



# Tully Central School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2005 — April 30, 2007

2007M-282



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**

March 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 Tully Central School District, entitled *Internal Controls Over Selected Financial Operations*. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

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

General Municipal Law as well as the District's purchasing policy limit the ability of school district officials to enter into contracts in which both their personal financial interests and their public powers and duties conflict.

The District processes cash disbursements and payroll through the Business Office, primarily by an accounts payable clerk and a payroll clerk, respectively. For the fiscal year ended June 30, 2006, cash disbursements totaled \$25 million<sup>1</sup> and payroll disbursements totaled \$8 million. The District processes all financial activity on a computerized financial system.

### **Scope and Objective**

The objective of our audit was to determine if controls over selected financial operations are appropriately designed and operating effectively for the period July 1, 2005 through April 30, 2007. Our audit addressed the following related questions:

- Are internal controls appropriately designed and operating effectively to ensure conflicts of interest with District officials do not occur?
- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over payroll appropriately designed and operating effectively?
- Are internal controls over the computerized financial system's application controls appropriately designed to adequately safeguard District assets?

### **Audit Results**

We found that the Board has not ensured that the District has an internal control system in place to adequately safeguard the taxpayer resources entrusted to it. For example, we found that the District paid \$37,128 to a heavy equipment business owned by a Board member. This constitutes a prohibited

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<sup>1</sup> This number includes expenditures for current capital projects over and above the 2005-2006 operating budget of \$15,460,107.

conflict of interest. Additionally some of these payments were not made according to competitive bidding guidelines outlined in General Municipal Law or the District's adopted purchasing policy. Specifically, the District did not adequately bid for a \$32,000 loader purchase from this vendor.

From July 1, 2005 to November 30, 2006, the Board did not perform a comprehensive audit of claims, Board members did not meet their fiduciary responsibility to audit claims nor did the Board appoint a claims auditor for that purpose until November 21, 2006. As a result, there was an increased risk of paying inappropriate expenses.

The Board's lack of leadership in financial controls is evident in other areas we reviewed. For example, the duties of the payroll clerk were not properly segregated in the District's Business Office. The payroll clerk has the ability to add and update employees. She can also make changes in the hourly and annual salary rates (including her own) in the payroll software. She also delivers paychecks to the Business Office staff and administrators at the elementary school building and the high school building.

In addition, user rights in the District's computerized financial system are not properly assigned to ensure adequate segregation of system abilities based on the user's job duties. The District Treasurer has the ability to add, update, and delete employees. She has the ability to make changes in hourly and annual salary rates (including her own) as well as the ability to prepare, execute, and record payroll transactions.

Further, there are at least eight Onondaga-Cortland-Madison Board of Cooperative Educational Services (OCM BOCES) personnel who have the ability to access Districts' financial accounting systems and related servers using a common account with "super user" access rights, including administrator rights, to each module of the District's financial software.

### **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 had already taken or planned to take corrective action. Appendix B includes our responses to issues raised in the District's response.

# Introduction

## Background

The Tully Central School District (District) is located in the Towns of Tully, Fabius, LaFayette, Onondaga, Otisco, and Spafford in Onondaga County and the Towns of Preble and Truxton in Cortland 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.

There are two schools in operation within the District, with approximately 1,200 students and 200 employees. The District's budgeted expenditures for the 2006-2007 fiscal year were \$16 million, which were funded primarily with State aid, real property taxes and grants.

General Municipal Law as well as the District's purchasing policy limit the ability of school district officials to enter into contracts in which both their personal financial interests and their public powers and duties conflict.

The District processes cash disbursements and payroll through the Business Office, primarily by an accounts payable clerk and a payroll clerk, respectively. The payroll clerk is involved in all aspects of the payroll transactions. For the fiscal year ending June 30, 2006, cash disbursements totaled \$25 million<sup>2</sup> and payroll disbursements totaled \$8 million. The District processes all financial activity on a computerized financial system.

The District receives information technology services from the Onondaga Cortland Madison Board of Cooperative Educational Services (OCM BOCES).

## Objective

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

- Are internal controls appropriately designed and operating effectively to ensure conflicts of interest with District officials do not occur?

<sup>2</sup> This number includes expenditures for current capital projects over and above the 2005-2006 operating budget of \$15,460,107.

- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over payroll appropriately designed and operating effectively?
- Are internal controls over the computerized financial system's application controls appropriately designed to adequately safeguard District assets?

**Scope and Methodology**

During this audit, we examined internal controls over claims processing, payroll and the computerized financial system's application controls for the District for the period from July 1, 2005 through April 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 had already taken or planned to take corrective action. Appendix B includes our responses to issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

## Conflict of Interest

General Municipal Law (GML) limits the ability of school district officials to enter into contracts in which both their personal financial interest and their public powers and duties conflict. Unless a statutory exception exists, GML prohibits school district officials from having an “interest” in contracts with the District they serve, when they also have the power either individually, or as a member of a Board to negotiate, prepare, authorize or approve a contract; to authorize or approve payments under the contract; to audit bills or claims under the contract; or to appoint an officer or employee who has such powers. District officials have an interest in a contract when, among other circumstances, they receive a direct or indirect pecuniary or material benefit as a result of having a contract with the school district they serve. District officials are also deemed to have an interest in the contracts of a corporation of which they are an officer, director, employee or stockholder. Further, the District’s purchasing policy states, “No Board member or employee of the School District shall have an interest in any contract entered into by the Board or the School District.”

One of the Board’s financial responsibilities is to establish a good system of internal control that provides reasonable assurance that the District expends taxpayer dollars in the most efficient manner. The Board developed a procurement policy to help ensure that the District obtains services and buys material, supplies and equipment at the best prices and in compliance with all applicable Board and legal requirements. The General Municipal Law (GML) requires purchases in excess of \$10,000 to be competitively bid, unless an exception applies. Exceptions to competitive bidding requirements include purchases under a State Office of General Services (OGS) contract or under a county contract.

We found that a Board member from July 1, 2004 to the present had a prohibited interest in contracts with the District. The Board member is the owner and operator of the Integra Supply Corporation. During 2005-06 and 2006-07, the District paid \$3,480 and \$33,648 respectively to Integra for equipment purchases. During 2006-07, the District purchased a loader for \$32,000. The District did not purchase this equipment under a State or local government contract or competitively bid as required by the District’s policy and GML.

As a member of the Board, he has a number of powers and duties that result in him having a prohibited interest in the Company’s contracts

with the District, such as the power to audit bills and claims under the contract or to appoint someone to perform that function. We also found that the Board member had not publicly disclosed his interest in the contracts as required by GML.

Without proper documented adherence to laws and established policies, the District cannot be sure that they are securing goods and services in the most economical manner and in the best interest of the District taxpayers, nor can they be sure they are avoiding a prohibited conflict of interest in fact and appearance.

## **Recommendations**

1. The Board should establish controls to help ensure that the District does not enter into any contract in which an officer or employee has a prohibitive interest.
2. The Board should ensure that all purchases are made according to the requirements of General Municipal Law and the District's purchasing policy.

## Claims Processing

Effective internal controls over claims processing are intended to help ensure that every claim contains enough supporting documentation to determine that it complies with District policies, and that the amounts claimed represent actual and necessary District expenses. This process helps the District ensure that it expends taxpayer dollars in the most efficient manner. When internal controls are not designed appropriately or operating effectively, it increases the risk that employee errors and irregularities may occur and not be detected and corrected.

The Board is responsible for auditing the District's claims before they are paid. If the Board chooses, it may adopt a resolution to appoint a claims auditor to assume the powers and duties of the Board with respect to auditing claims. Conducting a proper audit of claims before the District pays them is an integral part of any internal control system. There should be a deliberate and thorough review to determine that proposed payments are proper and valid charges against the District, and that they are incurred by authorized officials. In addition, the claims auditor or Board should determine that the District, or its representatives, actually received the goods and/or services described in the claims by viewing detailed receipts with written statements from District officials to that effect. The claims auditor should also be independent of any other District business functions.

The Board did not fulfill its fiduciary duty concerning the audit of claims. From July 2005 through November 2006, the Board did not conduct a comprehensive audit of each claim prior to disbursement, nor had they appointed a claims auditor. On November 21, 2006, the Board appointed a claims auditor, but she did not start reviewing claims until December 1, 2006. According to District officials, although each claim was not examined during each payment cycle, the Board did review warrants (listings of claims) prior to (in most cases) the disbursement of the related checks. The Board examined and questioned selected claims as they felt necessary. While the Board did partially fulfill its audit responsibilities, the District did not have controls in place to ensure a proper, comprehensive audit of claims from July 1, 2005 through November 30, 2006.

We judgmentally selected 75 claims from our audit period for payment to vendors. All of the claims tested were properly authorized, supported with detailed itemized receipts and explanations, for proper District purposes, and reasonable. All purchases were made in accordance with District policies, and if applicable, bid correctly based on dollar amount.

### Recommendation

3. The District should continue to ensure all claims are appropriately audited prior to payment.

## Payroll

The primary objective for internal controls over payroll processing is to ensure that employees are paid wages and salaries, and provided benefits, to which they are duly entitled. An important component of any internal control system is proper segregation of duties that ensure that no one person controls all phases of a transaction. Specifically, strong internal controls require that one person does not have the ability to authorize, execute and record a transaction or control an entire processing cycle. Another important component is management oversight. When it is not practical to segregate duties because of limited staff resources, District officials should establish compensating controls. Such compensating controls could include periodic review of payroll transactions by personnel independent of the payroll process.

The District's payroll clerk was directly responsible for the following payroll duties: recording all payroll changes (including hourly and annual salary rates), collecting time sheets, recording the hours worked or salaries paid, recording leave usage and employee absences, and disbursing paychecks to the Business Office staff and administrators at the elementary school building and the high school building. We observed the District's payroll clerk demonstrating the ability to change her own salary. The payroll clerk is assigned access rights to the computerized financial system that are not consistent with her job description. Prior to July 1, 2006 when the District switched to a new computerized financial system, the payroll clerk had the system ability and job duty to enter new employees. Since then, the District has taken the step of assigning this responsibility to the Superintendent's secretary/District Clerk. However, a review of user permissions from the financial system showed the payroll clerk still had the system ability to add and update new employees as of June 8, 2007.

We noted the following supervisory review features that would serve as compensating controls. Department heads approved time sheets; the Treasurer reviewed payrolls, then the Superintendent scanned for unusual items and certified the payrolls. Beginning May 11, 2007, the Treasurer now retains copies of a payroll changes report that she prepares and reviews each pay period.

The District Treasurer has payroll user permissions in the computerized financial system. She can enter, update and delete employees; make changes in the hourly and annual salary rates (including her own) in the payroll module, and prepare and print payroll checks and post

expenditures to the subsidiary ledgers. The District payroll clerk keeps payroll records at her workstation, but the Treasurer has access to all of the payroll records.

Since the payroll clerk was able to prepare, and update payroll information, and the District Treasurer had payroll user permissions including the ability to prepare, execute, and record payroll transactions, we tested the accuracy and propriety of District payroll disbursements. We judgmentally selected 25 employees and traced their existence to key supporting documentation in their personnel files. All the personnel files had the required identification information, and there was evidence in the Board minutes of their hiring. We also tested judgmental samples of employees receiving more than their stated salaries, balloon payments, and additional checks. All payments were supported by appropriate documentation.

### **Recommendations**

4. District officials should ensure that no one person can perform all aspects of the payroll disbursement process. At a minimum, the person who enters new hire information and updates salaries should not have other payroll responsibilities.
5. District officials should review the computer access rights of the payroll clerk and the Treasurer and assign computer access rights as needed for specific job duties.

## Computerized Financial System

One of the Board's managerial responsibilities is to design and implement a system of internal controls incorporating policies and procedures to provide reasonable assurance that all assets and resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices as well as safeguarded against waste, loss, and misuse. Computer data is a valuable District resource. The District relies on computer data for making financial decisions and for reporting to State and Federal agencies.

To ensure segregation of duties and internal controls, the computerized financial system should only allow access to users for functions based on their job descriptions and responsibilities. Having access controls in place prevents users from being involved in multiple aspects of financial transactions. A good system of controls would assign user rights to individuals based on their job function to reduce the risk that District financial information or resources could be misused.

BOCES Staff— Access to computer data systems should be controlled and monitored to reduce the risk of misuse and/or alteration of data resulting in potential financial loss to the District. Certain computerized financial systems have a feature called audit logs. These logs track all activity whenever the user is accessing the system.

At least eight OCM BOCES Regional Information Center (RIC) personnel have the ability to access the Districts' financial accounting systems and related servers using a common account with "super user" access rights.<sup>3</sup> Neither the District nor RIC officials monitored user logs detailing these individuals' activities. Such a mitigating control, if operating effectively, could reduce the risk associated with providing RIC officials with unlimited access to District financial systems.

We obtained user logs from judgmentally selected dates during our audit period July 1, 2005 through April 30, 2007 and reviewed them for any unauthorized activity. There were no irregularities found.

### Recommendation

6. District officials should periodically review access rights for all users to ensure that they are maintaining appropriate control over access to the computerized financial software.

<sup>3</sup> Super Users are those that have full access to the system, including access to each module of the District's financial software, and can create management overrides.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# TULLY CENTRAL SCHOOLS

P.O. Box 628

Tully, New York 13159-0628

*http://TullySchools.org*

**PETER F. CARDAMONE**  
7-12 Principal  
315-696-6235

**KRAIG D. PRITTS, Superintendent**  
kraig@pobox.com  
District Office: 315-696-6204  
FAX: 315-883-1343

**KIMBERLY S. O'BRIEN**  
K-6 Principal  
315-696-6213

**MARY ANN MURPHY**  
7-12 Assistant Principal  
315-696-6235

**JAMES J. RODEMS**  
Business Administrator  
315-696-6206

**DEBORA M. COX**  
Director of Special Education/K-6 Assistant Principal  
315-696-6213

February 27, 2008

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

Dear [REDACTED],

We appreciate the opportunity to respond to the report generated by the audit team upon review of our procedures. It must be stated from the very outset of this process that your professionalism as supervisor of this team was evident in your communications with the district before, during and after the audit process.

We believe it is also important to note that throughout the audit process the reviewers acknowledged the openness with which the Tully Central School District staff and members of the Board of Education willingly and openly provided information to your team on all items listed within this report as well as all other areas investigated by the audit team. We sought guidance from the team to implement additional safeguards to protect the interests of our taxpayers of our school district and continue to make the most efficient use of taxpayer dollars.

We were pleased to note that in all tested transactions in the areas of our payroll, claims auditing and financial software, there were no irregularities found. We believe this to be the result of an increased level of checks and balances that were put into place prior to the entry of the audit team.

As you are aware, throughout this process we have and continue to disagree with the interpretation of the Office of the Comptroller in the area of conducting transactions that reimbursed expenditures with a member of the Board of Education. These transactions resulted in saving thousands of dollars for the taxpayers of the district. In addition, the strict interpretation of these regulations places in question the ability of members of the Board of Education to provide donations, or even scholarships for students, in that a financial interest results from these donations in the form of tax deductions.

What follows is commentary to address the various aspects of the resulting report.

## **Conflict of Interest**

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As documented to the audit team, the district sought guidance prior to the purchases questioned

by this report. Based upon our interpretation of New York State Education purchasing guidelines and direction from our external auditing firm, it was the belief of the staff and Board of Education that we had complied with the requirements of the law. The documentation provided proof of reimbursement for costs incurred in the procurement of the equipment and did not demonstrate a profit to the member of the Board of Education. We had gone through an open bidding process without a successful submission and spent more than a year seeking equipment from numerous sources that would fall within the financial limitations of the district. Prior to the finalization of the reimbursement of the major equipment purchase, the issue was fully discussed in an open session of the Board of Education. Documentation of this fact was also provided. While it is regrettable that such discussion was not included in the minutes of the meeting, a notarized statement from a community member in attendance was provided to your audit team confirming that the discussion occurred.

See  
Note 1  
Page 20

Important guidance in this area is provided by the New York State Education Department in its Purchasing Handbook for school districts. The statement that follows is still available within the area of purchasing guidance with relationship to competitive bidding processes as of the date of this letter.

**Intent.** The general intent of the law and the school district's responsibility should be the basis for action. The general interest of the taxpayers and the economical and efficient operation of the schools should dictate the action to be taken by the district. Circumstances vary, and a procedure considered good for one district could work to the detriment of another. In Pioneer Coal Company vs Board of Education of the City of Rochester, Monroe County Supreme Court, Wheeler, J., September 10, 1949, it was held that "it is the well-settled law of this state that in the absence of fraud, corruption, or abuse of discretion, the judgment or discretion of the proper officials will not be disturbed by the courts." However, evading the intent of the law cannot be countenanced.

*Source: Purchasing Handbook provided by New York State Education Department  
<http://www.emsc.nysed.gov/mgtserv/purchasing/handbook.htm>*

It is the belief of the Tully Central Schools that we did indeed follow the intent of the law by publicly bidding the purchase and reimbursing a Board of Education member solely for costs incurred. In addition, we attempted to comply with the law through publicly discussing the reimbursement to the member of the Board of Education at the Board meeting of October 16, 2006. In doing so, we felt that we had complied with the intent of the law and certainly provided for "the general interest of the taxpayers and the economical and efficient operation of the schools." The taxpayers were the beneficiaries of this transaction, as the district was able to procure the authorized and necessary equipment.

We acknowledge that, in the opinion of the Office of the Comptroller, our actions and guidance fell short of the Office's expected documentation and standards. We do find the interpretation adopted by the audit team to be extremely narrow and in some cases its application may not be in the best fiscal interests of the taxpayers. Our future adherence to this interpretation will, in some cases, inevitably result in increased costs to our district.

See  
Note 2  
Page 20

## Claims Processing

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As acknowledged within the context of the report, the district has already taken the necessary

steps to correct the areas of concern through the appointment of an Internal Claims Auditor as is the Board of Education's discretion under Education Law. No further action is required. It must be emphasized that even prior to this discretionary appointment, the testing of claims throughout the audit period resulted in no problems. "All of the claims tested were properly authorized, supported with detailed itemized receipts and explanations, for proper District purposes, and reasonable. All purchases were made in accordance with District policies, and if applicable, bid correctly based on dollar amount."

## **Payroll**

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In this area of the report, we agree with the Office of the Comptroller that additional steps may be justified to reduce any potential risk. As noted within the report checks and balances had already been put in place prior to the arrival of the audit team into the district.

There are limitations in providing additional administrative and clerical staff in a district of this size. As a result, the district has put into place a series of checks and balances within our current staffing levels that are constantly under the review of the School Business Administrator and the Superintendent of Schools. This is accomplished through computer entries and paper documentation requiring multiple review points. It should be noted that the district's system of checks and balances has resulted in no findings of impropriety. The report itself reinforces the effectiveness of the system in place by stating, "All the personnel files had the required identification information, and there was evidence in the Board minutes of their hiring. We also tested judgmental samples of employees receiving more than their stated salaries, balloon payments, and additional checks. All payments were supported by appropriate documentation."

We will continue to review and reflect upon this report and continue, with the assistance and guidance of our Internal Auditor and Audit Committee to evaluate and make necessary adjustments in this area

## **Computerized Financial System**

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This is another area where we have no argument with the report and acknowledge that there are areas for improvement. The district has already begun increased monitoring of user activity through a review of user logs. In addition, the district is working with BOCES to provide additional levels to monitor user activity from that site.

The BOCES Regional Information Center provides the server location for the financial system as well as all support for that system. As a result, it is important for their support staff to have access to all aspects of the system in order to assist those in our district, as well as others, who may be in need for support services. If a BOCES support staff member cannot enter the system, it will cause delays (sometimes days) in our ability to process payments, process payroll and meet our contractual obligations.

In order to strengthen the scrutiny of this process, we will implement more oversight and review of user transaction logs by our Internal Auditor.

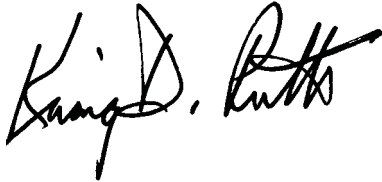
As we have seen throughout this report, however, it is important to note that user logs were reviewed by the Office of the Comptroller for any unauthorized activity. "There were no irregularities found."

## Summary

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In summary, we feel that, while there are areas in which we continue to disagree, the experience of this review process did provide direction for our district. We have and will continue to study our practices and solicit guidance as we continue to uphold our responsibility to the taxpayers of the Tully Central School District.

Sincerely,

A handwritten signature in black ink, appearing to read "Kraig D. Pritts". The signature is fluid and cursive, with a large initial "K" and "P".

Kraig D. Pritts  
Superintendent of Schools

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

Although District officials continue to characterize this transaction as merely a reimbursement of the Board member's costs, the documentation provided shows otherwise. The District paid \$32,000 for the loader on October 10, 2006, which was supported by an invoice dated September 28, 2006 from the company owned by the Board member for that exact amount. During our audit, we examined a fax, dated October 17, 2006, from the Board Member detailing the costs associated with the company selling the loader to the school. This fax showed a total cost of \$31,292 and included items for the base cost of the loader, an auctioneer administration fee, trucking to Tully, interest on investment and insurance costs. Although many of these items (e.g., transportation and the auctioneer's administration fee) are directly related to the acquisition, interest on investment, calculated at prime + 1 percent, is not an out-of-pocket cost. In addition, the invoiced amount for the loader and the amount actually paid by the District (\$32,000) exceeded the detailed fax listing acquisition costs by \$708 with no explanation as to what the additional amount was.

#### Note 2

The audit report cites the General Municipal Law for this finding, and attorneys in this Office reviewed how it is used in the report. As such, the criterion is more than simply an audit team's interpretation. Although the District consulted the New York State Education Department (NYSED) Purchasing Handbook for school districts and had a telephone conversation with their independent auditor regarding the purchase, District officials should have also sought legal guidance from the attorney for the District, NYSED or legal representatives of the Office of the State Comptroller before entering into the transaction.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

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

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected claims processing, segregation of duties over payroll and the computerized financial system controls for further audit testing.

In addition, we obtained representations from the District showing the outside employment and business interests of the Board members and their spouses as well as key personnel and their spouses for the years 2005-06 and 2006-07. We reviewed vendor reports, vouchers and other records to determine if the District had financial transactions with any business interests that might constitute a prohibited conflict of interest. We inquired into what internal controls and procedures were in place to identify and prevent potential conflicts of interest.

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

- Bank statements
- Transaction history reports
- Purchase orders
- Claims packets

- Cancelled checks
- Cash control accounts
- Bank reconciliations
- Board minutes.

We reviewed Board documentation and interviewed District staff to determine the period during our scope when no independent audit of claims took place, and to verify the duties performed and abilities granted to Business Office personnel.

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

- Employee personnel files
- Collective bargaining agreements and individual employment contracts
- Leave time accrual records
- Payroll registers and employee earnings records generated from the financial software
- Salary notification letters and time cards for hourly and salaried employees
- Board minutes.

We reviewed user rights and permissions documentation and judgmentally selected users to determine if the assigned user rights were appropriate. We interviewed employees in the District's IT department and the Business Office as well as at the Onondaga Madison Cortland Board of Cooperative Educational Services concerning the administrative rights to the computerized financial system.

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

## APPENDIX D

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