



# Westhill Central School District Internal Controls Over Financial Operations

Report of Examination

Period Covered:

July 1, 2005 — April 30, 2007

2008M-35



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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

June 2008

Dear School District Officials:

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

Following is a report of our audit of the Westhill Central School District, entitled Internal Controls Over Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

The Westhill Central School District (District) is governed by the Board of Education (Board) which comprises five 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.

On an annual basis, the Board appoints a claims auditor who assumes the Board's powers and duties of approving or denying claims against the District. Responsibilities relating to the District's finances, accounting records and reports are largely those of the Assistant Superintendent for Business Administration and the Treasurer. The Assistant Superintendent for Business Administration also serves as purchasing agent.

#### **Scope and Objective**

The objective of our audit was to examine the internal controls over financial operations for the period July 1, 2005 to April 30, 2007. Our audit addressed the following related questions:

- Are internal controls over cash disbursements appropriately designed and operating effectively to prevent unauthorized payments?
- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over procurement appropriately designed and operating effectively to adequately safeguard District assets?
- Do any District officials have a prohibited interest in contracts with the District?

#### **Audit Results**

We identified internal control weaknesses in the District's operations relating to cash disbursements that could lead to errors or irregularities occurring and not being detected. The Treasurer's duties were not properly segregated, and included entering information into the accounting system, preparing deposit slips, initiating wire transfers, receiving unopened bank statements and cancelled checks from the bank, reconciling bank accounts (without review by another District official), and preparing and posting journal entries (without review by another District official). As a result, there is a

risk that the Treasurer could misappropriate cash and manipulate accounting records to conceal a misappropriation from District officials. Our testing did not disclose any exceptions.

The District's claims audit process also needs to be improved. The claims auditor has not received any written procedures or a written job description related to her claims auditing duties and does not report directly to the Board. The claims auditor is a full-time employee who, in addition to claims auditing duties, is the backup for the payroll and accounts payable clerk. In addition, she is supervised by the Assistant Superintendent for Business Administration who also serves as the purchasing agent. Therefore, she is subordinate to the Assistant Superintendent for Business Administration/purchasing agent. This assignment of job duties does not provide adequate separation of the claims auditing function from the purchasing function.

While we found no significant exceptions with the District's competitive bidding policy and function, the District's policy regarding goods procurements at limits below the competitive bidding threshold was not adequate because it does not establish the specific number of quotes, which are required for a purchase. Our review of 11 purchases totaling \$90,090 that required written and verbal quotes showed that only one quote per purchase (from the vendor that they purchased from) was obtained for five of the purchases. District officials could not provide us with documentation to substantiate that they received any quotes for the other six purchases. As a result, the District may have incurred higher costs than necessary for the goods and services purchased.

The District does not have a system in place to make officials and employees aware of the conflict of interest provisions of the General Municipal Law or to identify potential conflicts of interest. As a result, the District entered into a contract for \$4,512 in the 2006-07 fiscal year in which a Board member had a prohibited interest.

### **Comments of District Officials**

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

# Introduction

## Background

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

There are four schools in operation within the District, with approximately 2,050 students and 310 employees. The District's budgeted expenditures for the 2006-07 fiscal year were approximately \$30 million, which were funded primarily with State aid, real property taxes and grants.

The Board annually appoints a claims auditor who assumes the Board's powers and duties in regard to approving or denying claims against the District and serves as final authorization to process a payment. Responsibilities relating to the District's finances, accounting records and reports are largely those of the Assistant Superintendent for Business Administration and the Treasurer. The Assistant Superintendent for Business Administration also serves as the purchasing agent. The District's financial statements are audited annually by an independent auditor.

## Objective

The objective of our audit was to evaluate the internal controls over selected financial activities. Our audit addressed the following related questions:

- Are internal controls over cash disbursements appropriately designed and operating effectively to prevent unauthorized payments?
- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over procurement appropriately designed and operating effectively to adequately safeguard District assets?

- Do any District officials have a prohibited interest in contracts with the District?

**Scope and Methodology**

We examined the internal controls over the financial operations of the Westhill Central School District for the period July 1, 2005 to April 30, 2007.

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

**Comments of District Officials and Corrective Action**

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

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

## Segregation of Duties

An effective system of internal control requires the segregation of duties so that no single individual controls most or all phases of a transaction. Concentrating key duties (e.g., recordkeeping, reconciling cash and disbursing cash) with one individual with little or no oversight significantly increases the risk that errors and/or irregularities might occur and go undetected. Due to limited resources, it is not always possible to have optimum separation of duties. The risk associated with inadequate segregation of duties can be mitigated to some extent by supervisory oversight and regular review of an individual's work.

The assignment of job duties at the District does not provide for adequate segregation of duties (checks and balances) over financial transactions. Duties of the Treasurer include entering information into the accounting system, initiating wire transfers, receiving unopened bank statements and cancelled checks from the bank, reconciling bank accounts (without review), preparing and posting journal entries (without review). As a result, the Treasurer could issue a check, alter records and manipulate accounts to prevent detection. The Assistant Superintendent for Business Administration informed us that the Treasurer and the previous Treasurers have always performed all of the above duties.

Given the internal control risks we identified relating to the lack of segregation of duties, we reviewed 131 accounts payable, five payroll and 10 trust and agency payments, totaling approximately \$750,000. We tested the bank reconciliations for December 2006 to verify they were performed properly and traced all journal entries crediting (reducing) cash, to determine if any payment was for an improper purpose. Our testing did not reveal any such exception.

Subsequent to the completion of our fieldwork, District officials informed us that they have made changes concerning the Treasurer's duties. Among the changes, the Assistant Superintendent for Business Administration reviews on a monthly basis: a list of the journal entries, the Treasurer's report, bank statements, canceled checks and deposits in transit.

### Recommendation

1. District management should segregate recordkeeping, transaction approval, and cash disbursement duties to the extent judged to be practical and cost-effective. Where incompatible duties cannot be appropriately segregated, District management should establish effective supervisory review procedures.

## Claims Auditing

Another important aspect of the District's internal control rests with the position of claims auditor. The claims auditor assumes the powers and duties of the Board for approving or disapproving claims against the District and in doing so becomes a critical element of the District's control environment. In general, the objectives of the claims auditor are to ensure that every claim contains enough supporting documentation to determine that it complies with District policies, and that the amounts claimed represent actual and necessary District expenses. The appointment of a highly ethical, inquisitive claims auditor who has a clear understanding of the duties and responsibilities of the position provides a level of assurance that District funds will be properly expended for authorized purposes.

The Education Law and New York State Education Department Regulations provide that the claims auditor must not be directly involved in the accounting or purchasing functions of the District, or be under the direct supervision of the Superintendent. Additionally, the claims auditor must report directly to the Board, and not to any other District staff or management, with respect to the results of the audits of claims. The claims auditor's ability to act in a totally independent manner could be compromised if he/she is placed under the supervision or control of other District personnel.

The claims auditor informed us that she had attended a half-day training session a couple of years ago. The Assistant Superintendent for Business Administration informed us that the claims auditor has not received a written job description relating to her duties as claims auditor nor has the Board adopted any policies or written guidance relating to the claims audit function. The effectiveness of the District's claims audit process is enhanced when the individual responsible for the audit of claims is provided with clear and concise written policies, rules and procedures to follow in the performance of this vital internal control activity. In addition, a written description of the specific duties of the claims auditor is an effective way to communicate the Board's expectations for the position. Uncertainty on the part of the claims auditor about responsibilities or any aspect of the audit process could lead to improper payments.

The District's claims auditor informed us that she does not report to the Board. The claims auditor told us it is her normal procedure to bring questions regarding claims to the attention of the accounts payable clerk. Internal control suffers under an arrangement such as

this since the Board is not alerted to questions or concerns that might arise during the claims audit process.

The claims auditor is a full-time Business Office employee who is supervised by the Assistant Superintendent for Business Administration, whose financial related duties include supervising the accounting function and approving all District purchase orders. The claims auditor's other duties include employee benefits coordinator, backup for the payroll clerk,<sup>1</sup> backup for the accounts payable clerk and capital assets manager. All of these duties are subordinate to the Assistant Superintendent for Business Administration who serves as the District's purchasing agent. Therefore, the claims auditor's subordinate position to the Assistant Superintendent for Business Administration does not provide adequate separation of the claims audit function from the purchasing function. When the claims auditor is in a subordinate position to the Assistant Superintendent for Business Administration, the Board has limited assurance that the claims auditor will be able to resist management override in the event that any questionable claims are found during the review. Additionally, the Board has not provided the claims auditor with clear direction regarding to whom she must report, if she has concerns.

The claims auditor's other duties include the performance of accounting work. The performance of accounting work by the individual who has been appointed claims auditor is not only prohibited by Education Law; but also results in incompatible positions. In particular, her duties as backup for the accounts payable clerk would put her in the position to be authorizing payments for purchases she had initiated or processed as part of her accounts payable duties. As a result, she could not provide an independent and objective audit of the District's claims. The lack of an audit and approval of claims by an independent claims auditor increases the risk that improper payments could be made, particularly when someone having duties that are not compatible with the claims approval process assumes the audit function.

Because of the deficiencies in the claim audit function, we reviewed 58 claims totaling \$706,260. Even though we found no significant deficiencies in the claims we reviewed, the lack of a meaningful and independent audit could result in inappropriate claims being paid.

Subsequent to the completion of our field work, District officials informed us that the claims auditor duties as backup for the accounts

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<sup>1</sup> Additionally, four times a year (November, January, March and June) the claims auditor processes the co-curricular and coaches payroll.

payable clerk have been removed. In addition, District officials will require the claims auditor to report to the Board annually at the April meeting and they will direct the claims auditor to contact the Board President any time that she has concerns.

## **Recommendations**

2. The Board should adopt written procedures and guidelines for the examination and approval of claims that clearly communicate the Board's expectations for the position of claims auditor.
3. The Board should ensure that the claims auditor receives adequate guidance and training, and reports directly to the Board.
4. The claims auditor should not have other duties that are incompatible with his/her duties and responsibilities as claims auditor.

# Procurement

General Municipal Law sets forth requirements for competitive bidding. It also requires school districts to adopt written policies and procedures (procurement policy) for the procurement of goods and services that are not subject to competitive bidding requirements. In general, the procurement policy must contain provisions requiring District personnel to purchase these goods and services based on a written request for proposal (RFP), written quotes or verbal quotes. In establishing a procurement policy, District officials should consider the cost of District personnel in complying with the policy compared to the savings obtained by soliciting competition. The procurement policy must also describe when each method of procurement will be used. For example, the procurement policy could require District personnel to solicit a specified number of proposals, or written or oral quotes for purchase contracts that fall between certain dollar thresholds. The procurement policy must also describe the type of documentation District personnel should provide and maintain for each of the actions taken.

While we found no significant exceptions with the District's competitive bidding policy and function, the District's policy regarding goods procurements at limits below the competitive bidding threshold was not adequate because it does not establish the specific number of quotes, which are required for a purchase. Our review of 11 purchases totaling \$90,090 that required written and verbal quotes showed that only one quote per purchase (from the vendor that they purchased from) was obtained for five of the purchases. District officials could not provide us with documentation to substantiate that they received any quotes for the other six purchases. As a result, the District may have incurred higher costs than necessary for goods and services purchased.

## **Competitive Bidding**

The purpose of obtaining bids is to encourage competition in the procurement of supplies, equipment and services that will be purchased with public funds. The appropriate use of competition provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner. The awarding of a contract to the lowest responsible bidder after public advertisement for sealed bids is required when an item or commodity group exceeds dollar limits established under the General Municipal Law. Current dollar thresholds require school districts to advertise for bids for purchase contracts of \$10,000 or more, and public works contracts of \$20,000 or more. School districts also may use contracts awarded through the New York State Office of General Services, or

participate in cooperative bidding with other governmental entities such as BOCES.

We reviewed three purchase contracts (\$15,880 - \$21,900) and two public works contracts (\$25,900 - \$51,813) totaling \$131,809 that were required to be competitively bid. We found no significant exceptions to the District's compliance with the competitive bidding law for these expenditures.

## **Procurement Policy**

The Board has adopted a procurement policy and regulation, which shows that the Board recognizes its responsibility to ensure the development of procedures for the procurement of goods and services not required by law to be made pursuant to competitive bidding requirements.

The regulations state that purchase contracts require verbal quotes for purchases from \$1 to \$999 and written quotes for purchases from \$1,000 to \$10,000. For public works contracts, it sets limits for verbal quotes from \$1 to \$9,999 and written quotes from \$10,000 to \$20,000. The policy does not specify the number of quotes to be obtained. Because the policy requires "quotes," this implies a minimum of two quotes. Additionally, the District's regulation specifies the documentation to be maintained for various procurements. For example, documentation of verbal quotes calls for notation of the verbal quotes. The policy also provides that the quotes do not have to be solicited for "very small procurements when the solicitations of competition would not be cost-effective," but does not provide any further guidance in making that determination. Without further guidance from the Board, individuals making that determination may not use the more cost-effective method.

We reviewed six purchase contracts (\$2,655 - \$9,200), two public works contracts (\$11,516 - \$15,170) requiring written quotes and three public works contracts (\$9,400 - \$9,500) requiring verbal quotes, totaling \$90,090. District officials could not provide us with any documentation to substantiate that they had received any quotes for five of the purchase contracts or one public works contract or that an exception applied. District officials provided us with documentation of only the one quote from each vendor that they contracted with, for one of the purchase contracts and four of the public works contracts. The purpose of receiving at least two quotes is to help assure District officials that they are obtaining goods or services at a competitive price. Obtaining a single quote or no quote does not allow for a price comparison.

Although District personnel have not received more detailed guidance from the Board on the number of verbal and written

quotes they should obtain, the Assistant Superintendent for Business Administration informed us that she generally encourages District personnel to get quotes on all purchase and public works contracts over \$2,000. However, the District employee who made seven of the 11 purchase and public works contracts we reviewed, informed us that his practice was to only obtain one quote on contracts under \$10,000.

Because the Board failed to provide clear policy guidance to District personnel involved in the procurement process, the District may have incurred higher costs than necessary for goods and services purchased.

Subsequent to the completion of our fieldwork, District officials informed us that they have drafted an amended policy concerning the specific dollar amounts that require the solicitation of the oral or written quotes.

## **Recommendations**

5. District officials should ensure that all personnel involved in the procurement processes follow the District's procurement policy.
6. The Board should provide additional written guidance to District personnel on when they are required to obtain RFPs, written quotes and verbal quotes, and the number of quotes that they should obtain.

## Interest in Contracts

General Municipal Law limits the ability of District officials and employees to enter into contracts in which both their personal and financial interests, and their public powers and duties, come into play. Unless a statutory exception applies, a District officer or employee is prohibited from having an interest<sup>2</sup> in a contract when he or she individually, or as a member of a board, has the power to (a) negotiate, prepare, authorize or approve a contract; (b) authorize or approve payment under a contract; (c) audit bills or claims under a contract; or (d) appoint an officer or employee who has such duties.

In most instances, the General Municipal Law requires District officers and employees who have, will have or later acquire interests in actual or proposed contracts of the District to disclose their interests, as well as their spouses' interests. The disclosure must be made publicly and in writing to the individual's immediate supervisor and to the Board, and the Board must include the disclosure in its minutes. We found no evidence of any such disclosures in the Board's minutes.

General Municipal Law also requires the chief executive officer of a school district to ensure that a copy of the conflict of interest provisions of General Municipal Law is posted in each public building in a place conspicuous to its officers and employees. The District has not complied with this posting requirement, nor does it have any other systems in place to make its officers and employees aware of the conflict of interest provisions of the General Municipal Law or to identify potential conflicts of interest. This might include requiring Board members and senior management staff to disclose their outside occupations and business interests, or requiring bids, proposals or quotations submitted by prospective vendors to disclose the names of District officers or employees who would have an interest in a contract with the vendor.

In the 2006-07 fiscal year, the District paid \$4,512 for repairs to a District vehicle to a Board member's corporation. The Board member had an interest in the corporation's contracts because he owned at least 5 percent of the corporation's outstanding stock and

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<sup>2</sup> "Interest" means a direct or indirect pecuniary or material benefit accruing to a school officer or employee as a result of a contract with the school district. In addition, a school officer or employee is deemed to have an interest in certain other contracts, including any contract of a firm of which he or she is a member or employee or a corporation of which he or she is a director, officer, employee or shareholder.

also because he was president of the corporation. Since none of the statutory exceptions applies to the Board member's interest in the contracts, the Board member has a prohibited conflict of interest with the District. In addition, the Board member had not publicly disclosed his interest in these contracts in writing to the Board as required by General Municipal Law. The Board member informed us that he was not aware that a District vehicle had been repaired at his business or of these provisions of the law. The Assistant Superintendent for Business Administration informed us that the repair work was done at the Board member's business due to its proximity to the District. In addition, it did not occur to her that the business was owned by a Board member. While this may have been an oversight, it might have been prevented if District management had made all officials and employees aware of statutory requirements of the interest in contract provisions in General Municipal Law, and District officials and employees had disclosed their interest in writing as required by law.

School district officials are accountable to the public at all times, especially when the expenditure of taxpayer money is involved. When officials, in their private capacities, conduct business with the school district in which they serve, the public may question the appropriateness of the transactions. Such transactions may create an actual conflict of interest or the appearance of impropriety, and/or may result in improper enrichment at taxpayer expense.

## **Recommendations**

7. The Board should establish controls to help ensure that the District does not enter into contracts in which an officer or employee has a prohibited interest.
8. The Board should establish procedures to ensure that District officers and employees are aware of statutory requirements pertaining to interests in contracts with the District, and that District officials and employees disclose their interest in writing when required by law.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

## WESTHILL CENTRAL SCHOOL DISTRICT

CAROL A. ILACQUA, Ed.D.  
Assistant Superintendent for  
Instructional Services  
Phone (315) 426-3215

STEPHEN A. BOCCIOLATT  
Superintendent of Schools  
400 Walberta Road  
Syracuse, New York 13219-2214  
Phone (315) 426-3218  
Fax (315) 488-6411

MARILEE P. HILL  
Assistant Superintendent for  
Business Administration  
Phone (315) 426-3210

June 17, 2008

[REDACTED]  
Office of the State Comptroller  
Syracuse Regional Office  
State Office Building, Room 409  
333 East Washington Street  
Syracuse, NY 13202

Dear [REDACTED]:

This letter is written in response to the preliminary draft findings of the audit of internal controls over financial operations for the period July 1, 2005 through April 30, 2007 completed by your office. The District wishes to thank you for your time, effort and constructive feedback and is pleased that your audit confirmed there was no evidence of illegal or fraudulent behaviors uncovered during this review. We also appreciate the opportunity to respond to this initial report and have the following comments:

Segregation of Duties: The District agrees with most of the audit findings in this area for the period of time in question and has implemented practices to mitigate the findings. As noted in the report, subsequent to the completion of fieldwork the District implemented practices to either segregate duties or establish supervisory reviews to reduce and/or eliminate opportunity for unauthorized manipulation of funds. These changes included: all cash receipted by Payroll Clerk, cash receipt postings reviewed monthly by Personnel Clerk, wire transfers confirmed by Superintendent, journal entries, Treasurer's reports, bank statements, outstanding checks and deposits in transit reviewed monthly by Assistant Superintendent for Business Administration.

The District contests the statement contained in this report which states "As a result, the Treasurer could issue a check...". The Treasurer does not have access to components of the financial software necessary to generate a check and the District does not process manual checks. Although not impossible it is highly unlikely that a check could be issued by the Treasurer.

See  
Note 1  
Page 21

Claims Auditing: The District agrees with a majority of the findings in this area. As stated in the report, the District has removed the ability of the claims auditor to function as back up to Accounts Payable. Further, the Board of Education ("Board") has since adopted policy and met directly with the claims auditor to further clarify the responsibilities of the claims auditor. In addition, the claims auditor is completing a monthly report to the Board highlighting her findings. The District continues to seek training for the claims auditor. She was enrolled in a workshop this winter, but declined to attend due to inclement weather. We have contacted our Internal Auditor to request assistance in providing training.

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[www.westhillschools.org](http://www.westhillschools.org)

The District understands the Comptroller's position regarding separation of the claims auditing function from the purchasing function. However, we believe sufficient opportunities exist for the claims auditor to report directly to the Board and therefore the concern is mitigated.

Procurement: The District does not contest the findings in this area. Since the completion of the fieldwork, the District has amended their purchasing policy and has developed guidelines for procurement. The amended policy/guidelines will be conveyed to staff prior to the end of this school year.

Interest in Contracts: The District does not contest the findings in this area. However, as indicated in the report, neither the purchasing agent or the Board member, intentionally entered into a prohibited contract situation. The Board has since adopted an ethics policy which will be distributed to all staff at the beginning of the next school year.

Again, we would like to thank you for providing this information and your assistance in improving the fiscal operations of the district.

Sincerely,



Stephen A. Bocciolatt  
Superintendent of Schools

cc: Marilee Hill, Assistant Superintendent  
Anita Metz-Martin, Treasurer  
Doreen Bronchetti, Board President  
Michael Tremont, Board Vice President

John Parkinson, Board Member  
Gary Lowery, Board Member  
Lisa O'Reilly, Board Member

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

We acknowledge that the District does not have an inventory of blank checks and that the District's checks are computer generated from blank paper and are not hand drawn (manually prepared), and that it would be more difficult for someone to create an unauthorized check.

However, it would be possible for the Treasurer to create checks from a non-District owned computer or to purchase blank checks. Using blank checks, the Treasurer could either manually prepare and sign a check or use a computer to prepare a check. This risk was further increased by the fact that the Assistant Superintendent for Business Administration did not begin to review the canceled checks and bank reconciliations until after we started the audit.

#### Note 2

The claims auditor is prohibited by law from performing any accounting functions. Education Law Section 1709 states "No person shall be eligible for appointment to the office of claims auditor who shall also be... clerical or professional personnel directly involved in accounting and purchasing functions of the school district." The Commissioner's Regulations reiterate this prohibition.

The ability for the claims auditor to act as backup for the accounts payable clerk is a significant weakness that District officials informed us was corrected. However, the claims auditor also performed other District accounting duties such as preparing bank deposits in the Treasurer's absence, receiving and accounting for reimbursement for retirees' health insurance, and acting as backup for the payroll clerk. The District's response does not indicate whether these other internal control weaknesses have been addressed.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

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

During this audit, we examined the records and reports of the District for the period July 1, 2005 to April 30, 2007. To accomplish the objectives of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed appropriate District officials in order to obtain an understanding of the organization, the District's accounting system and to identify key personnel.
- We obtained copies of District policies and procedures and evaluated the adequacy of these policies.
- We reviewed the key control activities of the Business Office including the manner in which bank accounts are reconciled, duties are assigned, checks are signed and journal entries are accomplished.
- We tested selected records and transactions, and examined pertinent documents including cancelled checks.
- We inquired if the District had any policies and procedures relating to the manner in which the District's claims auditor reviews and approves claims.
- We examined paid claims for compliance with Board policy.

- We tested procurement transactions for compliance with statutory bidding requirements and the District’s procurement policy.
- We requested a listing of outside business interests of certain Board members and officers, and determined whether the District did business with any of these entities.

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

## APPENDIX D

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

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

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