



West Valley Central School District Service Contract for the Internal Auditor

Report of Examination

Period Covered:

July 1, 2005 — June 22, 2007

2007M-275



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
INTERNAL AUDIT FUNCTION	7
Recommendation	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 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 West Valley Central School District, entitled Service Contract for the Internal Auditor. 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*

Introduction

Background

The West Valley Central School District (District) is located in the Towns of Ashford, Ellicottville, Franklinville, East Otto and Machias, Cattaraugus 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. Some administrators perform multiple tasks for the District. For instance, the District Treasurer also serves as the District purchasing agent.

There is one school building in operation within the District, with approximately 430 students and 110 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$7.9 million, which were funded primarily with State aid, real property taxes and grants.

Objective

The objective of our audit was to evaluate internal controls over the design, execution and implementation of the service contract for the District's internal audit function. Our audit addressed the following related question:

- Has the District appropriately contracted for the internal audit function?

Scope and Methodology

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 of the District's financial operations included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the area of service contracts and therefore, we examined internal controls over the service contract for the internal audit function of the District for the period July 1, 2005 to June 22, 2007. Certain observations and lesser findings related to the personal service contract with the Chief Information Officer were discussed with District officials.

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 B 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 indicated they planned to initiate corrective action.

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*.

Internal Audit Function

All school districts are required to have an internal audit function, in operation no later than December 31, 2006, which includes at a minimum, the development of a risk assessment of district operations. The risk assessment should include, but not be limited to, a review of financial policies, procedures and practices; an annual review and update of such risk assessment; annual testing and evaluation of one or more areas of the district's internal controls, taking into account risk, control weaknesses, size and complexity of operations; and preparation of reports (at least annually or more frequently as the Board may direct), which analyze significant risk assessment findings, recommend changes for strengthening controls and reducing identified risks, and specify timeframes for implementation of such recommendations.

A district may use its own employees, inter-municipal cooperative agreements, shared services to the extent authorized by Education Law, or independent contractors to fulfill the internal audit function. The internal auditor must have professional auditing qualifications and be independent of other district functions. The internal auditor must have no other responsibilities related to district business operations, and cannot be a close or an immediate family member of an employee, officer or contractor providing significant or material services to the district. In addition, an individual or consultant hired for the internal audit function may not have a significant or material interest in any other contracts with the district.

The District entered into an inter-municipal agreement with seventeen other school districts and the Allegany-Cattaraugus Board of Cooperative Educational Services (BOCES) to provide for the internal audit function beginning December 18, 2006. The agreement indicates "the jointly employed internal auditor shall be considered an employee of BOCES for purposes of payroll administration and benefits."

In fiscal year 2005-06, the District spent approximately \$1 million on services provided by the BOCES. Based on the material nature of these payments by the District to BOCES, the BOCES employee serving as the internal auditor would not be independent in performing the District's internal audit function. This current arrangement is likely to put the BOCES employee in the position of evaluating significant District services or programs that are provided to the District by BOCES, the individual's employer, or reviewing the system of documentation for payments to the BOCES.

Recommendation

1. The Board should terminate the internal audit relationship with the Cattaraugus-Allegany BOCES and replace this position with an internal auditor who meets the independence requirements of the State Education Department guidance.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



West Valley Central School

5359 School Street, P.O. Box 290
West Valley, NY 14171

PHONE: (716) 942-3293
FAX: (716) 942-3440
email: www.wvalley.wnyric.org

Home of the "Wildcats"

February 5, 2008

Office of the State Comptroller
Buffalo Regional Office
295 Main Street
Room 1050
Buffalo, NY 14203

Re: OSC Audit – West Valley Central School District
30 Day Response Letter

This letter serves as the formal response regarding the audit finding which was reported to the West Valley Central School District on January 24, 2008. The Board of Education and Superintendent have reviewed the finding and recommendation.

Internal Audit Function

The West Valley Central School District entered into an inter-municipal agreement with seventeen other school districts, and the Allegany-Cattaraugus Board of Cooperative Educational Services to provide for an internal auditor. The Board of Education is currently seeking cost effective alternatives to this agreement.

The Board of Education will create a plan which will provide an internal auditor that will satisfy the independence requirements. This plan will be sent to the State Comptroller's office within the time required.

Sincerely,

A handwritten signature in black ink, appearing to read "Edward Ahrens".

Edward Ahrens
Superintendent

An Equal Opportunity Employer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected personal service contracts that the District executed with the Internal Auditor for further audit testing. Certain observations and lesser findings related to the personal service contract with the Chief Information Officer were discussed with District officials to help them strengthen internal control in that area.

We reviewed various documents during our audit, including the personal service contract for the internal audit function. We also reviewed relevant guidance provided in Education Law and by the State Education Department.

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

APPENDIX C

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 D
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

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