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December 31, 2010

Ms. Margaret Puzio  
Members of the Board of Education  
Batavia City School District  
39 Washington Avenue  
Batavia, NY 14020

Report Number: P1-10-29

Dear Superintendent Puzio and Members of the Board of Education:

A top priority of the Office of the State Comptroller is to help school district officials manage district resources 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 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 operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard district assets.

In accordance with these goals, we reviewed policies and procedures for nine municipalities and one school district in the Buffalo Region. The objective of our audit was to determine if internal controls over the collection and safeguarding of scrap material and the receipt of sale proceeds were appropriately designed and operating effectively.

We included the Batavia City School District (District) in this audit. This report of examination letter contains our findings and recommendations specific to the District for the period January 1, 2006 to March 31, 2010. 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.

We discussed the findings and recommendations with District officials and considered their comments in preparing this report. The District's response is attached to this report in Appendix A. District officials generally agreed with our findings and recommendations and have initiated corrective action. Following the completion of our audit of all nine municipalities and the District, we prepared a global report that summarizes the significant issues we identified at all of the entities audited.

### **Background and Methodology**

The District, which is located in Genesee County, has five schools and approximately 2,800 students. The District's 2010-11 budget totaled \$40 million, which is funded primarily with real property taxes and State aid.

The District is governed by an elected seven-member Board of Education (Board). The Board provides guidance through the enactment of policies and procedures, adoption of the annual budget, and the approval of all contracts. The Superintendent is responsible for the implementation of policies established by the Board and the general administration, coordination, and supervision of District operations. The Superintendent of Buildings and Grounds is responsible for implementing Board policy and overseeing operations.

We interviewed District officials and employees to determine the extent to which the Board had adopted policies and District officials had developed procedures for the collection, safeguarding, and sale of scrap materials; and to determine the manner in which scrap was actually collected, safeguarded, and disposed of. We also visited a District recycling vendor and obtained documentation regarding District and District employee activity, and compared this information with District records.

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

## **Audit Results**

The District's internal controls over the collection, safeguarding, and sale of scrap material were not properly designed and operating effectively. The District has not adopted policies and, prior to 2008, had not developed procedures to address these activities. We identified over \$1,500 in sale proceeds from July 2007 to March 2008 that were not recorded or documented. In addition, we identified over \$3,000 in potential District sale proceeds that were not recorded or documented and also noted the potential use of a District vehicle for personal business.

The District obtains most of its scrap material from normal operations of the buildings and grounds department. Scrap material is maintained within District buildings at several locations throughout the District. Although all District buildings are secure, many employees have access to these facilities. The buildings and grounds employees are the only staff handling scrap and receiving the proceeds from the sale of these materials. An employee transports this material to the recycling vendor where it is weighed and payment is tendered to the employee in cash.

We reviewed \$1,514 of scrap and material sales transactions and found no evidence that the proceeds from these 14 cash transactions for the period July 2007 to March 2008 had been recorded in the District's cash receipts records or deposited in a District bank account. The Treasurer and the Superintendent of Buildings and Grounds indicated that they were not aware of these cash transactions and that the District did not have any policies or procedures relating to scrap materials during that time period. Buildings and grounds employees stated that they retained the cash from these scrap sales for a "tool fund" in their department. One employee stated that a radio was purchased with this money, but could not produce receipts for any purchases.

We also reviewed documentation of individual buildings and grounds employees' transactions with the recycling vendor and found that three employees had a combined total of 34 transactions, with sales proceeds totaling \$3,291, for the period September 2006 to July 2009. Twenty-five of the weight slips for these transactions indicate a blue vehicle, sometimes noted as a "blue F350" or a "blue dump," was used to transport the scrap materials. Documentation of District transactions showed that the District used a blue F350 dump truck to transport its scrap materials to the recycler. A comparison of date stamps on the weight slips to payroll time records indicated that 22 of these 34 transactions, totaling \$2,040, were during normal District work hours. Employees could not recall if these transactions were for the sale of personal or District scrap material. We found no evidence that the proceeds from any of these transactions had been recorded in the District's cash receipt records or deposited in a District bank account.

When proceeds from the sale of scrap materials are not remitted to the District Treasurer for recording and deposit, there is an increased risk that moneys could be used for other than authorized District purposes.

## **Recommendations**

1. The District should establish procedures to ensure that all scrap is adequately secured until sold and that sales proceeds are remitted only by a check made payable to the District.
2. The Board should establish policies and District officials should develop procedures to ensure that District equipment is not used for other than authorized District purposes.
3. The Board should determine whether any similar undocumented cash transactions have occurred, beyond those identified in this report, and consult with counsel to ascertain whether the District should contact law enforcement agencies to initiate a criminal investigation and/or take legal action to recover all District funds.

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 findings and recommendations 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. We encourage the Board to make this plan available for public review in the District Clerk's office.

Sincerely,



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

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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



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October 18, 2010

Robert Meller, Chief Examiner  
Office of the State Comptroller  
Division of Local Government and School Accountability  
295 Main Street, Room 1032  
Buffalo, New York 14203-2510

Dear Mr. Meller:

The Batavia City School District is in receipt of the draft audit report number P1-10-29 regarding internal controls over the collection and safeguarding of scrap material and the receipt of sale proceeds for the period January 1, 2006 to March 31, 2010, prepared by the Office of the State Comptroller. On behalf of the Board of Education and the District's Administration, we would like to thank the local field staff of the Comptroller's office. They were professional and courteous in working with our District staff.

We have carefully reviewed the findings and recommendations presented. To the extent that the Comptroller's audit represents an examination of the District's operations for statutory and regulatory compliance, we appreciate this opportunity to review our financial management practices and oversight.

The audit report identifies several weaknesses regarding the District's complete process for the disposal of scrap materials.

**Audit conditions identified:**

Sale of scrap proceeds were insufficient in that:

1. all financial transactions were not recorded in the District records
2. all items declared as scrap materials were not documented by the department or Board of Education
- and
3. The vehicles identified in the audit are district vehicles and there was potential use of District vehicles for personal use.

**Audit Recommendation:**

The District should follow 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.



**Implementation Plan of Actions and Implementation Date :**

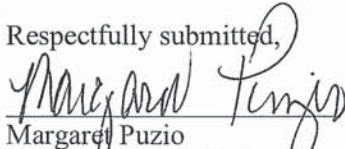
The District has gained valuable insight and information from the results of the audit which will be used to update policies and procedures. It is anticipated that the District policies and procedures which will be completed by November 30, 2010. The District has implemented the following procedures (Surplus Equipment/Materials Disposal Procedures) and tracking forms for vehicle use. The Board Policy and procedures manual will be updated to reflect the following changes.

- Description and quantity of item(s) is given to the Business Administrator who then submits the list to Board of Education to declare as surplus.
- After Board of Education declares the items as surplus, the appropriate District Administrator will be notified of the Board action. The Administrator will contact the Buildings and Grounds Superintendent to coordinate the removal and disposal of the surplus materials. The Buildings and Grounds Superintendent will dispose of the material by one of the following: seeking to maximize revenue for the District by trying to sell the items, donate them or recycle them. If the surplus is a recyclable material, documentation of the complete process will be completed by the Buildings and Grounds Superintendent and arrangements will be made to take the surplus items to the scrap yard.
  - Recyclable items removed or no longer in service will be taken to the scrap yard and reported on a District tracking form. A copy of the form will be given to the business office. Examples of common recyclable scrap materials are: light Fixtures and metal desks.
  - Driver of the district vehicle will be given receipt/load ticket if material is taken to scrap yard, which is then turned into the Business office.
  - A check and weight ticket is mailed to the Business office from the scrap yard. All checks received are given to the Business office.
- District owned vehicles are prohibited for personal use and transportation of any type of items.

**Conclusion**

The Board takes its responsibility for fiscal oversight extremely seriously, acknowledges the expertise of the Comptroller's Office and is committed to taking whatever steps are needed to improve internal controls over all aspects of the organization.

Respectfully submitted,

  
Margaret Puzio  
Superintendent of Schools