



Wappingers Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2005 — May 14, 2007

2008M-1



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
EXECUTIVE SUMMARY	5
INTRODUCTION	7
Background	7
Objective	7
Scope and Methodology	7
Comments of District Officials and Corrective Action	8
CASH RECEIPTS AND DISBURSEMENTS	9
Cash Receipts	9
Segregation of Duties	11
Bank Reconciliations	12
Recommendations	13
COMPUTERIZED DATA	14
Recommendation	14
APPENDIX A Response From District Officials	15
APPENDIX B OSC Comments on the District's Response	21
APPENDIX C Audit Methodology and Standards	22
APPENDIX D How to Obtain Additional Copies of the Report	24
APPENDIX E Local Regional Office Listing	25

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 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 Wappingers Central School District, entitled Internal Controls Over Selected Financial Activities. This audit 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 Wappingers Central 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. The School Business Manager (Business Manager) oversees the operations of the Business Office.

Scope and Objective

The objective of our audit was to examine the adequacy of the District's internal controls over financial operations for the period July 1, 2005 to May 14, 2007. Our audit addressed the following related questions:

- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard District assets?
- Does the design of information technology controls safeguard computerized data to minimize the loss of essential data?

Audit Results

Internal controls over cash disbursements are generally adequate. In our testing of 103 disbursements totaling \$776,367 we found no discrepancies or inconsistencies. However, internal controls over cash receipts need to be improved. We found that the policies and procedures for cash receipts need to be formalized. For example, press-numbered receipts are not always issued, and six deposits totaling \$174,441 that we tested included checks that were held for more than two weeks prior to deposit. In addition, 12 checks, totaling \$1,126, related to an extra-classroom activity account were deposited, but did not clear the bank account. Some of these checks may have been held for more than seven months. We also found that the accounting duties were not properly segregated, required certifications on the Treasurer's monthly reports were not completed and bank reconciliations contained errors and inconsistencies. As a result, not all fees were collected and there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Our audit also disclosed that the District does not have a disaster recovery plan to address the recovery of its computerized data and resumption of operations in the event of a disaster. As a result, the District's computerized data may be subject to an increased risk of loss.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicate they plan to initiate corrective action. Our comments concerning the District officials' response can be found in Appendix B.

Introduction

Background

The Wappingers Central School District (District) is located in the Town of Wappingers, Dutchess County, and also serves the Towns of Poughkeepsie, East Fishkill, Fishkill, LaGrange, Kent and Phillipstown. 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. The School Business Manager (Business Manager) oversees the operations of the Business Office. In July 2007, the Board appointed the senior accountant to be the District Treasurer. The senior accountant reports to the Business Manager, provides key support for business and accounting functions and oversees the Accounting Department.

There are 15 schools in operation within the District, with approximately 12,500 students and 1,950 employees. District revenue for the fiscal year ended June 30, 2007 totaled \$162.3 million. The District's budgeted expenditures for the 2007-08 fiscal year were \$165.8 million, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to examine the adequacy of the District's internal controls over selected financial activities. Our audit addressed the following related questions:

- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard District assets?
- Does the design of information technology controls safeguard computerized data to minimize the loss of essential data?

Scope and Methodology

During this audit, we examined the District's internal controls relating to cash receipts and disbursements and information technology for the period July 1, 2005 through May 14, 2007.

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

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicate they plan to initiate corrective action. Our comments concerning the District officials' response can be found in Appendix B.

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*.

Cash Receipts and Disbursements

An effective internal control system includes policies and procedures to provide reasonable assurance that cash transactions are properly initiated, approved, documented, and recorded; cash receipts are deposited in a timely manner; disbursements are proper; and that cash is safeguarded to prevent loss or theft and to help to detect errors or irregularities.

Internal controls over cash disbursements were generally adequate. We tested 103 disbursements totaling \$776,367, reviewed the check log integrity for all District funds and confirmed the check sequence integrity for 295 cancelled checks. We found no discrepancies or inconsistencies during our review of cash disbursements.

Our review of cash receipts, however, disclosed that District controls need improvement. Policies and procedures were not complete, press-numbered receipts were not always issued, bank deposits were not always completed in a timely manner, and District officials did not provide adequate oversight of a student activity account. Further, accounting duties were not properly segregated, required certifications on the Treasurer's monthly reports were not completed, and bank reconciliations contained errors and inconsistencies. As a result, not all fees due an extra-classroom activity account were collected, and there is an increased risk that errors or irregularities could occur and not be detected and corrected in a timely manner.

Cash Receipts

Good internal controls include written policies and procedures for handling and processing monies, including specific cash custody and receipt transmittal procedures. State Education Department regulations require the District to acknowledge the receipt of monies with a press-numbered receipt and require the Board to adopt rules and regulations to guide students, teachers and principals in the proper handling and safeguarding of extra-classroom activity funds.

The District does not have formalized written policies and procedures for handling and processing cash receipts, and District personnel did not consistently issue press-numbered receipts, maintain suitable records or deposit cash in a timely manner. As a result, not all student activity fees were collected, and there is an increased risk that these assets could be lost, stolen or accounted for improperly.

The Business Office directly receives State aid, real property taxes, grants and revenues for items such as copies for FOIL requests, gifts, donations and interdepartmental transmittals. Interdepartmental

transmittals includes fees for student testing, continuing education, athletic events, building use, parking permits, lost books, and late fees for library books from the schools. Interdepartmental transmittals also include retiree health insurance payments and fingerprinting fees from the Human Resources Department. District policy requires all monies to be deposited with either an authorized depository or the Business Office as soon as possible, but not later than two business days after receipt.

Although District personnel use informal procedures for processing cash receipts, the District has no formalized District-wide procedures for the acceptance, handling and transfer of cash receipts. As a result, District personnel process receipts beyond the two days as required by the policy. They often hold cash and checks to update records, rather than depositing monies in accordance with policy requirements. For example, when the District receives gifts and donations, which must be held until formally accepted by the Board, District staff does not maintain a list of the receipts as they are received to compare to the amounts deposited. Further, although a duplicate form is issued at the time of receipt, the form is not press-numbered nor is it tracked. District staff also receives retiree contributions for health insurance coverage each month. However, staff does not deposit these receipts until after the checks are batch-processed and posted to the accounting records, which can be up to a one-month delay. In addition, District staff does not maintain a list of these receipts to compare to the amounts deposited, nor do they always issue press-numbered receipts.

We selected 20 bank deposits totaling \$403,640 to verify that cash receipts were posted to the accounting records and deposited in a timely and accurate manner. Six of the 20 deposits, totaling \$174,441, included checks that were held by staff in the High School Guidance Office, Continuing Education Office, Human Resources Department and Business Office for more than two weeks. Further, six checks were held for more than 60 days prior to deposit, far later than the District's policy requiring deposit within two business days after receipt.

We also found delays in the deposit of receipts collected for student testing, tuition, building use, health insurance checks and fingerprinting. For example, student testing fees collected in a High School Guidance Office over a two-month period were held until the testing date, and tuition collected by the Continuing Education Office was accumulated throughout the registration period until classes began. Our examination of a May 12, 2006, deposit disclosed three checks for continuing education registration dated as early as March 6, 2006. In addition, building-use fees collected at the schools and the Business Office were held until they were presented to and approved

by the Board, and retiree health insurance payments, averaging \$9,400 per month, were allowed to accumulate for up to a month before they were batch-processed, posted to the accounting records and deposited. Some of these receipts accumulated to significant amounts. For example, receipts collected and held by one High School Guidance Office and the Continuing Education Department amounted to \$44,370.

During our testing, we also found 12 student extra-classroom activity checks totaling \$1,126 that were deposited into a student activity account, but did not clear the District's bank account due to insufficient funds, stop payment orders and closed accounts. According to the dates of the checks, it appears that seven of these checks were not deposited for up to more than seven months after receipt by the District. District personnel provided no evidence that attempts were made to collect on the returned items.

Without the use of press-numbered receipts to support monies collected by District personnel and formal transmittal procedures in place, there is no assurance that all cash receipts are posted accurately, completely and in a timely manner to the accounting records and subsequently deposited into District bank accounts. Due to the failure to transmit and deposit cash receipts in a timely manner, not all student activity fees have been collected and there is an increased risk that District assets could be lost, stolen or accounted for improperly. Additionally, had the District promptly deposited these receipts in its interest bearing account, the District could have earned additional interest income.

Segregation of Duties

Good internal controls include a proper segregation of duties. Accounting duties must be separated so that no one person controls most or all phases of a transaction and the work of one employee is routinely verified in the course of another employee's regular duties. While it may not always be possible to achieve an optimal segregation of duties, at a minimum, the duties of recordkeeping, bank reconciliation and cash disbursements should be separated. Where this is not practical, District officials should provide for compensating controls, such as the routine managerial review of an employee's work. This reduces the risk that errors or irregularities could occur and go undetected and uncorrected.

The District's accounting duties were not properly segregated. The Business Manager¹ oversees the operations of the Business Office. The senior accountant reports to the Business Manager, provides

¹ The Board initially appointed the Business Manager to the position of Treasurer. However, in July 2007, the Board appointed the senior accountant to be the District Treasurer.

key support for business and accounting functions and oversees the Accounting Department. Although the Business Manager provided monthly reports to the Board, which included bank reconciliations, the bank reconciliations were prepared by the senior accountant.² Because the senior accountant also oversaw the day-to-day operations of the Accounting Department and served as a back-up person for issuing checks, this did not provide for an adequate segregation of duties.

A lack of adequate segregation of duties increases the chance that errors or irregularities could occur and not be detected and corrected in a timely manner. Implementing proper and practical segregation of duties in this area may prevent the incorrect recording of transactions and ensure that accounting transactions are reported properly.

Bank Reconciliations

Good internal controls include financial reports and bank reconciliations that are complete and accurate and computer-generated reports that are free from discrepancies. Bank reconciliations, which compare bank balances to the general ledger, should be prepared and verified on a monthly basis, especially when the employee preparing bank reconciliations has incompatible duties, such as processing cash disbursements. The Business Manager (as Treasurer) must provide monthly reports to the Board, including bank reconciliations. The Business Manager must certify that the reports are accurate and the Clerk of the Board must certify the receipt of the reports by the Board. This helps to ensure the accuracy and accountability of cash transactions, safeguards cash by detecting errors on the part of the bank and/or District, and allows District officials to find and investigate errors quickly.

We found the Business Manager provided monthly reports to the Board. However, none of the monthly reports were certified by the Business Manager, and the Clerk of the Board did not certify receipt of the reports by the Board. In addition, we reviewed three bank reconciliations³ from the May 2006 monthly report and related documents to determine if they were complete and accurate. We found:

- Two reconciliations had beginning book balances that did not match the previous month's ending book balances. Combined, the two reconciliations included four items totaling \$7,218 that were incorrectly labeled as outstanding checks.

² During our audit, we were informed that the Business Manager now prepares the bank account reconciliations.

³ General fund, trust and agency, and extra-classroom activity account reconciliations

- The Board does not require bank statement reconciliations to be independently verified. One of two tested reconciliations included in the Treasurer’s Report was initialed as reviewed by the Business Manager.

Without Treasurer’s reports and bank reconciliations that are complete, accurate, reviewed, verified and certified, District officials cannot have reasonable assurance that the accounting records are correct or that monies are accounted for properly.

Recommendations

1. District officials should develop and implement formal procedures for the acceptance and handling of cash receipts including extra-classroom activity funds. The procedures should specifically require the issuance of press-numbered receipts.
2. District officials should enforce compliance with the District’s deposit requirements.
3. District officials should attempt to collect on the returned student activity items.
4. The Business Manager should verify the accuracy of the Treasurer’s monthly reports and the Treasurer should certify them before the reports are presented to the Board. The Clerk of the Board should certify receipt of the Treasurer’s monthly reports.

Computerized Data

An effective system of internal controls to safeguard computerized data includes policies and procedures to minimize the loss of essential data, protect data from threats, accidents or disasters⁴ and restore data if it is unavoidably lost or corrupted. District officials must ensure that proper information technology safeguards are established, including sufficient data encryption levels, backup procedures, personnel security requirements with appropriate user agreements, password complexity and internal access controls that include review of firewalls and audit logs. In addition, the District should have a disaster recovery plan to detail the responsibilities of individuals, precautions to be taken and procedures to follow in the event of a disaster to allow the recovery of lost data, minimize business cycle interruption, maintain or quickly resume mission-critical functions, and return to normal business functioning as soon as possible. Typically, a disaster recovery plan involves an analysis of threats to business processes and continuity needs. It may also include a significant focus on disaster prevention.

The District has instituted some informal procedures (e.g., testing backup data in a test account with the Broome-Tioga Board of Cooperative Educational Services) and has the capability to restore data from backup tapes stored offsite; however, the District has not developed a formal disaster recovery plan describing how it would deal with potential disasters. Consequently, in the event of a disaster, District personnel have no written guidelines or plan to follow to help minimize or prevent the loss of equipment and data, and no guidance on how to implement data recovery procedures. As a result, the District's computerized data may be subject to an increased risk of loss.

Recommendation

5. District managers should develop and the Board should adopt a formal disaster recovery plan. This plan should address the range of threats to the District's information technology system and the need to adequately back up mission-critical data. The plan should be distributed to all responsible parties, periodically tested and updated as needed.

⁴ A disaster is any sudden, catastrophic event (e.g., fire, computer virus, power outage, or inadvertent employee action) that compromises the integrity or data of the information technology system.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

WAPPINGERS CENTRAL SCHOOL DISTRICT
ADMINISTRATIVE OFFICES
167 MYERS CORNERS ROAD SUITE 200
WAPPINGERS FALLS, NEW YORK 12590-3827
TEL 845-298-5000 x145
FAX 845-298-5041

SUPERINTENDENT OF SCHOOLS

TO: [REDACTED]
Office of the State Comptroller

FROM: Richard A. Powell
Superintendent of Schools

DATE: March 26, 2008

RE: District Response to NYS Comptroller's Office Draft Audit Report

The Wappingers Central School District (WCSD) appreciates the opportunity to have had the New York State Comptroller's Office review the fiscal and financial health of our school district. WCSD strives to continually improve and strengthen its internal controls, while attempting to balance the fiscal and budgetary restraints burdening school districts compared to the internal control benefits realized. The WCSD is cognizant of the due diligence performed by the Comptroller's office during the seven months of field work covering an audit period of approximately 22 ½ months. The District looks forward to receiving suggestions to strengthen internal controls as a mechanism to further improve upon its strong financial condition.

After receiving the draft report and given an opportunity to review same, the Comptroller's office audit team scheduled an exit interview for purposes of discussion and clarification. At that meeting, representatives of the school district and the Comptroller's office discussed approximately twenty points that the district felt required modification or redaction due to either a misstatement of district procedures or for the purpose of providing further clarification of audit results. The district is appreciative that the Comptroller's office was receptive to modifying particular areas of the report based on feedback from the district. Subsequent to the exit interview, the district provided the Comptroller's office with a written response in order to clarify its position. However, after final discussion, the Comptroller's office indicated that, although they agreed with certain changes, no promises could be made to incorporate these changes into the final report as the report had already been edited by state officials. At that time, WCSD officials were informed that a final draft report would not be provided for district review prior to the timeline set by the Comptroller's office for

See
Note 1
Page 21

the district to submit a written response. In the absence of a final report it is, of course, extremely difficult, if not impossible, to adequately and accurately respond to conclusions with which we may have not been presented. Therefore, the district will be responding to the issues raised in the initial draft report that was provided prior to the exit conference.

The scope of the Comptroller's audit, after substantial testing to determine areas of weakness, concentrated on cash receipts and disbursements.

The district is pleased that the Comptroller's office found no discrepancies or inconsistencies during their review of cash disbursements which consisted of auditing 103 disbursements totaling \$776,367 and 295 cancelled checks. It was reassuring to note that during the period tested, there was no indication of waste, fraud, or abuse of district assets. This attests to the integrity and fine work of our WCSD staff.

The recommendations of the Comptroller's office to the WCSD are delineated below with the applicable district response appearing in bold.

1. District officials should develop and implement procedures for the acceptance and handling of cash receipts including extra-classroom activity funds. The procedures should specifically require the issuance of press-numbered receipts.

Prior to the audit, WCSD business office personnel had used pre-numbered triplicate receipts for purposes of collecting cash but not for check receipts. Since the time of the audit, all 15 district school buildings and departments that collect any sums of money (cash or checks) have been issued pre-numbered receipt books that must accompany deposits to the business office. The extra-classroom fund (student activity clubs) is under the authority of the WCSD Board of Education. Simultaneous to the Comptroller's audit, the WCSD's internal auditor performed a risk assessment and recommended that additional training be given to the extra-classroom treasurers and club advisors. As part of the training, the WCSD internal auditor will provide guidance on proper cash receipt procedures.

2. District officials should enforce compliance with the District's deposit requirements.

Regarding compliance with WCSD's deposit requirements, the WCSD feels compelled to put into proper context the areas of concern identified, the procedures that the district had in place at the time of the audit, and the additional procedures that have

or will be implemented as a result of the audit. The explanation below in no way is an attempt to diminish the recommendations from the Comptroller's office to improve internal controls. The WCSD feels that it is important, however, for readers of this report to recognize the circumstances impacting on the WCSD's rationale and procedures in this area.

The WCSD collects health insurance contributions for 501 retirees and encourages retirees to automatically deduct these contributions from their monthly NYS retirement pension. To date, 460 retirees have selected the automatic deduction option. The remaining 41 retirees send checks, not cash, to the WCSD business office on a monthly basis. These checks are immediately restrictively endorsed and placed in the business office's safe until processed. The district did not provide receipts for checks received as it had considered the cancelled check to be the receipt for the transaction.

Two other instances of not adhering to the district's deposit policy involved the Guidance and Continuing Education Departments. The Guidance Department held AP/PSAT examination fees at each of the two high schools pending confirmation that students were in fact taking the examination. This prevented the business office from depositing the checks and reduced the possibility of having to expend manpower to process multiple refunds due to cancellation of students taking examinations. All payments received were in the form of checks.

The Continuing Education Department advertises a schedule of classes. However, unless a specific number of participants enroll, the class is cancelled. The Continuing Education Department holds checks in a secure location pending confirmation that a class will be held. This prevents the business office from depositing checks and requiring the processing of multiple refunds due to cancellation of classes.

As a result of the Comptroller's recommendation, all checks are now processed and deposited within the requirements of the WCSD's policy. WCSD will monitor the additional staff time devoted to these tasks and will request possible staffing modifications if we believe additional staff time is required to adhere to these expanded requirements.

3. District officials should attempt to collect on the returned student activity items.

As previously stated, the student activity clubs are overseen by the Board of Education. The Board appoints a Central Treasurer at each secondary building to administer the funds. As a result of a sudden and serious illness of a central treasurer in one of the buildings, which resulted in the need to replace the position mid-year, the collection of these funds was overlooked. Again, as previously indicated, simultaneous to the Comptroller's audit the WCSD's internal auditor performed a risk assessment and recommended that additional training be given to the central treasurers and club advisors. In addition, the WCSD internal claims auditor currently reviews monthly reconciliations provided by each building.

4. The Business Manager should verify the accuracy of the Treasurer's monthly reports and the Treasurer should certify them before the reports are presented to the Board. The Clerk of the Board should certify receipt of the Treasurer's monthly reports.

WCSD personnel provide information to the Board of Education via [REDACTED] an internet based application. The monthly Treasurer's reports were provided to the Board Clerk via the internet to prevent manual scanning of the documents. The cover memo was signed by the Treasurer indicating the reports were reviewed. Signatures were not contained on each individual report as the cover memo was signed. Treasurer's reports are currently reviewed and signed and the District Clerk certifies receipt of the same.

The district respectfully disagrees with the wording "two check reconciliations totaling \$7,218 that were incorrectly labeled as outstanding checks". Three checks totaling \$7,198 were recurring, repetitive checks that are appropriately issued each payroll period for the same dollar amount. The district's bank statement failed to provide check numbers for these checks. The district listed the last check number issued for the same amount erroneously.

See
Note 2
Page 21

The District has instituted positive pay on the checking accounts. The positive pay feature not only assists in the detection of fraud but also details all checks both cleared and outstanding.

5. District managers should develop and the Board should adopt a formal disaster recovery plan. This plan should address the range of threats to the District information technology system and the need to adequately back up mission-critical data. The plan should be distributed to all responsible parties, periodically tested and updated as needed.

As noted by the Comptroller's Office, WCSD has a number of informal disaster recovery procedures in place but no formal document. As a result of the audit, the WCSD has modified our procedures by implementing several recommendations the Comptroller's Office made while conducting its review. For example, the WCSD has purchased a fireproof safe in which to store the tapes used to back up several district servers. The district reviewed the one computer/Internet user agreement that WCSD has in place for both students and staff and are developing new agreements that differentiate between the roles and responsibilities of the partners to this agreement.

Most importantly, WCSD has begun the process of preparing a formal disaster recovery plan that meets the needs spelled out in the Comptroller's audit. The WCSD expects to present a draft of that plan to the Superintendent and Board of Education before the end of this school year and to finalize the plan before schools open in September, 2008.

Once again, the district appreciates the efforts of the Comptroller's office to validate the proper management and internal controls over the district's financial matters. WCSD continually strives to be compliant with the WCSD Board of Education policies and utilize sound fiscal procedures.

Very truly yours,



Richard A. Powell
Superintendent of Schools

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

District officials requested certain modifications to this report to clarify the findings. In most instances, the changes that were agreed upon are incorporated in this final report. Two points of discussion involved requests to change an audit finding and recommendation based on documentation provided to us at the exit conference. Our subsequent review disclosed that the documentation provided to us was unrelated to the audit finding and recommendation, and therefore, we did not modify the report as requested.

Note 2

The three checks in question were issued in March and April 2006 and cleared the District's bank account in March and April 2006. Our review of the May 2007 reconciliation disclosed that these checks continued to be listed as outstanding more than a year later. District officials' response acknowledges that the District's bank statement failed to provide check numbers for these checks and that the District listed the last check number issued for the same amount erroneously. Combined, the two reconciliations included four items totaling \$7,218 that were incorrectly labeled as outstanding checks. The assertion that these checks were recurring is irrelevant.

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 objective and scope by selecting for audit those areas most at risk. We selected cash receipts and disbursements and information technology for further audit testing.

We examined the following records to determine the effectiveness of internal controls pertaining to cash receipts and disbursements and to identify any associated effect of deficiencies found in those controls:

- Bank statements
- Cancelled checks
- Treasurer's monthly reports
- Warrants
- Wire transfer records
- Fund transfer authorizations
- Purchase orders
- Balance sheets
- Journal entries

- Minutes of the proceedings of the Board
- Payroll earnings registers
- Interviews with District officials.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

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

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

LOCAL REGIONAL OFFICE LISTING

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Room 1050
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates
counties

SYRACUSE REGIONAL OFFICE

Eugene A. Camp, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence counties

BINGHAMTON REGIONAL OFFICE

Patrick Carbone, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins
counties

GLENS FALLS REGIONAL OFFICE

Karl Smoczynski, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,
Montgomery, Rensselaer, Saratoga, Warren, Washington
counties

ALBANY REGIONAL OFFICE

Kenneth Madej, Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205-1695
(518) 438-0093 Fax (518) 438-0367
Email: Muni-Albany@osc.state.ny.us

Serving: Albany, Columbia, Dutchess, Greene,
Schenectady, Ulster counties

HAUPPAUGE REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau, Suffolk counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Orange, Putnam, Rockland, Westchester
counties