



New Rochelle City School District

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2006 — September 26, 2007

2008M-41



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2008

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 New Rochelle City 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 recommendations 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The New Rochelle City School District (District) is located in the City of New Rochelle, Westchester County. The District is governed by the Board of Education (Board) which comprises nine 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 Board has overall responsibility for the District's operations. The Superintendent and administrative staff have the responsibility for managing and overseeing the daily operations of the District. The responsibility for the District's finances and accounting records rests with the Assistant Superintendent for Business. The Board has designated the Deputy Business Manager as the District's purchasing agent. Under the general supervision of the Assistant Superintendent for Business, the purchasing agent is responsible for administering all purchasing activities. The Board has appointed a claims auditor to assume the powers and duties of the Board with respect to auditing claims. Responsibilities relating to the management of cash are largely the responsibility of the District Treasurer.

Scope and Objective

The objective of our audit was to examine the District's internal controls over selected financial operations for the period July 1, 2006 through September 26, 2007. Our audit addressed the following related questions:

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?
- Are duties in the Treasurer's and purchasing agent's offices adequately segregated to ensure that District assets are safeguarded?

Audit Results

District officials need to improve oversight of District financial operations. We identified deficiencies in the internal controls over procurement, claims processing, and the segregation of the Treasurer and purchasing agent functions.

The District does not have adequate written policies and procedures related to procurement. The procurement policies and procedures do not contain sufficient guidance on the procurement of professional services, sole source purchases and emergency purchases. As a result, District officials paid \$508,883 for professional service contracts for legal services and culinary classes, and \$28,748 for sole source learning materials without soliciting competitive proposals or quotations. District officials designated the sole source purchase based on a notarized statement from the vendor without checking for the availability of other vendors. District officials also paid claims totaling \$14,216 designated as emergency purchases without any documentation describing the nature of the emergency or other indication of an emergency on file. As a result, District officials are not assured that District funds have been used in the most prudent manner.

Similarly, the Board has not adopted a written job description, policies, and/or procedures to provide specific instructions and communicate its expectations to the claims auditor. As a result, the District's claims auditor was not aware that she was required to report to the Board and therefore, has not reported to the Board any time during her four-year tenure. We also found that the claims auditor approved claims totaling \$35,297 without properly executed purchase orders. In addition, \$2,625 in credit card reimbursements did not have adequate receipts attached to the credit card invoices detailing the expenditures. This internal control weakness puts the District at risk that inappropriate claims will be paid without being brought to the Board's attention.

Finally, the District assigned incompatible duties to the Treasurer and purchasing agent. The Treasurer performs incompatible cash receipt and disbursement duties, including collection of cash, preparing and making deposits, opening and closing bank accounts, online banking, signing of checks, cash transfers between funds, and online wire transfers. The purchasing agent also serves as the administrator of the financial accounting software application. The lack of segregation of duties and absence of management or supervisory review provided opportunities for significant errors and/or irregularities to occur without being detected and corrected.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the District's response letter.

Introduction

Background

The New Rochelle City School District (District) is located in the City of New Rochelle, Westchester County. The District is governed by the Board of Education (Board) which comprises nine 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.

There are 10 schools in operation within the District, with approximately 11,000 students and 2,200 employees. The District's expenditures for the 2006-07 fiscal year were \$206 million, funded primarily with State aid, real property taxes and grants.

The Board has overall responsibility for the District's operations. The Superintendent and administrative staff have the responsibility for managing and overseeing the daily operations of the District. The responsibility for the District's finances and accounting records rests with the Assistant Superintendent for Business. The Board has designated the Deputy Business Manager as the District's purchasing agent. Under the general supervision of the Assistant Superintendent for Business, the purchasing agent is responsible for administering all purchasing activities. The Board has appointed a claims auditor to assume the powers and duties of the Board with respect to auditing claims. Responsibilities relating to the management of cash are largely the responsibility of the District Treasurer.

Objective

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

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?
- Are duties in the Treasurer's and purchasing agent's offices adequately segregated to ensure that District assets are safeguarded?

**Scope and
Methodology**

We examined the District’s internal controls over selected financial operations for the period July 1, 2006 to September 26, 2007.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on issues raised in the District’s response letter.

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*.

Procurement

School districts must ensure maximum value is received when purchasing equipment, supplies, and contracted services. All purchases must be necessary, reasonable, and adequately documented. Internal controls are necessary to ensure purchases result in securing goods and services in the right quantity, at the right time, for the right price, and to ensure that purchases are made in compliance with the law and established policies. Such controls include written policies and procedures requiring compliance with applicable bidding laws and regulations, and the process to be used for purchases that do not require bidding.

The District has not established adequate written policies and procedures related to procurement. Procurement policies and procedures do not provide reasonable assurance that professional services are procured in a manner that demonstrate prudent and economical use of District funds. Further, the procurement policies and procedures do not contain sufficient guidance on sole source and emergency purchases. As a result, District officials are not assured that funds have been used in the most prudent manner.

Professional Services

Competitive bidding is not required for the procurement of professional services which involve specialized skill, training and expertise; use of professional judgment or discretion; and or a high degree of creativity. While the District is not legally required to competitively bid when procuring professional services, using a request for proposal (RFP) is an effective way to ensure that the District receives the desired services for the best price. Also, General Municipal Law requires the District to adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required. An effective and comprehensive purchasing policy should require District officials to encourage competition for the procurement of services. The appropriate use of competition provides taxpayers with the greatest assurance that services are procured in the most prudent and economical manner.

The District's purchasing policy does not require obtaining RFPs or other competition when procuring professional services. Instead, the procurement of professional services is left to the sole discretion of the Superintendent or his/her designee, with the approval of the Board.

We selected and reviewed contracts for four of the six professional service providers who were paid about \$1.26 million during our audit

period. While contracts for architectural and engineering services totaling over \$758,000 were awarded through RFPs, District officials did not solicit competitive proposals for two professional service contracts, totaling over \$508,000, for the District's legal counsel and culinary classes for special education students.

The District's attorney was paid over \$460,000 during our audit period and has served as the District's legal counsel for more than 15 years without the benefit of competitive proposals. The payment was based on an agreement prepared by the attorney. District officials explained that they valued the attorney's unique knowledge of the District's legal issues which have been gained over his long association with the District.

Similarly, the payment of \$48,000 for culinary classes for special education students was based on a contract approved by Board resolution. District officials claimed that the culinary class instruction was uniquely suited to the needs of the District's special education students.

By not establishing policies and procedures that require or encourage obtaining multiple proposals or quotations when competitive bidding is not required and by awarding professional service contracts without the benefit of RFPs or quotations, District officials cannot assure District taxpayers that they are procuring the most economically beneficial and qualified service providers.

Sole Source Purchases

A sole source provider of goods or services occurs when there is clearly and legitimately a single supplier of a specific good or service. Sole source purchases are generally limited exceptions to the District's normal purchasing. The District must first consider if the District needs or requires particular goods or services that uniquely serve the public interest and for which there is no substantial equivalent. In making this determination the District must be prepared to show that the product or service has unique benefits to the District when compared to other products in the marketplace (e.g., that no other product or service provides substantially equivalent or similar benefits) and that those benefits further the District's best interests. The District must then determine whether or not the goods or services, in fact, are available from only one source, so that an advertisement for bids would produce no competition.

Although the District has a written purchasing policy, it does not provide guidance on sole source purchases. We selected and examined 45 payments, totaling \$269,691, to determine if appropriate bidding procedures were used. Five of the 45 claims, totaling \$22,979, were for learning materials for Spanish-speaking students from a vendor

the District designated as a sole source based on a notarized statement from the vendor. During the audit period the District paid this vendor a total of \$28,748. District officials did not perform any inquiries or analysis to determine whether the procurement qualifies as a sole source. Therefore, District officials do not have sufficient assurance that these materials were obtained at the lowest cost. Accepting a notarized statement from a prospective vendor does not make the purchase a sole source and is not sufficient justification for not seeking competition.

Emergency Purchases

Emergency purchases arise out of an accident or unforeseen occurrence or condition. The circumstances justifying an emergency purchase must affect public buildings, public property or the life, health or safety of the community and must require an immediate action which cannot await competitive bidding. The determination of whether an emergency exists is a question of fact determined on a case-by-case basis. A written determination of the basis for the emergency and for the selection of a particular vendor must be kept on file.

The District's current policy states that in the event of an accident, emergency or unforeseen occurrence the requirement to obtain comparative prices prior to purchases may be suspended. The policy does not provide specific and adequate guidance on the steps to be followed when procuring goods or services in case of an emergency requiring immediate action.

During our review of 22 payments in the amount of \$90,504 we found that two payments for repair of heating and air conditioning equipment totaling \$14,216 had the word 'emergency' hand written across the vendor invoice. The claims did not include a description or other indication of an emergency. The District's purchasing policy would have otherwise required obtaining quotes for these purchases. Without proper documentation, it is questionable if these purchases were actually for emergencies, and that the need was so immediate, that it would not be in the District's interest to even make several phone calls to obtain comparative prices.

Recommendations

1. The Board should award contracts to professional service providers only after soliciting competitive proposals.
2. The District's purchasing policies should define the process for determining sole source vendors.
3. The District's purchasing policy should define an emergency situation and identify a District official responsible to declare a situation an emergency. Sufficient documentation should be maintained to justify emergency purchases.

4. District officials should closely monitor the purchasing process to ensure that purchases are made in accordance with policies and procedures.

Claims Processing

The audit and approval of claims is one of the most critical elements of the District's internal control system. The Board is responsible for auditing the District's claims before they are paid. If the Board chooses, it may appoint a claims auditor to assume its powers and duties for auditing claims. In either case, there must be sufficient documentation showing that the proposed payments are proper and valid school district expenditures. In addition, the claims auditor must report directly to the Board and not to any other District staff or management. The claims auditor's ability to act in a totally independent manner could be compromised if he/she is placed under the supervision or control of other school district personnel. The Board is responsible for adopting written job descriptions, policies, and/or procedures to provide specific instructions and communicate its expectations to the claims auditor.

The Board passes an annual resolution establishing the claims auditor position which states that the claims auditor reports directly to the Board. The current claims auditor has served in that position for the past four years. However, the Board has not adopted a written job description, policies, and/or procedures to provide specific instructions and communicate its expectations to the claims auditor. As a result, the claims auditor was not aware of the requirement to report directly to the Board, never attended a Board meeting or met any of the Board members. Instead, the claims auditor received guidance from the District's payables clerk. This relationship weakens the claims audit function and increases the risk that inappropriate payments will be approved.

During our audit period, the District processed claims totaling approximately \$194 million. We selected and examined 60 claims totaling \$111,133 to determine if they were properly audited by the claims auditor and contained adequate supporting documentation. While the claims audit process is generally functioning as intended, we did find claims for purchases totaling \$35,297 that were paid without properly executed purchase orders. For example, two claims, one for \$15,073 for boiler repair and adjustments and another for \$3,500 for presentation supplies, were paid without properly executed purchase orders. In addition, \$2,625 in credit card reimbursements did not have adequate receipts attached to the credit card invoices detailing the expenditures. These reimbursements included \$687 for parking and tolls, \$336 for restaurants and \$119 for flowers.

The Board's lack of specific instructions and communication of its expectations to the claims auditor may have created an environment

where claims against the District are approved for payment without appropriate supporting documentation. Approving claims against the District without requiring supporting documentation increases the risk of paying claims that may not be proper and valid District charges.

Recommendation

5. The Board should adopt a written job description to provide specific instructions and communicate their expectations to the claims auditor. This should include a requirement that the claims auditor meet with the Board as necessary to discuss questionable claims.

Segregation of Duties

One component of good internal controls is the proper segregation of duties to ensure that no single person controls all phases of a transaction. Duties must be segregated so that the work of one employee is routinely verified in the course of another employee's regular duties. If segregation of duties is impractical, management must establish compensating controls. Such compensating controls would consist of reviews of activity and transactions by supervisory personnel, such as the Assistant Superintendent for Business.

District officials did not establish adequate internal controls to segregate the duties of the Treasurer and purchasing agent. The Treasurer performs incompatible cash receipt and disbursement duties and the purchasing agent also serves as the administrator of the financial accounting software application, both of which result in significant internal control weaknesses. The lack of segregation of duties and absence of management or supervisory review provide opportunities for significant errors and/or irregularities to occur without being detected and corrected.

Treasurer

The Treasurer performs several significant cash receipt and disbursement duties including collecting cash, preparing and making deposits, opening and closing bank accounts, banking online, signing checks, transferring cash between funds, and initiating online wire transfers. Compensating controls have not been established over the incompatible duties the Treasurer performs. Because the Treasurer collects and deposits cash without any oversight, there is an increased risk that all moneys received are not deposited. In addition, because the Treasurer transfers District funds without any oversight or controls, there is an increased risk that inappropriate transactions could be initiated and concealed.

The District Treasurer controls and performs wire transfers without adequate compensating controls or sufficient oversight. District officials do not require the bank to send wire transfer confirmations or have an employee independent of the initial request have online access to review the initial transfer request. Supervisory personnel, other than the Treasurer, do not give prior approval for the wire transfers or review the bank's wire transfer confirmations. There is no formal procedure for authorizing, documenting and reporting wire transfer transactions. The District has not entered into a written agreement with the bank prescribing the manner in which transfers are to be accomplished, who will make the transfers, from which accounts the

transfers be made, or requiring written confirmation of the transfers within one business day.

The District made \$338 million of wire transfers during our audit period. Based on the identified risks, we tested wire transfer transactions for three months totaling approximately \$68 million. While we did not identify any discrepancies, we noted that there was no prior authorization for any of the wire transfers tested and no wire transfer confirmations were sent to any District employee independent of the person making the initial transfer request to provide adequate oversight. This control weakness creates an environment where District cash may not be recorded accurately and on a timely basis, or may be misappropriated and go undetected.

Purchasing Agent

The purchasing agent purchases general and specialized equipment, materials and business services for use by the District. The purchasing agent evaluates the requirements and develops specifications for equipment, materials and services to be purchased. The purchasing agent also applies and periodically assists in determining general purchasing policies. The purchasing agent then oversees the process of acquiring goods and services, by asking for proposals, consulting with suppliers and reviewing price quotations. After this information is accumulated, the purchasing agent sets contract terms and conditions and awards contracts to specific vendors. The purchasing agent then sets delivery schedules, tracks progress and contacts clients and suppliers to correct problems. The purchasing agent also provides information to other departments and suppliers regarding orders, and may hire, train or supervise purchasing clerks.

The purchasing agent is also the administrator of the financial accounting software application. As an administrator of the financial accounting software application, the purchasing agent has the ability to control and use all aspects of the software, including adding, deleting, and adjusting user names, vendor files and vendor payment histories.

Combining the positions of purchasing agent and administrator of the financial accounting software application gives the individual the ability to approve vendors and purchases and manipulate the purchasing-related data recorded in the financial accounting software application. This significant control weakness exposes District assets to the risk of waste, fraud or abuse.

Recommendations

6. District officials should establish compensating controls and routinely monitor and review the work of the Treasurer when the segregation of duties is not feasible.

7. The Assistant Superintendent for Business should receive a wire transfer confirmation directly from the bank within one day of the transfer.
8. The District should enter into a written agreement with the bank prescribing the manner in which transfers will be accomplished, including: who will make the transfers, from which accounts the transfers will be made, and require a written confirmation to the District.
9. District officials should adopt a system of internal controls for documenting and reporting transfers and other cash duties of the Treasurer.
10. District officials should segregate the duties of the purchasing agent and administrator of the financial accounting application.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



CITY SCHOOL DISTRICT OF NEW ROCHELLE
515 NORTH AVENUE
NEW ROCHELLE, NEW YORK 10801-3416

RICHARD E. ORGANISCIAK
SUPERINTENDENT OF SCHOOLS

FAX: (914) 632-4144
TEL: (914) 576-4200

May 1, 2008

[REDACTED]

Newburgh Regional Office
33 Airport Center Drive
Suite 103
New Windsor, NY 12553

Dear [REDACTED]:

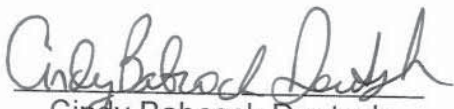
The Board of Education of the City School District of New Rochelle and the District Administration have reviewed the DRAFT Report of Examination covering the period July 1, 2006 - September 26, 2007. Our response to these findings is attached.

The Board of Education is committed to the highest business standards for its financial operations. It takes its fiduciary responsibilities to its students and citizens seriously. We have already initiated steps to implement the recommendations contained in the Report of Examination.

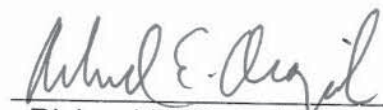
We would like to thank the Comptroller for this review of our operations and to compliment [REDACTED] and [REDACTED] who were extremely helpful with their suggestions.

Please feel free to contact us should any questions remain.

Sincerely yours,



Cindy Babcock Deutsch
President, New Rochelle Board of Education



Richard E. Organisciak
Superintendent of Schools

CBD:REO:pv

cc: Members, Board of Education
John Quinn, Assistant Superintendent-Business & Administration

**NEW ROCHELLE CITY SCHOOL DISTRICT
FINDINGS RESPONSE 5-1-08**

**NEW YORK STATE COMPTROLLER'S EXAMINATION
July 1, 2006-September 26, 2007**

PROCUREMENT

Professional Services

Finding Summary:

Competitive bidding is not required for the procurement of professional services which involve specialized skill, training and expertise; use of professional judgment or discretion; and or a high degree of creativity. However, using a Request For Proposal (RFP) is an effective way to ensure that the District receives the desired services for the best price. While contracts for architectural and engineering fees totaling over \$758,000 were awarded through RFP's, the services of the Board's legal counsel and specialized culinary education classes for special education students were not. During our audit period, the expenses for these were \$460,000 and \$48,000 respectively.

District Response:

The vendor selected for the Special Education Culinary Arts Training is the only local vendor certified by the Westchester Workforce Initiative for the training of students with disabilities in culinary arts and restaurant vocations. In addition, the State Education Department--VESED has approved this partnership in their authorization for funding of the District's model transition program. Copies of this supporting documentation should have been included with the Purchase Order for 2006-2007.

See
Note 1
Page 24

Sole Source Purchases

Finding Summary:

A sole source provider of goods occurs when those goods uniquely serve the public interest and for which there is no substantial equivalent. The District's purchasing policy does not provide guidance on sole source purchases. Five of the 45 claims examined by the Comptroller's audit, totaling \$22,979, were for learning materials for Spanish-speaking students from a vendor the District designated as a sole source based on a notarized statement from the vendor. District officials did not perform any inquiries or analysis to determine whether this procurement qualified as a sole source.

District Response:

Our standard practice has been to have the requisitioner contact bid vendors for the goods. If the vendors contacted cannot supply the goods, they then contact the manufacturer or publisher for names of distributors. We then check that the company name provided is on bid or NYS Contract. If the company claims to be the “sole source”, we request a signed letter from the company which is kept on file for all future purchases. We will amend our existing purchasing policy to reflect the recommended procedures identified in this audit.

Emergency Purchases

Finding Summary:

Emergency purchases arise out of unforeseen occurrences. They must affect public buildings, public property or life, health or safety and require immediate action which cannot await competitive bidding. The District’s policy does not provide specific and adequate guidance on the steps to be followed when making emergency purchases. Two of the 22 claims examined by the Comptroller’s audit, totaling \$14,216, had the word ‘emergency’ hand written across the vendor invoice. The claims did not include a description or other indication of an emergency.

District Response:

Our Buildings and Grounds department had submitted “emergency” claims when they believed that time did not permit them to follow standard procedures or they pertained to health and safety issues. We have conducted informational meetings that use a more exact definition of an “emergency”. To date, we had no claims that are listed as emergencies. We will also amend the District purchasing policy to reflect the recommended procedures to be followed in the future.

CLAIMS PROCESSING

Finding Summary:

The audit and approval of claims is one of the most critical elements of the District’s internal control system. The Board is responsible for auditing the District’s claims before they are paid. If the Board chooses, it may appoint a claims auditor to assume its powers and report directly to the Board. In either case there must be sufficient documentation showing that the proposed payments are proper and valid school district expenditures.

The current claims auditor has served in that position for four years. She was not aware that she reported directly to the Board. Instead, she received guidance from the District's Accounts Payable Supervisor.

While the claims audit process is generally functioning as intended, the Comptroller's audit did find claims for purchases totaling \$35,297 that were paid without supporting documentation, including purchase orders. These included one claim for \$15,073 for boiler repair and adjustments and another for \$3,500 for presentation supplies. In addition, \$2,625 in credit card reimbursements, including \$687 for parking and tolls, \$336 for restaurants and \$119 for flowers, did not have adequate receipts detailing the expenditures.

District Response:

The Board has implemented a specific job description for the Internal Claims Auditor. The Board has already begun meeting in closed session every four months with the Claims Auditor. These meetings specifically take place without any other staff present.

The District disagrees with the statement that the referenced \$35,297 was paid without supporting documentation. There was sufficient documentation and approvals showing that the referenced payments were proper and valid school district expenditures. What these payments lacked were properly executed Purchase Orders prior to the obligation of funds. The Assistant Superintendent for Business has now met with the heads of departments which initiate most of these 'Claim Forms'. They reviewed appropriate purchasing process and how to accommodate the departments' needs within appropriate process.

See Note 2 Page 24

SEGREGATION OF DUTIES

Treasurer

Finding Summary:

Because the Treasurer collects and deposits cash without any oversight there is increased risk that all moneys received are not deposited. The district Treasurer controls and performs wire transfers without adequate compensating controls or sufficient oversight. The Comptroller's audit tested wire transfers for three months totaling approximately \$68 million. While they did not identify any discrepancies, they found no prior authorization for any of the wire transfers tested and no wire transfer confirmations sent to any District employee independent of the person making the initial transfer request.

District Response:

When cash/checks were received, receipts were always created up by someone other than the Treasurer. The Treasurer then endorsed the checks, made out the deposit slips and went to the bank to make the deposits. Upon notification by the auditors that there needed to be a clearer segregation of duties the District adopted the following procedures:

- Cash receipts are created, checks are endorsed and deposit slips are written by an accounting department employee. The Treasurer brings the deposits to the bank and upon her return she gives the deposit slips to a different accounting employee who matches up the deposit slip to the cash receipt and then posts it to the cash flow.
- Wire transfers had been processed by the Treasurer and/or the Deputy Treasurer without prior authorization. When wire transfers are completed, they are entered into the cash flow, and wire confirmations are filed in a secure binder. Copies are given to two other accounting employees who perform bank reconciliations. The Assistant Superintendent for Business will now co-authorize all wire transfers.

Purchasing Agent**Finding Summary:**

The purchasing Agent oversees the process of acquiring all goods and services. The Purchasing Agent is also the administrator of the district's financial accounting software. As such, the Purchasing Agent has the ability to control and use all aspects of the software, including adding, deleting, and adjusting user names, vendor files and vendor payment histories. The combination of these duties gives one individual the ability to manipulate purchasing related data recorded in the District's financial records.

District Response:

The Deputy Business Manager worked with BOCES to supervise the conversion to the [REDACTED] Accounting system and has continued in that capacity since then. Steps will be taken to separate the Purchasing Agent duties from those of the [REDACTED] Security Administrator.

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

While the Special Education Culinary Arts Training may be the only local vendor certified by the Westchester Workforce Initiative and approved by the State Education Department, District officials did not provide any documentation supporting the fact that other vendors would not be eligible to provide this service.

Note 2

We agree. We have revised our report to reflect that the claims for purchases totaling \$35,297 were paid without properly executed purchase orders.

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: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

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, with the help of District personnel, 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 on the reported objective and scope by selecting for audit those areas most at risk.

To accomplish the objectives of this audit our procedures included the following:

- We reviewed Board minutes and policy manuals.
- We reviewed bid files, vendor payment vouchers, and cancelled checks.
- We reviewed District bank statements, reconciliations and wire transfers.
- 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.

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

APPENDIX D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
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<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
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