



Town of Webb Union Free School District Internal Controls Over Cash Disbursements and Employee Compensation

Report of Examination

Period Covered:

July 1, 2006 — June 30, 2007

2008M-62



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 DISBURSEMENTS	9
Segregation of Duties	9
Check Signing	10
Recommendations	11
EMPLOYEE COMPENSATION	13
Recommendation	16
APPENDIX A Response From District Officials	17
APPENDIX B OSC Comments on the District’s Response	22
APPENDIX C Audit Methodology and Standards	24
APPENDIX D How to Obtain Additional Copies of the Report	26
APPENDIX E Local Regional Office Listing	27

State of New York Office of the State Comptroller

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 Town of Webb Union Free School District, entitled Internal Controls Over Cash Disbursements and Employee Compensation. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Town of Webb Union Free 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.

Scope and Objective

The objective of our audit was to examine the District's internal controls over cash disbursements and employee compensation for the period July 1, 2006, through June 30, 2007. However, we extended the scope of our audit of employee compensation back to July 1, 2005. Our audit addressed the following related questions:

- Were internal controls over cash disbursements appropriately designed and operating effectively to adequately safeguard District assets?
- Did the District have internal controls in place to ensure District employees were compensated at the authorized amounts?

Audit Results

Our audit found that internal controls over cash disbursements and employee compensation were not appropriately designed and operating effectively. The District did not adequately segregate duties over its cash disbursements processes. The Business Manager/Treasurer and payroll clerk either had control over all phases of certain transactions, or were allowed to perform critical functions without independent oversight. The Business Manager/Treasurer had access rights to applications within the computerized accounting system that he did not need to perform his regular duties. Finally, there was no process for someone independent of the payroll process to review payroll change reports. As a result of these weaknesses, there is an increased risk that unauthorized transactions can be initiated and will not be detected.

The Business Manager, who also served as the Treasurer, did not provide sufficient oversight of the check signing process. The accounts payable clerk and payroll clerk each had access to the Business Manager's signature disk, which they used to sign checks without direct supervision. Also, the Business Manager did not compare checks to an approved warrant or certified payroll register to ensure that all check disbursements had been approved by the claims auditor (claims) or Superintendent (payroll)

before the District issued the checks, and he did not monitor the continuity of check number sequences between warrant or payroll periods. Although our testing disclosed no evidence of improper cash disbursements, these control weaknesses increase the risk that inappropriate payments could be initiated and not be detected.

During the 2005-06 fiscal year, eight District employees received compensation that exceeded the amount of the annual salary that appeared in their employment contract, memorandum of understanding (MOU) or Board resolutions. Collectively, these employees received \$17,074 more in compensation than was authorized. Five of these employees were compensated in excess of their Board approved salaries because the District paid them 27 biweekly salary payments during the year at biweekly salary rates calculated on the basis of 26 pay periods.

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 stated in Appendix A, District officials generally agreed with our findings and recommendations, and indicated they will take, or have taken, corrective action. Appendix B contains OSC's comments on issues raised in the District's response.

Introduction

Background

The Town of Webb Union Free School District (District) is located in the Town of Webb in Herkimer County and the Town of Forestport in Oneida 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 is one school in operation within the District, with approximately 300 students and approximately 80 employees. The District's budgeted expenditures for the 2006-07 fiscal year were approximately \$9.4 million, funded primarily with real property taxes. Expenditures for salaries and wages totaled about \$4.2 million during the 2006-07 fiscal year.

Responsibilities related to the District's finances and accounting records are largely those of the Business Manager, who also serves as the District's Treasurer.¹ During the 2006-07 fiscal year, the Board appointed a claims auditor.

Objective

The objective of our audit was to examine the District's internal controls over cash disbursements and employee compensation. Our audit addressed the following related questions:

- Were internal controls over cash disbursements appropriately designed and operating effectively to adequately safeguard District assets?
- Did the District have internal controls in place to ensure District employees were compensated at the authorized amounts?

Scope and Methodology

We examined the District's internal controls over cash disbursements and employee compensation for the period July 1, 2006, through June 30, 2007. However, we extended our examination of employee compensation back to July 1, 2005.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such

¹ The Business Manager/Treasurer left District employment in July 2007, after our audit period.

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 stated in Appendix A, District officials generally agreed with our findings and recommendations, and indicated they will take, or have taken, corrective action. Appendix B contains OSC's comments on 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*.

Cash Disbursements

District officials are responsible for establishing an internal control system that provides reasonable assurance that resources are being safeguarded. District managers are responsible for designing and documenting appropriate operating policies, practices and procedures and properly delineating employee responsibilities. In general, an effective system of internal controls over cash disbursements provides that cash is disbursed only upon proper authorization, when supported by appropriate documentation and for valid business purposes and helps ensure that disbursements are properly recorded. A good system of internal control can help prevent or identify errors and/or irregularities in a timely manner.

We identified internal control weaknesses in the District's cash disbursements operations that could lead to incorrect or inappropriate disbursements occurring and not being detected. District officials did not adequately segregate duties over its cash disbursements processes. The Business Manager/Treasurer and payroll clerk either had control over all phases of certain transactions, or were allowed to perform critical functions without independent oversight. We also identified deficiencies in internal controls over the check signing function.

Segregation of Duties

One component of good internal control is the proper segregation of duties to ensure that no single person controls 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. When it is not practical to adequately segregate the financial duties because of limited staff resources, District officials should establish compensating controls, such as the managerial review of an employee's work. In addition, to help ensure segregation of duties is in place, the computerized accounting system should restrict user access to only the transactions and data that are within the scope of the employee's job responsibilities.

The Business Manager/Treasurer was responsible for recording journal entries; making and recording inter-account bank transfers and wire transfer payments; and preparing, signing and recording (by journal entry) manual checks for the special aid fund. The Business Manager/Treasurer performed these functions without review or approval by another individual. Furthermore, the special aid fund claims were not routinely audited and approved by the claims auditor, so there was no independent approval of the claims paid by the Business Manager/Treasurer. Our tests of 19 special aid claims disclosed that 18 of them totaling about \$6,700 were not audited by the claims auditor.

Our review of the Business Manager/Treasurer's access rights to the computerized accounting system disclosed that he had access rights in the accounting system that allowed him to process claim disbursements from beginning to end, including adding vendor names and addresses, recording payments and generating the checks. Because the accounts payable clerk normally performed this function and the payroll clerk served as the back-up person for processing claim transactions, the Business Manager/Treasurer did not need access to all of these computer functions to perform his regular duties.

Although the secretary of the Committee on Special Education (CSE) Chairperson performed monthly bank reconciliations, this procedure did not effectively mitigate these control risks because she did not routinely review wire transfers or the cancelled checks. Additionally, when the secretary encountered any problems with the bank reconciliations, she would bring them to the attention of the Business Manager/Treasurer to resolve.

We also found that the payroll clerk was responsible for adding new employees into the computer system, adding and updating hourly rates and annual salaries, processing the payroll, and printing, signing and distributing the pay checks. Oversight of the payroll clerk's work was limited to the Superintendent's review and certification of the payrolls and the Business Manager/Treasurer's review of direct deposits to employees' accounts. Although the District's computerized accounting system is able to generate reports showing employees added to the payroll system and changes made to employee salary and pay rates, District officials do not review the payroll change reports. These reports could provide a useful tool for District officials to oversee the District's payroll transactions.

The failure to segregate duties without management oversight and to restrict user access increases the risk that unauthorized transactions can be initiated and will not be detected. To address this risk, we tested wire transfers and journal entries affecting cash accounts for two months. We tested a sample of salary adjustments reflected in payroll change reports to verify they were authorized, and we also tested a sample of cancelled checks as discussed in the next section of this report entitled Check Signing. Our testing disclosed no improper payments.

Check Signing

As the District official responsible for signing checks, the Treasurer plays a critical role in the cash disbursement process. The Treasurer must ensure that his signature is not used to make payments that have not been approved. The Treasurer's actual or facsimile signature must be affixed to District checks by the Treasurer or affixed under the Treasurer's direct supervision. Unless a statutory exception applies,

the Treasurer must sign checks only after receiving a warrant certified by the claims auditor directing him to pay the related claims or after receiving a payroll register certified by the approving officer. It is important for the Treasurer to then compare the signed checks with the certified warrant or payroll to ensure that the amounts and check information are accurate and consistent and to account for the completeness of the check number sequences.

The Business Manager also served as the District's Treasurer. He did not oversee the check-signing process for accounts payable and payroll checks. The accounts payable clerk and payroll clerk each had access to the Business Manager/Treasurer's signature disk which was used to sign checks. After they processed their applicable warrant or payroll run, the clerks used the Business Manager/Treasurer's signature disk to print checks with his signature on them. The clerks informed us that they locked the signed checks in a cabinet and then sent or distributed the checks after the warrant or payroll was approved. This process did not allow the Business Manager/Treasurer to directly supervise the check-signing function and did not give him control over when his signature was applied to checks.

We also found that the Business Manager/Treasurer did not compare checks to an approved warrant or certified payroll register to ensure that all check disbursements had been approved by the claims auditor (claims) or Superintendent (payroll) before the District issued the checks. In addition, the Business Manager/Treasurer did not monitor the continuity of check number sequences between warrant or payroll periods; therefore, he did not maintain accountability for all checks issued. Because the accounts payable and payroll clerks were able to process disbursements in the accounting records, and print, sign and distribute checks without any oversight, they had the ability to issue an improper check without being detected. As a result, District officials do not have adequate assurance that signed checks are being produced for only legitimate business purposes.

Because of the seriousness of these weaknesses, we judgmentally selected and compared 108 non-payroll and 51 payroll cancelled checks totaling \$256,439 that cleared the bank throughout the 2006-07 fiscal year to the supporting claims and certified payroll registers. Our testing disclosed no evidence of improper payments.

Recommendations

1. District officials should ensure that duties in the Business Office are assigned so that the work of one individual independently verifies the work of another in the course of their regular duties. Where incompatible duties cannot be appropriately segregated, District officials should establish supervisory review procedures to mitigate risks.

2. The Board should ensure that the claims auditor audits all special aid fund claims.
3. District officials should ensure that computer access rights are restricted to those employees needing access to perform their duties.
4. District officials should ensure that payroll change reports are reviewed by someone independent of the payroll process.
5. The Business Manager/Treasurer should control his computerized signature at all times and authorize its imprinting on checks. The Business Manager/Treasurer should track the sequences of check numbers to ensure consistency in the sequence for all issued checks, and he should compare signed checks to approved warrants and certified payrolls.

Employee Compensation

Salaries, wages and employee benefits comprise the most significant portion of the District's budget. The Board and District officials must ensure that appropriate controls are established to prevent and detect errors and irregularities. Controls should ensure that employees are only paid salaries, wages and provided benefits to which they are entitled. The calculation of salaries and pay rates should be in accordance with contracts and policies and payroll transactions should be verified and approved.

District employees' terms and conditions of employment are covered by collective bargaining agreements, memorandums of understanding, and Board resolutions which set the annual salaries for employees. However, we noted that none of these contracts or agreements nor any other District policy or Board resolution clearly prescribed a method for calculating certain employees' biweekly salaries. As a result, in 2005-06, some District employees received 27 salary payments. To determine whether the absence of clear guidance for the computation of salary payments had resulted in employees being incorrectly compensated, we reviewed earning histories for 24 employees totaling about \$1.1 million for 2005-06 and earning histories for 19 employees totaling about \$773,000 for 2006-07.

During the 2005-06 fiscal year, eight District employees received compensation that exceeded the amount of the annual salary that appeared in their employment contract, memorandum of understanding (MOU) or resolutions approved by the Board. Collectively, these employees received \$17,074 more in compensation than was authorized.

Five employees² were compensated in excess of their Board approved salaries by a total of \$10,499, with individual differences ranging from \$123 to \$3,185. This was the result of the employees receiving 27 biweekly salary payments during the year at biweekly salary rates calculated on the basis of 26 pay periods. The District's Business Manager/Treasurer, who was responsible for overseeing the payroll process, told us that it had been his understanding that each of these employees should receive a 27th payroll in 2005-06 at the rate of 1/26th of their 2005-06 annual salaries. He indicated

² CSE Chairperson, Business Manager/Treasurer, District Clerk, Principal and Head Custodian

that he communicated this to the Board at a special meeting³ prior to the beginning of the 2005-06 fiscal year and later articulated his understanding in a memorandum to the District Clerk, dated June 9, 2005. According to the Business Manager/Treasurer, this memorandum was made available to the Board; however Board members indicate that they never received the memorandum. We found a brief statement in the minutes of the June 21, 2005 meeting which was apparently intended to address the handling of the 27 pay periods that were due to occur in 2005-06. The entry in the minutes simply stated that the Board “voted to approve payment of a 27th pay period for the 2005-06 school year per pay calendar established by the Business Office.” Board members contend that they did not intend for any employee to be paid 1/26th their salary 27 times during the 2005-06 fiscal year.

The Business Manager calculated the 2005-06 biweekly salaries by dividing the annual salaries by 26 (the usual number of payroll periods in a year). However, this amount was paid to employees 27 times during the year since payroll dates in 2005-06 fell on the first and last days of the year resulting in 27 pay dates. These employees were paid their 2004-05 salary in 26 biweekly pay periods receiving the final payment two weeks prior to the end of the year. As a result, the first payroll date for 2005-06 was the first day of the school year, July 1, 2005.

The President of the Board and another Board member told us that they had not been aware that the additional (27th) payment received by employees had increased their annual salary above what had been provided for in their MOUs. They said that the intent of the Board’s June 21, 2005 resolution was to direct that the employees be paid their annual salary over 27 pay periods with the biweekly rate calculated by dividing the 2005-06 salary by 27.

The recommended method for calculating a bi-weekly salary is by computing the daily earnings (number of days in the year) and then multiplying the daily rate by the number of days in a pay period (14). This method compensates, over time, for the fact that the actual number of days in a year, 365, or 366 in a leap year, exceeds the 364 days covered by 26 biweekly payrolls (26 x 14). Because of this difference, some of the annual salary may be carried over and paid in the following year. Using this method, the bi-weekly rate will remain unchanged as long as the annual salary remains the same. Any amount of the annual salary not received in the 26 paydays is received in the first payroll of the next year.

³The minutes of the June 2, 2005, special meeting of the Board indicate that the Business Manager/Treasurer “...gave an update on [a] payroll concern regarding calendar year for 2005-06”; however, the minutes do not specify what his concern was.

In addition to the five employees discussed previously, we found that the former Superintendent also received additional compensation for the 2004-05 fiscal year. The former Superintendent worked for the District through June 30, 2005. We found that the District paid her salary over 26 pay periods during the 2004-05 school year. However on July 1, 2005, the District paid her an additional \$3,782 on a per diem basis for working nine days at the end of June 2005. Because the former Superintendent was paid her entire annual salary for the period from July 1, 2004, to June 30, 2005, she should not have received this additional payment of \$3,782 for working nine days at the end of June 2005.

A microcomputer repair technician worked for the District through December 2, 2005. During the 2005-06 fiscal year, the District divided his salary by 26 pay periods to determine his bi-weekly salary. He received 12 pay checks totaling \$15,655 through December 2, 2005 (covering 120 working days).⁴ However, there were only 111 working days from July 1, 2005, to December 2, 2005, so his pro rata compensation for the period should have been \$14,481. As a result, he was overpaid by \$1,174.

Finally, a nurse covered by the Civil Service Personnel Agreement was overpaid \$1,619 during the 2005-06 fiscal year because her pay was calculated based on an 8-hour work day instead of a 7.5-hour work day. The contract stipulates that the employee's workday is eight hours, which includes a 30 minute unpaid lunch period. The overpayment occurred because the payroll clerk converted the employee's hourly wage to an annual salary and made an error when computing the salary amount. Instead of converting the employee's hourly wage rate to an annual salary, the payroll clerk should have entered the hours worked by the employee each pay period into the computerized payroll system and allowed the computer to calculate the employee's pay based on the hourly wage rate set by the Board. This employee was correctly compensated based on a 7.5 hour work day in 2006-07.

The Board's minutes for the June 21, 2005, meeting were unclear in regard to its decision for the calculation of biweekly salaries in 2005-06. A dispute presently exists between the Business Manager/Treasurer and the Board as to whether this resolution approved the payment beyond that authorized in the MOUs. Members of the Board have maintained that the method of calculation used by the Business Manager/Treasurer was incorrect and that the payments

⁴ Based on our review of the 2004-05 earning history for this employee, he was paid his entire salary in the 2004-05 fiscal year. Therefore, his first pay check during 2005-06 did not include compensation related to the previous year.

were unauthorized. The current Superintendent informed us that the District has sent letters to the individuals who received the payments in question requesting reimbursement.

Recommendation

6. District officials should institute controls to ensure that employees are paid in accordance with their contracts or agreements.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

TOWN OF WEBB UNION FREE SCHOOL DISTRICT

**3002 Main Street, P.O. Box 38
Old Forge, New York 13420**

BOARD OF EDUCATION

JULIE ZAYKOSKI
President
SHARON FINKLE-KLEPS
Vice-President
HELEN ESTABROOK
PATRICIA JOSEPHSON
KATHLEEN NAHOR
JANE SLACK
PAUL RITZ



OFFICERS

DONALD GOOLEY
Superintendent
MICHAEL CUNNINGHAM
K-12 Dean of Students
SANDRA KNOBLOCK
CSE/Special Programs
DIANE DELUDE
Treasurer
DIANE KULL
District Clerk

Telephone (315) 369-3222

Fax: (315) 369-6216

www.towschool.org

May 23, 2008



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

Re: Town of Webb Union Free School District Audit Response

Dear [REDACTED]:

We write this letter in response to the Office of The State Comptroller's Audit Report which examined the Town of Webb Union Free School District's internal controls over cash disbursements for the period July 1, 2006, to June 30, 2007, and employee compensation from July 1, 2005 to June 30, 2007.

We wish to thank your office for responding to the District's request and for the professionalism displayed by [REDACTED] and [REDACTED] throughout the process. In addition, we appreciate the opportunity to discuss the audit findings with [REDACTED] and offer the Board of Education's perspective on issues raised in the report.

Before addressing the specific issues raised in the report, we wish to comment on the scope of the audit that was conducted. The District believes that written reports from its internal auditor dated November 14, 2006 and June 30, 2007, which were shared with your staff as part of the investigation, should have been addressed. The District sought review by the Comptroller's office because we believe that the statutory obligations of the District Treasurer were not completely followed regarding compensation and cash disbursements (on, for example, special aid fund warrants, special aid fund payroll and compensated absences). The District understands that this audit focused upon cash disbursements and payroll only, and did not address issues that would otherwise be covered in a compliance audit. We would further note that nearly all of the documents and information shared with your examiners were provided by personnel other than the Superintendent of Schools.

See
Note 1
Page 22

Our responses to your findings and recommendations are as follows:

Segregation of Duties

The audit report identifies certain critical functions which the District's former Business Manager was allowed to perform without oversight. Specifically, the report finds that the Business Manager was responsible for making journal entries, making and recording inter-account bank transfers, and preparing, signing and recording manual checks drawn on the special aid fund. The District has addressed this situation by separating the roles of Business Manager and Treasurer, which were formerly performed by the same person. In addition, the District claims auditor now reviews all special aid fund claims and approves the warrants and the Board of Education is also provided with the special aid fund warrants after payment.

The audit report also notes that the former Business Manager was allowed access rights to the District's computerized accounting system that allowed him to process claim disbursements from beginning to end, including the addition of vendor names and addresses, recording of payments and generation of checks. In response to this situation, access to the District's computerized accounting records for the Superintendent and Business Manager has been limited to read-only status.

The final item noted in the report under this heading is that the District lacked a process for someone independent of the payroll process to review payroll change reports. As noted earlier, the District now has the Superintendent review all payroll changes.

Check Signing

The report further finds that the former Business Manager, who also acted as the District Treasurer, failed to properly oversee the check signing process for accounts payable and payroll checks. Specifically, it was found that the accounts payable clerk and the payroll clerk were given access to the Business Manager/Treasurer's signature disk and did not supervise use of his signature in printing checks. The report states that the Business Manager/Treasurer failed to compare checks to an approved warrant or certified payroll register to ensure that check disbursements had been properly approved.

In response to this situation, the District has separated the positions of Business Manager and Treasurer and established procedures to ensure that the Treasurer personally supervises the affixing of his signature to all checks. The new Treasurer also now tracks the sequences of all check numbers and compares all checks to the warrants approved by an independent claims auditor and payroll certified by the Superintendent.

Employee Compensation

The final area addressed by the audit report is employee compensation. The report finds that during the 2005-06 fiscal year, eight District employees received compensation that exceeded the amount of annual salary stated in their employment contracts. The report specifically notes that the District's CSE Chairperson, Business Manager/Treasurer, District Clerk, Principal and Head Custodian received compensation beyond the annual salary stated in their employment contracts because they received 27 payroll payments of 1/26th of their annual salary.

The report details the examiners' discussions with the District's former Business Manager/Treasurer and certain members of the Board, as well as review of certain documents, in attempting to discern whether the Board authorized the payments that were made to the discussed employees.

The draft report addressed by the Board on April 29, 2008, simply noted that the "payment of additional compensation has been a matter of dispute between the Business Manager/Treasurer and the Board" but fails to draw any conclusion as to whether payment of additional compensation was proper. During the April 29 exit meeting, the Board implored [REDACTED] to insert a finding in the report that is consistent with the documentary evidence in this matter. Specific requests were placed in writing with [REDACTED] pledge to review the matter and decide whether additions would be made. As no further draft of the report was provided to the District, our comments are restricted to what was presented at the April 29 exit meeting.

See
Note 2
Page 22

We believe that the documentary evidence reviewed by [REDACTED] and other OSC staff established that the Board never authorized the scheme that led to certain employees being paid in excess of the amount of annual salary authorized by their employment contracts for the 2005-06 school year. The audit report fails to draw the same conclusion largely on the strength of the verbal assertions of the former Business Manager/Treasurer. We believe these assertions are not supported by the documentary evidence and maintain that the payments were made without proper authorization.

See
Note 3
Page 22

For example, the report states that the former Business Manager/Treasurer "told us it had been his understanding that each of the employees should receive a 27th payroll in 2005-06 at the rate of 1/26th of their 2005-06 annual salaries. He indicated that he communicated this to the Board at a special meeting prior to the beginning of the 2005-06 fiscal year and later articulated his understanding in a memorandum to the District Clerk, dated June 9, 2005." In fact, the minutes of special board meetings held on June 2 and June 7, 2005, contain no mention of the subject of a 27th pay period.

See
Note 4
Page 22

The report further states "(w)e found a brief statement in the minutes of the June 21, 2005 meeting which was apparently intended to address the handling of the 27 pay periods that were due to occur in 2005-06. The entry simply stated 'voted to approve payment of a 27th pay period for the 2005-06 school year per pay calendar established by Business Office'". The report does not mention that there is no indication, by documents or otherwise, that the Board was ever provided with a copy of the proposed pay calendar. No such calendar was attached to the meeting minutes. No such calendar was attached to the June 9 memo submitted by the former Business Manager/Treasurer to the District Clerk. Given this evidence - and lack of evidence - we believe it was reasonable for the report to conclude that the Board never gave explicit authorization for payment of any amount beyond the annual salary set forth in the employment contracts of those employees mentioned in the report.

See
Note 5
Page 23

Further support for the conclusion that the Board did not authorize payments beyond each employee's contractual annual salary is found in the fact that there is no evidence that such an increase was ever discussed with the union for represented employees or with unrepresented employees directly. There is simply no documentation, such as amended negotiated employment agreements, of any action by the Board showing an intent to implement a raise for a few individuals without proper discussion and without considering all similarly represented employees.

We also note that the examiners expressly declined our suggestion to interview former interim Superintendent Ray Borden, who has personal knowledge of the events surrounding this situation and made specific recommendations to the Board regarding the disputed motion and minutes.

We feel the lack of a conclusive finding on the issue of employee compensation is an important omission from the report. We note that the report makes more conclusive findings regarding the overpayment of the former superintendent of schools and a micro computer repair technician. The overpayment to the micro computer repair technician arises from the same circumstances as the aforementioned employees and is thus dealt with in the same fashion. The unauthorized payment to the former superintendent is somewhat of a different, isolated occurrence.

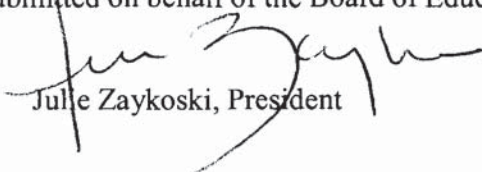
The final finding in the Employee Compensation area addresses the overpayment of a nurse due to an error by the payroll clerk. We recognize this problem and have addressed it.

Conclusion

The audit of the District's internal controls over cash disbursements and employee compensation revealed certain areas where the District could improve its internal control over payment of claims and payroll disbursements. The audit has provided the District with information and an opportunity to strengthen its policies and procedures in these areas.

We thank the Comptroller's Office for its efforts and look forward to implementing the knowledge obtained through this process.

Respectfully submitted on behalf of the Board of Education,



Julie Zaykoski, President

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

During the risk assessment stage of our audit, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, including written reports from the District's internal auditors. 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 determined that cash disbursements and payroll were the areas most at risk, so we selected these areas for further audit testing. Although our audit did not address all of the same issues identified by the District's internal auditors, the District has a responsibility to evaluate the internal auditor's findings and recommendation and to take corrective action as appropriate.

Note 2

We held an exit conference to discuss the draft audit report with District officials on April 29, 2008. Although we did not issue a second draft report following the exit conference, we did call the Board President on May 1, 2008, to tell her the revisions we agreed to make to the audit report based on requests made by District officials during and after the exit conference.

Note 3

The minutes of the Board's June 21, 2005, meeting were unclear with regard to the Board's decision for the calculation of biweekly salaries in the 2005-06 fiscal year. Therefore, we could not conclude with any certainty that the Board did not authorize the Business Manager/Treasurer's method of calculating biweekly salaries in 2005-06. Although we discussed the payroll calculation with the Business Manager/Treasurer during our audit, we did not rely entirely on his verbal assertions. We also reviewed a memo the Business Manager/Treasurer provided to the District Clerk outlining his proposed Board resolution concerning the 27 pay periods in 2005-06, and we reviewed the June 2, 2005, minutes, which indicate that the Business Manager/Treasurer brought a "payroll concern" regarding the 2005-06 fiscal year to the Board's attention.

Note 4

The June 9, 2005 memo from the Business Manager/Treasurer to the District Clerk includes a recommendation to include the following item on the Board agenda: "To approve payment of a 27th pay period for the 2005/2006 school year per pay calendar established by the Business Office. Compensation paid to all memo of understanding personnel will be paid at the rate of 1/26th (equivalent to one regular pay period) of their 2005/2006 stated annual compensation. Appropriate budgeted salary codes will [be] adjusted to reflect compensation of the 27th pay period..." This memo also indicates that the Business Manager/Treasurer informed the Board at its June 2, 2005, special meeting that the 2005-06 school year will have 27 payroll periods.

Although the District is technically correct in its response letter when it contends that the minutes of the special Board meeting of June 2, "...contain no mention of the subject of a 27th pay period," we found that the minutes from this meeting do state that the Business Manager/Treasurer "...gave an update on [a] payroll concern regarding calendar year for 2005-06." In light of the Business Manager/Treasurer's June 9, 2005, memo and reference to his payroll concerns in the June 2, 2005, minutes, we cannot discount the Business Manager/Treasurer's representation that he discussed the 27 pay period issue with the Board prior to the 2005-06 fiscal year.

Note 5

We modified our report to include Board members' representations that they did not receive the Business Manager/Treasurer's June 9, 2005, memo and they did not intend for any employee to be paid 1/26th their salary 27 times during the 2005-06 fiscal year. However, because the June 21, 2005, minutes⁵ concerning the 27th pay period are so vague, we cannot conclude with any certainty that it was, or was not, the Board's intention to authorize payment beyond the employees' annual salaries at the time the motion was passed.

Note 6

We reviewed the Board minutes and various internal memos and documents, and we spoke with Board members and the Business Manager/Treasurer during our audit. We included their conflicting views in our audit report.

⁵ The Board generally approves the Board meeting minutes at its next regular meeting. Although the Board had an opportunity to clarify the minutes regarding the 27th pay period, it approved the June 21, 2005, minutes at its July 5, 2005, meeting without changes.

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 internal controls over cash disbursements and employee compensation for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We interviewed District personnel to gain an understanding of key controls over the cash disbursements process, including the manner in which claims are processed and paid, bank accounts are reconciled, journal entries and wire transfers are authorized and processed, and checks are signed and controlled.
- We tested journal entries and wire transfers for October 2006 and March 2007.
- We reviewed supporting documentation for 159 checks (108 non-payroll and 51 payroll checks) totaling \$256,439 that cleared the bank throughout the 2006-2007 fiscal year.
- We reviewed the key controls over payroll including the manner in which new employees are added, pay rates and salary changes are made, checks are generated, signed and distributed. We also obtained and reviewed the following items:
 - Collective bargaining agreements, Memorandums of Understanding, Board minutes
 - Employee earning history reports
 - Cancelled payroll checks

- Salary notices
- Time sheets
- Separation agreements

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

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, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Orange, Putnam, Rockland, Westchester
counties