



Morrisville-Eaton Central School District

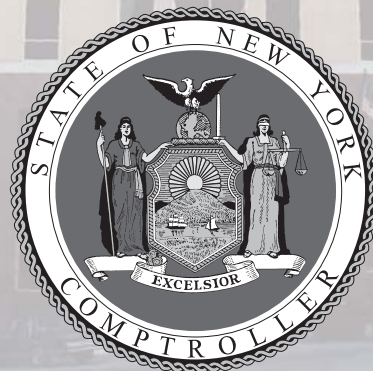
Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2008 — March 31, 2010

2010M-141



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2010

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 Morrisville-Eaton Central School District, entitled Internal Controls Over Selected Financial Activities. 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 recommendation 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*

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. 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 administrative staff, for the day-to-day management of the District under the direction of the Board.

There are two schools in operation within the District, with approximately 800 students and 150 employees. The District's 2010 budgeted operating expenditures totaled approximately \$14.5 million. These expenditures were funded primarily with State aid and real property taxes.

The District's business affairs are administered by the Assistant Superintendent for Finance and Support Services and two Business Office clerks. The Assistant Superintendent for Finance and Support Services also serves as the District's purchasing agent. The Board appointed a claims auditor to assume its powers and duties to approve and deny claims against the District. The District's computerized financial accounting system is provided and supported by the Mohawk Regional Information Center.

Objective

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

- Are internal controls over non-payroll cash disbursements appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over the claims audit function appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over the purchase of goods and services appropriately designed and operating effectively?

Scope and Methodology

We examined internal controls over non-payroll cash disbursements, claims auditing and procurement for the period July 1, 2008 to March 31, 2010.

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 is included in Appendix B of this report.

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendation 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 recommendation and indicated they planned to initiate 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, a written corrective action plan (CAP) that addresses the finding and recommendation in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Financial Activities

The Board is responsible for establishing internal controls over wire transfers, non-payroll disbursements and procurements of goods and services to ensure that the District's assets are adequately safeguarded. It is important that disbursement duties be properly segregated, so that no one individual controls all phases of a transaction, and that the disbursements of District funds are made pursuant to approval based on a review of supporting documentation, and in compliance with applicable laws and Board policies.

We interviewed District personnel and reviewed documentation including support for wire transfers, non-payroll disbursements, and procurements of goods and services totaling \$15.5 million.¹ We found that the District's cash disbursement duties are properly segregated, disbursements are audited and approved prior to payment, and procurements of goods and services are made in accordance with General Municipal Law and the Board's procurement policy. As a result, the District's assets are adequately safeguarded.

Non-Payroll Cash Disbursements

The Board is responsible for ensuring that critical cash-related duties are segregated, and that cash disbursements are properly initiated, accurately recorded, and properly approved and documented. In addition, control policies and procedures must be adopted to ensure that bank account reconciliations are accurate, complete, prepared on a timely basis, and reviewed by an employee who does not disburse cash. In addition, wire transfers must be properly authorized, and cash payments and adjustments to cash must be supported by detailed documentation, and be for proper District purposes.

The District's cash disbursement duties were properly segregated, and disbursements were properly initiated, approved, recorded and documented. We tested February 2010 bank account reconciliations and found that they were accurate, complete, timely and reviewed by an employee who was independent of the cash disbursement function. Our testing also included all 82 inter-account transfers made from July to September 2008 totaling \$7.7 million and all 33 wire transfers made from July to September 2008 totaling \$793,593, all of which were properly authorized. We also reviewed 50 non-payroll disbursements totaling \$27,483.² We examined the canceled checks, verified that the

¹ Inter-account transfers \$7.7 million + wire transfers \$793,593 + non-payroll disbursements/claims \$27,483 + procurements \$7 million = \$15.5 million

² In selecting our sample, we considered payments to individuals involved in the cash disbursements process and unusual vendors. We also considered potential conflicts of interest, misuse of credit cards, payments for personal expenses, theft, and the dollar amount of the payments made.

payments were supported by properly approved claims, and assessed whether they appeared to be proper District expenses. In addition, we examined general ledger cash accounts and journal entries for any adjustments made to cash from July 1, 2008 to March 31, 2010. All transactions were properly supported and we did not identify any improprieties.

Therefore, we concluded that the District's controls over non-payroll cash disbursements were appropriately designed and operating effectively to protect District assets. Except for minor deficiencies, which we discussed with District officials to help them improve controls and compliance with certain laws and regulations, we found no other deficiencies in the records we examined.

Claims Auditing

The objective of internal controls over the claims audit function is to ensure that the District pays only those claims that represent actual and necessary District expenses. The Treasurer may not pay claims unless they have been audited and approved by a claims auditor, who is independent of other business functions, and reports directly to the Board. The Board is responsible for developing written policies and procedures to provide for a comprehensive audit of claims, and a job description for the claims auditor. These policies and procedures help to ensure that the claims auditor verifies that all claims are properly authorized and are proper charges, and that they include detailed documentation including evidence that the goods or services were actually received.

The Board has appointed a claims auditor who is independent of other business functions and reports to a Board designated audit committee, as instructed by the Board. In addition, the Board has adopted policies and procedures that are comprehensive and include a job description. We tested 50 claims, totaling \$27,483, to ensure that they were properly authorized by District officials prior to the receipt of goods and services, that the goods and services were proper District charges, and that all applicable documentation was in the claim packages including documentation to indicate that the goods and services were actually received. Our tests did not identify any improper or unsupported payments, or any material discrepancies. As a result, we concluded that the claims audit function provides reasonable assurance that the District pays for only actual and necessary District expenses. Except for the claims auditor reporting to the Board-designated audit committee, instead of directly to the Board as required by law, we found no deficiencies. Internal controls over the claims audit function are otherwise operating effectively.

Procurement

General Municipal Law (GML) requires school districts to advertise for bids for purchases in excess of \$10,000 and public work contracts

in excess of \$35,000.³ GML also requires the Board to adopt a procurement policy for goods and services that do not have to be competitively bid. The procurement policy should require that procurement decisions be based on District personnel's review of requests for proposals (RFP), written quotations or verbal quotations from vendors, describe each method of procurement, and explain when to use each method. In addition, the policy should require District personnel to maintain adequate documentation of procurement decisions, including written agreements. The Board is responsible for ensuring that District personnel are aware of, and comply with, the requirements of GML and the Board's procurement policy.

The District's procurement policy provided that all items that total over \$5,000, but that are less than the competitive bid requirement, require at least two informal quotations, either by a request for quotation form completed by the vendor or by written documentation of quotations solicited by telephone by District personnel. It also provided that public works contracts between \$10,000 and \$20,000 require at least two written quotations provided by the vendor.

We examined the Board's procurement policy and purchase and public work contracts totaling \$7 million made from 23 vendors to verify compliance with GML and the policy.⁴ We found that the procurement policy provides adequate guidelines for an effective procurement process and that District officials and employees are aware of, and comply with, the bid and the procurement requirements promulgated by GML and the policy.⁵ As a result, internal controls over procurement are working effectively overall to protect District assets.

Recommendation

1. The Board should instruct the claims auditor to report directly to the Board, as the law requires, rather than only reporting to the audit committee.

³ Prior to November 12, 2009, the public work threshold was \$20,000. Effective June 22, 2010, the purchase contract threshold has been increased to \$20,000. Purchase and public work contracts that do not meet the dollar thresholds and contracts for professional services do not have to be competitively bid.

⁴ We judgmentally selected our sample based on high dollar amounts per vendor from electronic data that we had previously tested and found to be reliable.

⁵ No significant exceptions were identified.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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October 7, 2010

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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. As in the past, this audit was highly professional. I have shared the findings with the District Audit Committee and the entire Board of Education.

The Board of Education will instruct our claims auditor to report directly to them rather than only reporting to the audit committee. As a district we will also work to implement some of the verbal recommendations of the auditor.

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. Thank you for your oversight and recommendations.

Sincerely,

Michael R. Drahos
Superintendent

APPENDIX B

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. We focused on the following areas: non-payroll cash disbursements, claims processing and procurement. To accomplish the objective of our audit, our procedures included the following:

- We interviewed District officials and employees and reviewed policies and procedures to obtain an understanding of controls over non-payroll disbursements.
- We tested all bank reconciliations from February 2010 for accuracy, completeness, timeliness, and evidence of review. The District had 23 bank accounts, six of which had outstanding checks or deposits in transit that required reconciliation.
- We verified transfers between District bank accounts from July through September 2008. We also identified all external wire transfers from July 2008 through September 2008, reviewed the supporting documentation, and assessed the propriety of each transaction based on the recipient, the amount transferred, and the timing of the payment.
- We selected a sample of 50 non-payroll disbursement transactions totaling \$27,483. In selecting our sample we considered payments to individuals involved in the cash disbursements process and unusual vendors. We also considered potential conflicts of interest, misuse of credit cards, payments for personal expenses, theft, and the dollar amount of the payments made. We compared the payee, amount, and date on the canceled check to District records, examined the propriety of the check endorsement, traced the transaction back to a supporting claim packet that had been approved by the claims auditor, and assessed whether the payment appeared to be for a proper District expense.
- We reviewed computer reports that listed all entries to the general ledger cash accounts from July 2008 through February 2010 to identify any adjustments that were not linked to normal cash disbursement schedules. We tested for the completeness of data for March through October 2009. We also tested for the accuracy of data, and confirmed check numbers at the beginning and end of our audit period.
- We interviewed District officials and employees and reviewed policies and procedures to obtain an understanding of the claims audit function.
- We selected a sample of claims and verified that they were properly authorized, the goods and services were proper District charges and that all applicable documentation was included.
- We interviewed District officials and employees and reviewed the Board's procurement policy to obtain an understanding of the procurement process.
- We judgmentally selected a sample of purchases based on high dollar amounts per vendor from electronic data for the period July 1, 2008 through March 31, 2010 and traced to supporting documentation to determine if the purchases complied with General Municipal Law and the Board's procurement policy.

We conducted our 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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