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January 22, 2010

Mr. Laurence T. Spring, Superintendent of Schools
Members of the Board of Education
Cortland City School District
1 Valley View Drive
Cortland, NY 13045

Report Number: 2007M-302-F

Dear Superintendent Spring and Members of the Board of Education:

One of the Office of the State Comptroller's primary objectives is to identify areas where school district officials can improve their operations and provide guidance and services that will assist them in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage district officials to reduce costs, improve service delivery and to account for and protect their District's assets. In accordance with these objectives, we conducted an audit of Cortland City School District (District) to assess the financial operations of the District. As a result of our audit, we issued a report, dated March 2008, identifying certain conditions and opportunities for District management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the Cortland City School District on November 5, 2009 to review the District's progress in implementing our recommendations. Our follow-up review was limited to interviews with District personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, it appears that the District has made progress on the implementation of our recommendations. Of the eight audit recommendations, seven recommendations were implemented and one recommendation was not implemented.

Recommendation 1 – Purchasing Policies and Procedures

The purchasing agent should adhere to and monitor compliance with purchasing policies and procedures, including the approval of all purchases and signing all purchase orders prior to obligating the District for goods or services.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Director of Business Services, who acts as the District's purchasing agent, adhered to purchasing policies and procedures by approving purchases

and signing purchase orders prior to obligating the District for goods or services. He met with all department heads in November 2007 to discuss the implementation of District purchasing policies and procedures and provided them with examples of completed forms and essential documentation to support expenditures. He also continues to meet with department heads as needed when a problem arises in following the Board's policies and procedures. We reviewed four claims totaling \$88,787 paid during October 2009 and found that employees complied with the District's purchasing policies and procedures when making these purchases.

Recommendation 2 – Periodic Monitoring of Internal Controls Over Purchases

District officials should periodically monitor internal controls to ensure that purchasing policies and procedures are properly implemented and operating effectively and that District employees are following them.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Board appointed an internal auditor in 2008. The internal auditor reports directly to the Board's audit committee and the Board regarding the District's internal controls. The internal auditor assessed the internal controls over the various District policies and procedures including the purchasing function and issued a report in May 2009. We reviewed the internal auditor's report, which concluded that the District has adequately addressed the purchasing concerns. The District's claims auditor also reviews all claims and resolves policy and procedural deficiencies before approving claims for payment.

Recommendation 3 – Claims Packet Documentation

District officials should ensure that all claims packets include all relevant purchasing documents (i.e., requisitions, purchase orders, reimbursement claim forms, vendor invoices, packing slips, etc.).

Status of Corrective Action: Fully Implemented

Observations/Findings: The District's claims auditor reviews all claims packets to ensure that they include all relevant purchasing documents. We reviewed four claims totaling \$88,787 paid during October 2009 and found that the claims packets included all relevant purchasing documents.

Recommendation 4 – Propriety of Purchases

The Board should investigate the propriety of the purchases previously mentioned to ensure they were for legitimate expenses and verify that all goods purchased were actually received.

Status of Corrective Action: Not Implemented

Observations/Findings: The Director of Business Services told us that the Board did not investigate the purchases cited in the audit report. Because the Board failed to investigate the propriety of these purchases, the risk still exists that these purchases were not legitimate expenses and that not all of the goods purchased and paid for with taxpayer monies were actually received. The Board should investigate the purchases to determine whether they were legitimate expenses and whether the goods purchased were actually received.

Recommendation 5 – Claims Auditor

Board members should audit District claims themselves or appoint only one individual to do so in accordance with SED regulations.

Status of Corrective Action: Fully Implemented

Observations/Findings: In June 2008, the Board appointed one individual as claims auditor in accordance with SED regulations to audit all District claims.

Recommendation 6 – Audit of Claims

Board members should ensure that they, or their appointed claims auditor, conduct a deliberate and thorough review of all claims to determine that all claims are proper and valid charges against the District, are incurred by authorized officials, and that the warrants are certified before claims are paid.

Status of Corrective Action: Fully Implemented

Observations/Findings: We reviewed the October 2009 audit log maintained by the claims auditor, the October 2009 certified warrant and four claims totaling \$88,787 paid in October 2009. It appears that the claims auditor performed a deliberate and thorough review to determine that claims were proper and valid charges against the District and incurred by authorized individuals. The claims auditor certified the warrant before the claims were paid.

Recommendation 7 – Segregation of the Treasurer’s Duties

The Board should segregate the Treasurer’s duties to the extent possible or implement compensating controls.

Status of Corrective Action: Fully Implemented

Observations/Findings: While District officials have not segregated the Treasurer’s duties, the Board has implemented compensating controls. The Director of Business Services reviews the accounting records periodically to ensure that they are up-to-date, complete and accurate. He also reviews the Treasurer’s monthly bank reconciliations, journal entries and electronic banking transactions for accuracy and completeness. We reviewed the September 2009 bank reconciliations and noted the signatures of both the Treasurer and the Director of Business Services indicating their review. We also

reviewed the Treasurer's June 2009 journal entry report and a November 2009 electronic bank transfer and noted the Director of Business Services signature indicating his review.

Recommendation 8 – Treasurer's Facsimile Signature

The Treasurer should directly supervise and control the use of her facsimile signature.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Treasurer implemented the following procedures to directly supervise and control the use of her facsimile signature:

- When the Treasurer logs into the District's accounting software, she gives the authority for her facsimile signature to be printed on District checks.
- When logging in, she also requests that checks be printed at the Onondaga-Cortland-Madison BOCES Regional Information Center (RIC). The Treasurer's request creates and saves a check file on a secure dedicated server at the RIC. The RIC system administrator is the only person with access to the server and does not have access rights to make changes to the check file.
- The system administrator signs on to the server, locates the Treasurer's password-protected file, and determines that the next check to be printed is in sequence. RIC finance office personnel then print the checks with the Treasurer's embedded signature.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage you to continue with your efforts to implement our recommended improvements in your fiscal management.

I trust that our follow-up review was of assistance to you. If you have any further questions, please contact Patrick A. Carbone, Chief Examiner of our Binghamton Regional Office, at (607) 721-8306.

Sincerely,

Steven J. Hancox
Deputy Comptroller
Office of the State Comptroller
Division of Local Government
and School Accountability