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January 14, 2010

Ms. Ann Orman, Superintendent
Members of the Board of Education
Penn Yan Central School District
1 School Drive
Penn Yan, NY 14527

Report Number: 2006M-49-F

Dear Superintendent Orman 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 school district officials to reduce costs, improve service delivery and to account for and protect their school district's assets. In accordance with these objectives, we conducted an audit of Penn Yan Central School District (District) to assess the financial operations of the District. As a result of our audit, we issued a report, dated August 2006, 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 Penn Yan Central School District on August 24, 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, we found that District officials have taken no corrective action. Our audit recommendations were provided to help District officials monitor District finances and protect taxpayer dollars. However, none of the seven audit recommendations were implemented.

Recommendation 1 – Budget Transfers

The Board should carefully review the Budget Status Reports and all budget transfers approved by the Superintendent to ensure they comply with the terms of its budget transfer policy and the intent of the budget. Budgetary transfers, when necessary, should be made prior to committing the District to a purchase.

Status of Corrective Action: Not Implemented

Observations/Findings: Although the Board received monthly budget status reports and budget transfer reports, the Board did not ensure compliance with its budget transfer policy. We reviewed these reports for the months of January 2007, October 2007 and

March 2009 and found 61 budget transfers totaling \$167,207. Of the 61 transfers, 39 transfers totaling \$116,680 (70 percent) occurred after a purchase was made. In addition, we found 56 appropriation accounts totaling \$1,256,432 had a negative balance and no corresponding budget transfer. Therefore, the Board's procurement and budget transfer policies are still not being followed.

Due to the District's practices, potential problem areas may not be identified in time to investigate and adjust for them. As a result, errors and irregularities may go uncorrected and undetected. The District also risks not having sufficient resources available to pay for goods and services after acquiring them.

Recommendation 2

The Board should establish controls to ensure that administrators and employees comply with the terms of its procurement policies. Requisitions and purchase orders should be approved only if sufficient appropriations are available.

Status of Corrective Action: Not Implemented

Observations/Findings: As noted above, 56 appropriation accounts have been over-expended. This illustrates that the District's procurement process is still not being followed. Because District officials did not implement procurement controls, which were intended to ensure that requisitions were approved and purchase orders released only when there were sufficient appropriations to cover the costs, the District risks not having sufficient resources available and/or acquiring goods and services at higher cost than necessary.

Recommendation 3

The Board should ensure District management monitors credit card usage to ensure compliance with the District's credit card policy.

Status of Corrective Action: Not Implemented

Observations/Findings: During our review of 165 credit card transactions, from December 2006 through August 2009, totaling \$28,757, we found 35 transactions totaling \$7,879 (27 percent) were not authorized and 66 transactions totaling \$11,599 (40 percent) were authorized after the credit card was used. The lack of prior approval could result in excessive, unauthorized, or improper District expenses, and in officers or employees being held personally liable for undocumented charges.

Recommendation 4

The claims auditor should report directly to the Board.

Status of Corrective Action: Not implemented

Observations/Findings: The Board appointed the current claims auditor on September 18, 2008. She stated that she keeps track of any problems on a form and prepares a claims auditor report that documents the warrant number, check dates, fund, total number of checks included on the particular warrant, check numbers and the total dollar value of the warrant. We noted in the Board minutes that an audit committee member stated the claims auditor met with them in March 2009 and provided them with two quarterly reports. However, these reports were not contained in the audit committee's or Board's minutes. Finally, the claims auditor stated she provided the Superintendent's secretary with her most recent quarterly report for submission to the Board and that she planned to meet with the audit committee in September 2009. However, this documentation was unavailable for verification of the assertion.

Recommendation 5

The District should establish a current and complete capital asset inventory record and ensure adequate procedures are in place to ensure the timely and accurate reporting of all acquisitions, dispositions, and transfers of assets.

Status of Corrective Action: Not Implemented

Observations/Findings: A physical inventory was conducted in November 2006, but it has not been kept up-to-date. Prior to August 2009, building secretaries maintained a list of asset additions, deletions and transfers for their respective buildings. The purchasing clerk received these lists each spring for entry into the computer and submission to the appraisal company that conducted the physical inventory. In August 2009, the purchasing clerk began entering fixed asset additions into the computer whenever she noticed a purchase that met the fixed asset criteria while conducting her other duties. However, the purchasing clerk was unaware of the Board's policy change for fixed assets in November 2008 that set the dollar limit for fixed assets at \$5,000. We also noted that, at the Board's 2009 reorganizational meeting, the dollar limit was set at \$1,000, which conflicts with the revised policy. Because the Board has not developed any formal written procedures for tracking fixed assets and because employees were given conflicting guidance about the dollar threshold, there is not a complete, accurate and up-to-date fixed asset list maintained by District officials.

Recommendation 6

The Board should ensure that a complete physical inventory for all District capital assets is taken to establish a correct current inventory record. These assets should be recorded in the general ledger capital asset accounts at original cost, or estimated original cost, if actual cost cannot be determined. Thereafter, acquisitions, dispositions, and transfers of assets should be recorded as they occur.

Status of Corrective Action: Not Implemented

Observations/Findings: A physical inventory was completed by an appraisal company on November 9, 2006. The purchasing clerk stated a diskette containing all additions, deletions and transfers for the 2006-07 fiscal year was sent to the appraisal company.

However, she could not provide any supporting documentation. Furthermore, she stated that she only recorded this information annually and not as assets were purchased or disposed. During a phone conversation with the appraisal company, we were informed that they received an additions, deletions, and transfers report on August 3, 2009 which included updates through March 30, 2009. The appraisal company also stated that this was the first update they received since the physical inventory had been completed. Because fixed assets were not recorded in a timely manner and there is confusion about the dollar threshold for fixed assets, we conclude this recommendation has not been implemented.

Recommendation 7

Periodic physical inventories should be taken and compared to the capital asset records. Discrepancies should be investigated and resolved.

Status of Corrective Action: Not Implemented

Observations/Findings: Although the purchasing clerk stated a physical inventory was conducted by the building secretaries in April 2009, no supporting documentation was provided. District officials did not reconcile the available capital asset records and the physical inventories conducted. Furthermore, the capital asset records are not current, accurate or up-to-date. Therefore, this recommendation has not been implemented.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We encourage you 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 Edward Grant, Chief Examiner of our Rochester Regional Office, at 585-454-2460.

Sincerely,

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