



Morrisville-Eaton Central School District Internal Controls Over Financial Operations

Report of Examination

Period Covered:

July 1, 2004 — June 30, 2005

2007M-98



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2007

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 is mandated to oversee 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 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 Morrisville-Eaton Central School District, entitled Internal Controls Over Financial Operations. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials 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

EXECUTIVE SUMMARY

The Morrisville-Eaton 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.

The District employs a Business Administrator who also serves as the District's purchasing agent, responsible for authorizing purchases, and as the District Treasurer, responsible for receiving, disbursing, and investing District money. On an annual basis, the Board appoints a claims auditor who assumes the Board's powers and duties with regard to approving or denying District claims. Most of the District's financial transactions are processed by the Madison-Oneida Board of Cooperative Educational Services (BOCES) in conjunction with a Regional Information Center.

Scope and Objective

The objective of our audit was to examine the District's internal controls over financial operations for the period July 1, 2004 to June 30, 2005. Our audit addressed the following related question:

- Did the Board implement and monitor internal controls relating to the District's treasury, accounting, claims auditing and procurement duties?

Audit Results

We found instances where the Board had either not established critical controls, or controls that had been established were not implemented and operating effectively. As a result, the District is vulnerable to the possibility of errors and/or improprieties occurring and not being detected.

The assignment of job duties at the District does not provide for adequate segregation of duties over financial operations. The District has vested virtually all control over its fiscal activities in one individual, the Business Administrator, without establishing appropriate checks and balances on her work. The Business Administrator controls all financial processes and serves as both the District's purchasing agent and Treasurer. Therefore, she can both initiate and approve each transaction leading up to a claim payment without an effective review of her actions.

Most of the District's financial transactions are processed by a Madison-Oneida BOCES employee at the Regional Information Center. District personnel send financial information to BOCES which is then entered by a BOCES employee into the accounting system. The BOCES employee who enters the financial data into the system also occasionally prepares (but does not sign) manual checks, reconciles bank accounts, prepares journal entries, and has access to blank check stock. These duties are incompatible when performed by one person. In addition, the cancelled checks are sent to BOCES with no District review of the checks being performed.

We found the Business Administrator/Treasurer's oversight of this process to be deficient. The account clerk signs District accounts payable checks utilizing the Treasurer's signature stamp. We observed that the signature stamp was not secured and could be accessed by other District personnel throughout the day. Education Law allows the Treasurer to sign checks with a facsimile signature, affixed by a check signer or other machine under the supervision of the person whose signature it represents. The use of a signature stamp does not allow the Treasurer to provide direct supervision of the check-signing process. As a result, she is not assured that all issued accounts payable checks are accounted for and are for legitimate business purposes. As a result, we examined 99 accounts payable payments, totaling \$508,807, to determine if they were proper District expenditures. Except for certain deficiencies noted with respect to the audit of the related claims by the claims auditor, we did not find evidence of improper payments.

The Board did not provide sufficient written guidance to the claims auditor establishing in detail the Board's expectations for what the claims audit process should determine. The claims auditor also does not report directly to the Board. As a result, the effectiveness of this process is diminished since the Board is not alerted to concerns identified during the claims audit.

Although the District's procurement policies clearly outline when and how competitive bidding or the solicitation of quotes will be used to purchase goods and services, purchases were not always made following these guidelines. We found that for six of the 14 claims subject to competitive bidding and/or procurement policy requirements for quotes there was no documentation of competitive bids or quotes. As a result, goods and/or services may not be acquired at the lowest possible costs.

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. District officials generally agreed with our recommendations and indicate they planned to take corrective action.

Introduction

Background

The Morrisville-Eaton Central School District (District) is located in the Towns of Eaton, Fenner, Lebanon, Lincoln, Nelson, Smithfield, and Stockbridge in Madison County. There are two schools in operation within the District, with approximately 835 students and 150 full- and part-time employees. The District's budgeted general fund expenditures for the 2004-05 fiscal year were approximately \$12.4 million, which were funded primarily with State aid and real property taxes.

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.

On an annual basis, the Board appoints a claims auditor who assumes the Board's powers and duties with regard to approving or denying District claims. The Business Administrator also serves as the District's Treasurer and purchasing agent. The Treasurer is responsible for the District's accounting records and reports as well as the receiving, disbursing, and holding of District money. The purchasing agent is responsible for authorizing purchases. Most of the District's financial transactions are processed by the Madison-Oneida BOCES at the Regional Information Center. The District's financial statements undergo an annual audit by an independent CPA firm.

Objective

The objective of our audit was to examine the District's internal controls over financial operations. Our audit addressed the following related question:

- Did the Board implement and monitor internal controls relating to the District's treasury, accounting, claims auditing and procurement duties?

Scope and Methodology

We examined the District's internal controls relating to treasury, accounting, claims auditing and procurement for the period July 1, 2004 to June 30, 2005.

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. District officials generally agreed with our recommendations and indicate they planned to take 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*.

Financial Operations

An internal control system, which is established by management and implemented by District officials, is the integration of activities, plans, attitudes, policies and efforts of the people in an organization to provide reasonable assurance that the organization will achieve its objectives. The foundation of any effective control environment is competent managers with integrity who attentively monitor operations. Having a good control environment helps ensure that all employees follow District policies and procedures.

We identified internal control weaknesses in the District's financial operations relating to treasury and accounting duties that could lead to errors or irregularities occurring and not being detected.

Segregation of Duties

An effective system of internal control requires the separation of duties so that no single individual controls most or all phases of a transaction. Concentrating key duties (i.e., recordkeeping, reconciling cash, and disbursing cash) with one individual significantly increases the risk that errors and/or irregularities might occur and go undetected.

The assignment of job duties at the District does not provide for adequate segregation of duties (checks and balances) over financial transactions. The District has vested virtually all control over fiscal operations in one individual, the Business Administrator, without establishing appropriate checks and balances on her work. The Business Administrator also serves as the District's Treasurer and purchasing agent. She is responsible for the District's accounting records (including capital asset inventory records) and reports and for receiving, disbursing, and holding District money. As the purchasing agent she is responsible for authorizing purchases.

Having the ability to sign checks while also being responsible for maintaining the accounting records, could allow improper payments to be made and then concealed by an accounting entry. The performance of bank reconciliations by someone independent of the accounting and disbursement functions could serve to mitigate, but not eliminate, the serious risks caused by not dividing these duties/responsibilities. We were also informed by the District's account clerk that until July 2005 cancelled checks were received at the District and then immediately sent to and stored at the BOCES Regional Information Center without being inspected by the District. Beginning in July 2005, only "online" electronic images of cancelled checks have been available and neither the actual nor paper images of cancelled accounts payable checks

have been routinely obtained by the District. If cancelled checks are unavailable for examination, District officials have reduced assurance that signed checks are for legitimate District expenses. General Municipal Law requires District officials to maintain either the actual checks or check images showing both sides of each cancelled check.

Giving the Business Administrator/Treasurer the authority to initiate purchases in her capacity as purchasing agent further weakens internal controls. Under this arrangement, opportunities could exist for improper purchases to be made and paid for and not easily detected because of the Business Administrator/Treasurer's involvement in the accounting function.

Most of the District's financial transactions are processed by a Madison-Oneida BOCES employee at the Regional Information Center. District personnel send financial information to BOCES which is then entered by a BOCES employee into the accounting system. The BOCES employee who enters the financial data into the system is the same individual who reconciles the District bank accounts. She also occasionally prepares (but is not authorized to sign) manual checks, prepares journal entries, and has access to the District's blank check stock. These duties are incompatible when performed by one person since access to blank checks could provide opportunities for signing checks for non-District purposes. Such activity could be covered up by journal entries and/or a false bank reconciliation. The Business Administrator indicated that since BOCES provides these financial services to the District, she did not expect that incompatible duties would be present.

Check Signature

An important aspect of internal control over the treasury function involves the Treasurer's direct supervision of the check-signing process. Education Law allows the Treasurer to sign checks with a facsimile signature, affixed by a check signer or other machine under the supervision of the person whose signature it represents. However, the Law does not provide for the use of a signature stamp. A signature stamp can be easily replicated and, therefore, is not a secure device for affixing signatures on checks.

We found the Business Administrator/Treasurer's oversight of the check signing process to be deficient. The account clerk signs District accounts payable checks utilizing the Treasurer's signature stamp. The use of a signature stamp by the clerk does not allow the Treasurer to provide direct supervision of the check-signing process. We also observed that the Business Administrator/Treasurer did not maintain custody of the signature stamp and that it could be accessed by other District personnel throughout the day. As a result, the District does

not have adequate assurance that all issued checks are accounted for and are for legitimate business purposes.

Given the internal control risks we identified, we examined 99 accounts payable payments, totaling \$508,807, to determine if they were proper District expenditures. Except for certain deficiencies noted with respect to the audit of the related claims by the claims auditor which are discussed in the following finding (“Claims Processing”), we did not find evidence of improper payments.

Recommendations

1. Financial-related duties should be assigned so that the work of one individual independently verifies another’s in the course of their regular duties. 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, they should establish effective supervisory review procedures.
2. District officials should ensure that District personnel review the cancelled checks. Actual or copies (electronic or otherwise) of cancelled checks should be available at the District.
3. The practice of signing checks with a signature stamp should be discontinued. The Treasurer’s signature should be affixed to District checks, with actual signature or facsimile signature, by the Treasurer or under the Treasurer’s direct supervision. In addition, District officials should ensure that only authorized individuals have access to the check-signing machine and its key, and the Treasurer’s signature plate.
4. The Treasurer should periodically review signed checks prior to mailing, if the checks are not signed directly by the Treasurer.

Claims Processing

Another important aspect of the District's internal controls rests with the position of claims auditor. The claims auditor assumes the powers and duties of the Board for approving or denying District claims. The appointment of a highly ethical, inquisitive claims auditor who has a clear understanding of what is expected, and reports regularly and directly to the Board and not to any other District staff or management, can increase the effectiveness of the District's internal controls. The claims auditor should also not be involved in any other business or accounting functions with the District.

In December 2005, the Board adopted an Audit policy. The policy provides no detailed instruction, guidelines or requirements, and fails to communicate, except in a general way, the Board's expectations for the performance of the claims auditor function. The policy merely states that the Board will annually appoint a claims auditor to act on its behalf and that the claims auditor "shall be alert to any indications of fraud, abuse, or illegal acts and shall report any such indications directly to the Board of Education."

The claims auditor told us that she has never received any training and performs her job without a written set of guidelines. The claims auditor has received no written instruction dealing with such things as what should be considered suitable documentation for the order and receipt of goods and services, how District official's expense reimbursements should be handled, or what is acceptable evidence that District procurement policies have been complied with.

If the Board chooses, it may adopt a resolution appointing a claims auditor to assume the powers and duties of the Board with respect to auditing and approving claims for payment. The Board, or appointed claims auditor, should audit all claims with the goal of determining that they are proper charges against the District. Statutorily, it is the responsibility of the claims auditor, not the Business Office staff, to determine if claims are proper charges against the District. To remain independent, the claims auditor should report directly to the Board and not District officials.

The claims auditor does not communicate with or report directly to the Board. She does not bring questionable claims to the attention of Board members for decisions about whether they represent appropriate expenditures. Instead, the claims auditor consults with the accounts payable clerk, Business Administrator, or Superintendent

for resolution of questions. The Board President told us that she has no communication with the claims auditor with regard to the claims audit process. The warrants and claim packages are available for review during regular Board meetings. However, any questions the Board may have regarding a claim are directed to either the Business Administrator or Superintendent and not to the claims auditor. The absence of any direct communication between the claims auditor and the Board negates the internal control benefits of an independent examination of claims and is contrary to Education Law that has been adopted to ensure that the independent status of claims auditor is maintained.

We reviewed 99 general fund claims paid during our audit period totaling \$508,807. Ten purchases, totaling \$22,009, did not include proper evidence of receiving. The account clerk told us that if no evidence of receiving is indicated on a claim, she contacts the individual who ordered the items to ensure that the goods/services were received and notes that on the claim. For these 10 cases, the account clerk believes that she inadvertently omitted such notations.

Even though we found no significant deficiencies in the claims we reviewed, the failure of the claims auditor to properly review claims could result in the District paying more for goods and services than necessary.

Recommendations

5. The Board-adopted policy for the claims audit process should establish the Board's expectations for what the audit process should determine.
6. The Board should ensure that the claims auditor receives adequate guidance and training, and reports directly to the Board.
7. The claims auditor should require that every claim contains proper evidence of receipt.

Procurement

An effective procurement process, including the proper use of competitive bidding, helps the District obtain necessary goods and services of the right quality, in the right quantity, from the right source, at the right price, and in compliance with Board and legal requirements. This process helps ensure the District expends taxpayer dollars in the most efficient manner and avoids the influence of favoritism in contracting practices. General Municipal Law requires the Board to solicit bids for purchases over certain cost thresholds, and to adopt written policies and procedures for procuring goods and services that are not subject to competitive bidding requirements. General Municipal Law requires that public works contracts aggregating \$20,000 or more be awarded to the lowest responsible bidder after public advertisement for bids, and the procurement policy requires two written quotes for purchases or public works contracts over \$5,000 and under \$10,000. Although the District's procurement policies clearly outline when and how competitive bidding or the solicitation of quotes will be used to purchase goods and services, we found that purchases were not always made following these guidelines.

Our audit shows that District officials are not complying with General Municipal Law and their own policies concerning bidding and solicitation of quotes. We reviewed 99 general fund claims paid during our audit period totaling \$508,807. We found that there was no documentation of competitive bids or quotes for six of the 14 claims subject to competitive bidding and/or procurement policy requirements for quotes. We identified the following deficiencies:

- The purchase and installation of two hot water heaters at a cost of \$21,500, was made without obtaining competitive bids.
- Five purchases, totaling over \$28,000, were made without soliciting the required written quotes.

The Business Administrator did not ensure that the purchase of the heaters was competitively bid and quotes were properly obtained for the other purchases. The Business Administrator told us that she instructed and relied on the employees who initiated the purchases to obtain competitive quotes for their purchases. The Business Administrator believes that these individuals were aware of the requirements for competitive bidding and obtaining quotes in the procurement policy. One employee informed us that he was aware of the District policy requiring quotes. However, he stated that he always

chooses the same vendor for equipment reconditioning because of unsatisfactory service from other vendors. He indicated that he failed to obtain quotes on a sled purchase. Because the other employee had retired from the District, we did not determine his reasons for not obtaining quotes. The Business Administrator told us that she typically ensures that purchases are properly bid once the dollar amount for purchases reach biddable thresholds. However, failure to check for bids on the purchase and installation of the hot water heaters was an oversight.

The failure of District employees to follow the Board's procurement policy as well as the Business Administrator's failure to ensure compliance with the policy increases the risk that goods and/or services may not be acquired at the lowest possible costs.

Recommendation

8. The Business Administrator, as the purchasing agent, should ensure that every purchase is made in compliance with competitive bidding laws and the Board's procurement policy.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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MORRISVILLE, NEW YORK 13408-0990

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July 24, 2007

Office of the State Comptroller
Syracuse Regional Office
State Office Building, Room 409
331 East Washington Street
Syracuse, NY 13202

To Whom It May Concern:

The Morrisville-Eaton Central School District appreciates the efforts and feedback from the auditor from the Office of the State of New York Comptroller. The audit was highly professional and done in a spirit of cooperation. We have reviewed the findings and discussed ways in which the district could decrease vulnerabilities and improve processes and procedures.

While the report did indicate areas of vulnerability, we are pleased that there were no findings of fraud or fiscal impropriety. Morrisville-Eaton is a small district, and has a small staff empowered to handle fiscal transactions. Many of the recommendations reflect the fact that some employees exercise duties which are assumed by multiple numbers of people in larger districts. While, we use the Madison-Oneida BOCES services to provide additional oversight and accountability we understand the need to create even more internal oversight of the fiscal process within our district.

The following is the district response to the Comptrollers draft, as required. The school business official and I have thoroughly reviewed all the comments. Furthermore, we have discussed with our Board of Education ways in which the district can strengthen our internal controls over financial operations.

In response to the areas which were noted:

Financial Operations

Segregation of Duties

- The Business Administrator is responsible for overall fiscal operations and reports however she does not have addition, deletion or editing rights to the district's accounting system, [REDACTED]. She only has the ability to review accounting transactions.

See
Note 1
Page 20

- Capital asset inventory records are maintained by the Payroll Clerk. The Business Official does not have access to this data base. The District employs the services of Maximus for depreciation schedules.
- All bank statements are received at the Business Office. The Business Administrator opens, reviews, signs and makes copies of the statements that are sent to BOCES, Central Business Office (CBO) for reconciliation. All account reconciliations are included in a monthly treasurers report that is prepared by BOCES CBO, reviewed by the Business Official/Treasurer and is disseminated to the Board of Education for their approval.
- The District Treasurer's review of the bank statements and warrant reports with detail for check sequence assures the continuity of check numbers.
- Open check stock has been removed from the possession of the BOCES CBO. All blank checks are now housed at the Regional Information Center where all checks are printed.
- All journal entries are prepared by the CBO and are reviewed and approved by the Business Official. Signed copies are kept on file. This has been in practice since November 2006.

See
Note 2
Page 20

See
Note 3
Page 20

See
Note 4
Page 20

Check Signature

- The practice of signing checks with a signature stamp has been discontinued. The Treasurer now signs each check. Signature stamp is presently used for the approval of purchase orders until a facsimile signature can be set up.
- The account clerk, BOCES CBO and Business Administrator/Treasurer have the ability to review cancelled checks on line. We have requested that the bank provide a monthly download of cancelled checks to be kept at the district for reference

Claims Processing

- The District's current claims auditor has been on staff since 2000 and holds no other position in the district. She was hired by a prior Business Administrator based on her bookkeeping/ accounting experience. The current Administration was unaware that she never received a written set of guidelines nor formal training as she always performed the job in a thorough professional manner. She reviews each warrant and ensures that the payment (check) corresponds to the accompanying purchase order. She signs off on each individual claim. Any minor problems are reported to the account clerk or business administrator for explanation. BOE policy is used as a reference to answer many of the questions. If there is not sufficient explanation or an obvious mistake has been made, the check is void and must be resubmitted. The audited warrants are presented to the BOE for approval.

Following the visit from the comptroller auditor, the claims auditor was instructed to report any significant claim discrepancies directly to the President of the Board of Education. In May 2007, the claims auditor met with the Audit Committee to explain her process of reviewing claims. The one area that the claims auditor wanted input on was allowable travel expenses. One of the audit committee tasks will be to review current BOE policy and recommend changes for reimbursement of travel expenses. The internal claims auditor will also attend Audit Committee and BOE meetings at least annually and more often as needed. This will assure open communication between the claims auditor and the Board.

- Lack of proper evidence of material receipt- The district's account clerk is very diligent in assuring all items for an order are received. Building secretaries and department heads are tasked with comparing the packing slip with the contents and in turn check this against their copy of the purchase order. This paperwork is then sent to the account clerk and payment is made.

Regretfully as noted in the report this process failed on occasion. The Business Office staff in response has

Procurement

- The District does have a clear procurement policy. The Business Official was new to the district at the beginning of the 04-05 year, the year that was audited. In approving some of the large purchases at the beginning of the fiscal year, an assumption was made that quotes and bids had been received. When asked to provide proof of quotes, the files of the retired department head were searched but the proper paperwork was not found.

The Business Official will not approve a requisition over any of the policy limits without proper documentation from the requestor. Copies of quotes and bids are kept on file in the Business Office.

The audit process has been a healthy review of financial oversight practices in the Morrisville-Eaton Central School District. The recommendations of the auditor will help us improve our systems and internal financial controls.

Sincerely,



Michael R. Drahos
Superintendent

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The Business Administrator has “read only” rights in the accounting system. However, she controls the permission rights, including her own, in the accounting system and can send permission changes to the BOCES Regional Information Center. In addition, the Business Administrator does initiate certain accounting entries, including journal entries, which are processed by the Regional Information Center.

Note 2

The payroll clerk does maintain the asset inventory spreadsheets. However, the Business Administrator is responsible for these records. The Business Administrator has access to, as well as the ability to make changes to, these records. The Business Administrator controls the information that is sent to Maximus, which lists all the additions and deletions to the inventory list.

Note 3

We have modified the finding regarding the review of bank reconciliations and amended the recommendation to remove the review of bank statements, because it was already being performed.

Note 4

We have modified the finding regarding the Business Administrator/Treasurer's monitoring of the continuity of the check number sequence.

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: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

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 payments made for non-payroll claims made by manual checks for further audit testing. We also obtained copies of Board policies and evaluated the adequacy of these policies.

We focused our attention on the procedures for approving and processing check payments for various purchases. We based our overall assessment on a judgmental test of 99 paid claims. To determine the effectiveness of internal controls surrounding the process, we examined the supporting documentation which included purchase requisitions, purchases orders, vendor invoices, computerized warrant listings and cancelled checks provided by the bank. District staff and officials were interviewed to evaluate controls involved in the oversight of the check-signing and disbursement functions and also determined the manner in which claims are reviewed by the claims auditor and goods and services are procured.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX D

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