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January 14, 2010

Mr. Anthony Albanese, Superintendent
Members of the Board of Education
Margaretville Central School District
415 Main Street
P.O. Box 319
Margaretville, NY 12455

Report Number: 2008M-44-F

Dear Superintendent Albanese and Members of the Board of Education:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government 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 Margaretville Central School District (District) to assess the financial operations of the District. As a result of our audit, we issued a report, dated June 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 Margaretville Central School District on September 9, 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 considerable progress on the implementation of our recommendations. Of the eight audit recommendations, four recommendations were fully implemented, and four recommendations were partially implemented.

Recommendation 1 – Segregation of Duties

The Board should ensure that duties are adequately segregated so that no one person controls all aspects of the cash receipt and disbursements processes. If this is not feasible, the Board should institute sufficient compensating controls.

Status of Corrective Action: Fully Implemented

Observations/Findings: The duties of the Treasurer have either been segregated or compensating controls have been implemented. The Superintendent's secretary now keeps a mail log of all incoming checks before they are given to the Treasurer for deposit. The account clerk now performs the bank reconciliations and the Superintendent reviews and signs them. The journal entries are now printed and signed by the Superintendent as evidence of his review and authorization. We reviewed the mail log entries for checks received in July 2009 and traced them to deposit slips and bank statements. In addition, we reviewed the July bank reconciliations and noted the signatures of both the account clerk and the Superintendent. Journal entry number 25, dated September 9, 2009 to record the tax levy, also included the Superintendent's signature.

Recommendation 2 – Use of Competition

The District's purchasing agent should comply with and enforce the provisions of the District's purchasing policy requiring that District personnel seek and document sufficient competition for purchases above designated thresholds.

Status of Corrective Action: Partially Implemented

Observations/Findings: We reviewed the cash disbursement schedule for all funds dated September 1, 2009 and chose four purchases below the bidding limits that required quotes to be obtained pursuant to the District's purchasing policy. We found that two of the purchases were made under State contract and the other two contained no evidence that quotes were sought. By not ensuring that required quotes are obtained, District officials do not have the assurance that they are acquiring goods and services of suitable quality at the best price.

Recommendation 3 – Audit of Claims

The claims auditor should audit all District claims in accordance with Education Law and District procedures.

Status of Corrective Action: Fully Implemented

Observations/Findings: District policy requires the claims auditor to track the numerical sequence of the vouchers she reviews and approves, and to prepare and certify a checklist confirming completion of the tasks required for auditing claims. The claims auditor is now certifying the warrants to the extent that they have been audited and allowed for payment. We reviewed warrant number six dated September 1, 2009 and noted the signed certification. In addition, we noted that the claims auditor is preparing a report that lists the deficiencies and tracks the check sequence numbers.

Recommendation 4 – Audit of Claims

The claims auditor should prepare a report of all deficiencies noted during the audit of claims and present this information to the Board at regular time intervals as established by the Board.

Status of Corrective Action: Partially Implemented

Observations/Findings: The claims auditor is preparing a report for each warrant that tracks the beginning and ending check numbers and also lists any deficiencies. However, we found that the report is not going directly to the Board. The report is given to the Treasurer for inclusion in the Treasurer's packet to the Board. Since the information is not directly reported to the Board, a risk exists that the report could be altered or changed before it is presented to the Board.

Recommendation 5 – Audit of Claims

The Board should monitor the work performed by the claims auditor, and enforce the District's claims audit procedures.

Status of Corrective Action: Partially Implemented

Observations/Findings: We found the Board now receives the claims auditor's report listing check numbers, warrant numbers, and deficiencies, if any, on a monthly basis, and also reviews the warrants. However, a test of claims still showed some deficiencies. We reviewed nine claims and found that three of the claims did not have purchase orders, one purchase order was dated after the invoice date, and three purchases exceeded the amount approved on the purchase order. The claims auditor did not list these deficiencies in the report to the Board. The Board does not have a system in place to adequately monitor the work performed by the claims auditor. By not fully implementing this recommendation the risk remains that District moneys could be spent for inappropriate purposes, and that errors and irregularities could occur and not be detected and corrected in a timely manner.

Recommendation 6 – Cafeteria Cash Receipts

District officials should monitor the new procedures to ensure that controls are operating effectively, and strengthen them as needed. At a minimum these controls should include the following:

- After the cashiers count the cash, someone independent of cafeteria cash collections should verify the declared cash collections and reconcile them to the recorded sales, as shown on the Daily Summary Report. Any variances should be investigated and resolved.
- The Treasurer should ensure that the actual cash deposited and entered into the District's financial software is based on total sales (collections).
- District officials should ensure that the cashiers are properly trained to deposit the cash collections in their entirety (without retaining surplus cash), and to record cash receipts promptly into the register system as they are remitted.

Status of Corrective Action: Fully Implemented

Observations/Findings: Either the account clerk or the Treasurer, together with the cashiers, count and reconcile total cash collected to recorded sales. Once the reconciliation is completed, a Daily Summary Report (report) is generated from the computerized cash register system. All receipts are then turned over to the Treasurer along with the report. The Treasurer provides the cafeteria manager with a receipt for the amount collected, makes the deposit, and compares the total to the report. We reviewed cash count sheets signed by the cashier and account clerk for September 8, 2009. We traced the amounts and date to the corresponding Treasurer's receipt and verified the amount to the report.

Recommendation 7 – Computerized Data Safeguards

The Board should adopt policies to safeguard the District's computerized data, and District officials should develop specific procedures to:

- Strengthen data security through properly structured user accounts and the immediate disabling of active user accounts when employees leave the District.
- Provide for a data backup process that includes secure offsite storage and the periodic test restoration of backup data to verify its integrity.
- Develop a formal disaster recovery plan to guide District personnel in the efficient recovery of data and restoration of business operations in the event of a disaster.

Status of Corrective Action: Partially Implemented

Observations/Findings: The Board did not adopt policies and procedures to safeguard the District's computerized data. However, user accounts have been partially restructured and accounts have been deactivated for personnel no longer with the District. Our audit disclosed additional areas in need of improvement concerning information technology controls. To further ensure security of the District's information technology operations, the details are not included in this letter. However, the District has made no progress in implementing our recommendations. We discussed the detailed results of our follow-up work with District management during the conduct of the follow-up review.

Data backup is now being secured at an offsite location. District personnel have not completed a full restoration from the backup data; however, certain files have been restored without any problems. District officials continue to work with BOCES and other sources in their development and implementation of a disaster recovery plan. By not fully implementing all the security recommendations noted in the audit, and by not having a disaster recovery plan in place, the risk still remains that the District could experience a serious disruption of District operations, and that errors and irregularities could occur and go undetected.

Recommendation 8 – Classification of Employees

District officials should strengthen controls over the employee classification process to help ensure that they correctly determine the status of individuals who work for the

District in compliance with the Office of the State Comptroller's Financial Management Guide for Local Governments and enhanced regulations posted on the OSC website.

Status of Corrective Action: Fully Implemented

Observations/Findings: The District now uses Employees Retirement System form 2414, which helps to determine the correct status classification of new hires.

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 Carbone, Chief Examiner of our Binghamton office, at (607) 721-8306.

Sincerely,

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