party (United Way) through a grant. The District contributes a portion of the cost of the counselor. The remaining portion is provided by United Way and other sources secured by United Way. The counselor is directly paid by United Way. United Way secures the ultimate vendor of the service; the District is not involved with this process.

See  
Note 1  
Page 22

#### Purchasing Policy

- Once more, through the compilation of the Business Office Procedure Manual the policies of the Board of Education were a basis for the actions now implemented. The District has clearly identified the quotation (both oral and written) and bidding processes. We feel that these measures will ensure that the Board of Education policies are adhered to.

Again, we would like to take this opportunity to express our sincere recognition of the Office of the State Comptrollers collaboration efforts. The professionalism and constructive recommendations portrayed through the staff of the Office of the State Comptroller Syracuse Region were outstanding.

## **APPENDIX B**

### **OSC COMMENT ON THE DISTRICT'S RESPONSE**

#### Note 1

We did not challenge Management's verbal justification for not obtaining alternative proposals for the student assistance program contract. We maintain that control would be enhanced if all such determinations were documented and reviewed at an appropriate level of authority.

## 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 non-payroll cash disbursements, claims processing and purchasing for further audit testing.

For internal controls over non-payroll cash disbursements, we focused our attention on the procedures for processing expenditures, maintaining accounting records, and reconciling bank accounts. To determine the effectiveness of internal controls and to evaluate the effect of deficiencies in those controls, we:

- Determined whether all warrants had been approved by the Board and certified by the Clerk of the Board of Education.
- Reconciled the total check counts and dollar amounts recorded on an electronic file of expenditure data from the District's computerized accounting system, bank statements, and all warrants.
- Checked the consistency of the payee names, dates, and dollar amounts for 264 expenditures listed on the electronic data file against the approved warrants and the cancelled checks. We also examined the cancelled checks for questionable or suspicious endorsements.
- Examined the supporting documentation for a risk-based sample of 89 check disbursements to verify that the payments were made for proper District purposes.
- Reviewed the recipient, timing, and dollar amount for all wire transfers from District bank accounts and examined supporting documentation for all non-routine transactions.

For internal controls over claims processing, we focused our attention on the procedures for auditing and authorizing the payment of claims. To determine the effectiveness of internal controls and to evaluate the effect of deficiencies in those controls, we examined supporting documentation for a risk-based sample of 89 claim payments totaling \$815,664. The supporting records we reviewed included purchase requisitions, travel authorization forms, employee reimbursement forms, claim forms, purchase orders, written contracts, and vendor invoices. We also interviewed appropriate District staff and officials to obtain additional information necessary to assess the propriety of some transactions.

For internal controls over purchasing, we focused our attention on the procedures for authorizing purchases and adhering to District policy and applicable laws regarding competitive purchasing. To determine the effectiveness of internal controls and to evaluate the effect of deficiencies in those controls, we examined supporting records for a judgmental sample of 21 purchases totaling approximately \$722,000. The supporting records we reviewed included purchase requisitions, purchase orders, written contracts, vendor invoices, and records of bids, price quotes, or requests for proposals. We also interviewed appropriate District staff and officials to obtain additional information necessary to assess the propriety of some transactions.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX D

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**AND SCHOOL ACCOUNTABILITY**

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

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