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# Audit Report

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Otego-Unadilla Central School District

For the Period

July 1, 1999 through March 31, 2001

SD-1100-3

August 30, 2002

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**The University of the State of New York**  
**THE STATE EDUCATION DEPARTMENT**  
**Office of Audit Services**  
**Albany, New York 12234**





THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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August 30, 2002

Mr. Gerald Green  
Board President  
Otego-Unadilla Central School District  
2641 State Highway 7  
Otego, New York 13825

Dear Mr. Green:

The following is our final audit report (SD-1100-3) related to the audit of the Otego-Unadilla Central School District for the period July 1, 1999 through March 31, 2001. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from the issuance of a final audit report. Appendix C describes the process to be followed in the event of such disagreement.

Ninety days from the issuance of this report, District officials will be asked to submit a report on actions taken as a result of this audit. I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Daniel Tworek

Enclosure

cc: J. Butterworth, R. Cate, J. Kadamus, A. King, B. Porter, T. Sheldon, C. Szuberla, C. Foster (DOB), J. Dougherty (OSC), R. Hurlburt, Jr., Superintendent, A. Pole, District Superintendent

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# Executive Summary

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## Background and Scope of the Audit

The Otego-Unadilla Central School District (Otego-Unadilla) served 1,351 students in three schools and spent about \$13 million during the 1999-2000 school year. Otego-Unadilla's average cost per student for the 1998-99 school year was \$9,398, slightly below the county average of \$9,415.

The audit focused on management controls and reviewed selected management practices, records, and documentation for the period July 1, 1999 through March 31, 2001. This was a performance audit and our objectives were to: assess the adequacy of Otego-Unadilla's system of management controls; the adequacy and reliability of the policies and procedures for collecting and reporting financial data, including claims for State aid and grants; and the adequacy and reliability of the policies and procedures for collecting and reporting certain student performance data, including the student dropout data.

## Audit Results

Improvements are needed in collecting and reporting student performance data. Without these improvements, data could become incomplete and inaccurate. For example, the dropouts reported on the Fall 2000 Basic Educational Data System School District Summary Form (BEDS Form) increased from 5 to 12 students as a result of the audit. While the rate remains low, 3.25 percent, a better system for tracking and documenting dropouts would keep Otego-Unadilla apprised of adverse trends.

Improvements are needed with Otego-Unadilla's systems for collecting and reporting data for State aid. Without these improvements, Otego-Unadilla might provide inaccurate data negatively impacting State aid.

Improvements are needed in the Board's governance and oversight in fiscal matters and in the control environment. The Board needs to better monitor Otego-Unadilla's financial condition and to clearly define roles and responsibilities, especially in the Extraclassroom Activity Fund.

Improvements are needed in management controls related to cash receipts and revenues, maintaining an effective inventory system, and establishing written procedures in order to implement Board policies effectively.

## Comments of Otego-Unadilla Officials

Otego-Unadilla officials' comments to the findings were considered in preparing this report and are included as Appendix B. In response to the audit, Otego-Unadilla officials generally agree with the recommendations and have already made improvements in some areas. Otego-Unadilla officials disagree with the need to reassign staff for internal control purposes. They believe that, given the limited staff, current controls are adequate.

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# Introduction

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## Background

The Otego-Unadilla Central School District's mission is to "...provide the best possible education in a positive and caring environment in order to give all students an opportunity to achieve to their maximum potential and to prepare them for a meaningful life in a changing world." Otego-Unadilla, located in Otsego County, is a small central school district. Otego-Unadilla served approximately 1,351 students in three schools and had general fund expenditures of about \$13 million in the 1999-2000 school year. As shown in the 1999-2000 New York State School Report Card (Report Card), the average cost per student at Otego-Unadilla was \$9,398 for 1998-99, slightly below the county average of \$9,415.

## Objectives, Scope and Methodology

The selection of Otego-Unadilla for audit was made pursuant to the Board of Regents Strategic Plan - Goal 5 which states "Resources under our care will be used or maintained in the public interest." One of the Regents key strategies associated with Goal 5 is to concentrate Department resources on educational "programs with low performance or poor fiscal practices." This audit is part of an overall Department effort to help school districts improve operations. The audit focused on management controls and reviewed practices, records, and documentation for the period July 1, 1999 through March 31, 2001. This was a performance audit, and our objectives were to assess:

- the adequacy of Otego-Unadilla's system of management controls;
- the adequacy and reliability of the policies and procedures for collecting and reporting financial data, including claims for State aid and federal grants; and
- the adequacy and reliability of the policies and procedures for collecting and reporting certain student performance data, including student dropout rate and cohort data.

To accomplish our objectives we reviewed applicable laws, regulations, policies and procedures; interviewed State

Education Department (Department) and Otego-Unadilla management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the audited financial statements.

We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other audit procedures considered necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions and recommendations.

### **Comments of Otego-Unadilla Officials**

Otego-Unadilla officials' comments about the findings were considered in preparing this report and are included as Appendix B. Otego-Unadilla officials generally agree with the audit findings and recommendations. The response indicates that many of the recommendations have been addressed.

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# Improvements are Needed to Ensure the Reliability and Validity of Student Performance Data

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School districts report data on student performance which are the basis for various reports on student outcomes, such as the New York State School Report Card (Report Card). Data need to be reliable and valid to ensure that student performance is accurately portrayed. The audit assessed the accuracy of data reported for student dropouts and cohort statistics, which are used to track student progress toward meeting graduation requirements. In addition, the audit examined school lunch data.

The audit determined that Otego-Unadilla reports included some inaccurate data and lacked adequate documentation to support the data.

## **Dropout Data**

School districts are required to report the number of dropouts annually. The Department has defined a dropout as any student who left school prior to graduation for any reason, except death, and did not enter another school or approved high school equivalency preparation program. This information is used by the Department to calculate an annual dropout rate by dividing the total number of students who dropped out in a given year by the total Fall enrollment in grades 9 through 12. The rate is published in the Report Card for each school district and can be used to compare performance among districts.

The dropout rate is a key measure utilized by the Department in gauging whether a school district's registration as a public school should undergo a review. It is also used as one of the Department's performance benchmarks in identifying schools that may need assistance in raising student performance.

Otego-Unadilla did not accurately report the number of dropouts or maintain adequate documentation supporting the number of dropouts reported. The guidance department maintained a list of names with the reasons students left and their destination. However, supporting documentation in many of the students' files was not sufficient to verify the

reasons. Subsequently, the guidance office followed up on all the exceptions and produced much of the needed documentation. The following chart shows the revised dropout calculations for a three-year period.

**Otego-Unadilla Central School District  
Dropout Calculation**

Year	Reported Dropout		Audited Dropout	
	Number	Percent	Number	Percent
1999-2000	5	1.3	12	3.25
1998-99	5	1.3	10	2.50
1997-98	14	3.4	17	4.10

*Source: BEDS enrollment*

In each of the three years tested, the number of dropouts increased from the reported number. For example, in 1999-2000, the dropout numbers increased from 5 to 12, raising the dropout rate from 1.3 percent to 3.25 percent.

Otego-Unadilla should change its procedures to ensure that adequate documentation is maintained in student files to support the reasons for leaving, efforts made to retain or place students in other programs, and whether students entered other schools or approved high school equivalency programs.

**Cohort Data**

School districts are required to track and report progress toward meeting graduation requirements by submitting cohort data based on the year students first entered ninth grade. Cohort data are used to gauge how students are progressing toward obtaining their high school diploma and can be used to identify at-risk students. To ensure that cohort data are accurate, systems and processes are needed to track and report cohort data. Otego-Unadilla did not maintain documentation to support cohort data reported to the Department.

Otego-Unadilla could not provide documentation as to which students were in the cohort and their reported test results. The audit independently identified the 1997 cohort, inserted student test results, and calculated the results. The audit was satisfied that the figures reported were reasonably accurate. The following tables compare the data submitted

by Otego-Unadilla to the data obtained through the audit. Separate tables are shown for the general education students and students with disabilities.

**Otego-Unadilla Central School District  
Accuracy of 1997 Cohort Data  
General Education Students  
As of June 30, 2000**

Score Range						
<b>English</b>	# of students	0-54	55-64	65-84	85-100	No Attempt
97 Cohort Report	66	1	14	45	3	3
Per Audit	66	0	14	46	3	3
Score Range						
<b>Math</b>	# of students	0-54	55-64	65-84	85-100	No Attempt
97 Cohort Report	66	0	4	26	34	2
Per Audit	66	0	4	27	31	4

*Source: OAS analysis of student records*

**Otego-Unadilla Central School District  
Accuracy of Cohort Data  
Students Entering 9<sup>th</sup> Grade 9/97  
Students with Disabilities**

Score Range						
<b>English</b>	# of students	0-54	55-64	65-84	85-100	No Attempt
97 Cohort Report	12	0	9	1	0	2
Per Audit	12	1	6	3	0	2
Score Range						
<b>Math</b>	# of students	0-54	55-64	65-84	85-100	No Attempt
97 Cohort Report	12	1	1	3	1	6
Per Audit	12	0	2	2	1	7

*Source: OAS analysis of student records*

The discrepancies in the data are not material, but they illustrate the need for Otego-Unadilla to formalize the process of collecting, reporting and maintaining documentation of cohort data.

## **School Lunch Data**

As part of its data collection process, the Department requires school districts to submit a count of the number of free and reduced lunch applicants on a specific date. However, documentation to support the school lunch count was unavailable at the time of the audit. Otego-Unadilla did not maintain the names of students to support the count submitted. The audit verified that applications were on file for a sample of students receiving free and reduced lunches on a particular day. In addition, the audit determined that the total number of students receiving free and reduced lunches that day corresponds to the number reported to the Department.

## **Recommendations**

1. Establish a system to adequately document and track the status of all students who leave Otego-Unadilla and Otego-Unadilla's efforts to retain students or place them in other programs. Also, retain adequate documentation to support the reported numbers of drop outs.
2. Maintain adequate documentation to support cohort statistics.
3. Maintain documentation that supports the number of free and reduced lunches data reported to the Department.

## **Comments of Otego-Unadilla Officials**

Otego-Unadilla officials agree with these recommendations and have taken corrective actions.

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# IMPROVEMENTS ARE NEEDED TO ENSURE THE COMPLETE, ACCURATE AND TIMELY SUBMISSION OF DATA RELATED TO STATE AID

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School districts are required to collect and report financial and other statistical data including expenditures, revenue, assets, liabilities, State aid information, attendance, special education placements, and other student and school information. It is crucial that the data are reliable, accurate, accessible, and timely since the information is used by schools, districts, the Department, and the public. The reliability and validity of data are affected by many factors including communication, supervision, staff training and experience, and established policies and procedures.

The audit identified certain weaknesses in the systems and controls used by Otego-Unadilla to reasonably ensure that complete, accurate, and timely data for State aid are obtained, maintained, and fairly disclosed in reports.

## **Attendance**

Basic Operating aid is available to fund a portion of a school district's expense for general operation and maintenance. A factor in the calculation and distribution of this aid is student attendance information. Attendance data are also used as a measure of student and school performance and are reported in each district's School Report Card. Education Law Section 3211 requires school districts to maintain accurate records of students' attendance and absences. School districts summarize and report attendance data to the Department annually. Otego-Unadilla has the opportunity to improve controls over attendance recording and reporting processes.

### *Attendance Controls*

Otego-Unadilla uses two software systems to track attendance. One system is used at the two elementary school buildings and a second is used at the junior-senior high school.

Otego-Unadilla is not coordinating the collecting and reporting of attendance data among Aggregate Attendance, Dual-Enrollment, Equivalent Attendance and Hours, Homebound Instructed, and Resident and Non-Resident pupils. In addition, attendance for homebound instructed students is not inputted into the attendance system at Unadilla Elementary. The guidance office coordinates the instruction arrangement for these students. It does not appear the attendance for these students is included in the reported Aggregate Attendance totals.

There are no procedures or instructions established and provided to staff in order for them to calculate, report, and monitor attendance data correctly. For example, one building used September 8 and January 28 and two other buildings used September 8 and January 31 for the semester's first dates of attendance.

The audit found there was a lack of adequate documentation to support data reported on Form 1999-2000 A-2/A-4 and Form A for 1999-2000. For example, although the audit had reports with subtotal numbers reported for the junior-senior high school, the audit was unable to get a student listing which totaled the days reported. Also, the 1999-2000 daily attendance records (teacher sheets, parent's notes, daily afternoon sheets) for Otego Elementary could not be located.

At the time of the audit, three people, one in each of the buildings, were responsible for attendance. Otego-Unadilla had not assigned one individual to be knowledgeable about attendance requirements and the reports submitted. Such a person would be a coordinator for attendance issues and be responsible for compliance with Department attendance reporting requirements.

### *Attendance Reporting*

The audit found that the 1999-2000 reported Aggregate Attendance days are inaccurate and it is possible that the overall total is understated due to the following:

At the junior-senior high school, Aggregate Attendance days were reported for approximately 21 students who were residents of Otego-Unadilla, but attended a program not operated by Otego-Unadilla. Examples include students

going to BOCES operated programs, Rochester School for the Deaf, New York School for the Deaf at Rome, Berkshire Farm, and other school districts. No follow up was done because the estimated number is immaterial compared to total enrollment, and the Transition Adjustment is over \$230,000 for the 2000-01 aid year.

The reports used to calculate the Aggregate Attendance days reported on the A-2 and A-4 included attendance days for "Active" students only. It appears the days for "Inactive" students, students who left during the year, were not included in the reported totals. Otego-Unadilla provided estimated revised numbers of Active and Inactive students that were 21,793 days more than the reported numbers for the 1999-2000 school year.

Otego-Unadilla should assign responsibility for the attendance recording and reporting. A policy and procedure should be developed to guide staff in the area of attendance.

## **Special Education**

School districts are generally eligible for a number of different special education aids for students with disabilities. Public Excess Cost Aid and Public Excess High Cost aid (HCA) are available for students with disabilities served in public schools or BOCES programs. Private Excess Cost aid is available for students with disabilities served in approved private schools. Proactive management and well defined systems are necessary to ensure students with disabilities are provided with appropriate services and to ensure Otego-Unadilla claims all the aid it is entitled to receive. Improvement opportunities exist in the process used to report and claim HCA.

Otego-Unadilla did not coordinate activities between the business office and special programs office to ensure the adequacy of the systems used to accumulate, summarize, and report the appropriate information to the Department for students eligible for HCA. For example, billings to Otego-Unadilla were not compared to the STAC 3 listings to determine that only approved students were being billed or to verify the correct tuition and enrollment data were being used. In addition, attendance data for Otego-Unadilla students attending private schools, BOCES, and other school districts were not compared to the billings to ensure

appropriate charges. Finally, documentation was not maintained to support the calculation of annual costs for in-district placements eligible for HCA.

## **Other Aids**

Although the audit did not review other State aids in detail, opportunities for improvement were noted in the area of Transportation aid. For example, Otego-Unadilla should improve its mileage records and documentation, and control over parts and supplies inventory.

## **Recommendations**

4. Implement adequate systems and controls to ensure that complete, accurate, and timely data for State aid are obtained, maintained, and fairly disclosed in reports.
5. Ensure that attendance procedures are in written form and personnel are cross-trained to ensure consistency of reporting.
6. Claim HCA for all students served in in-District programs and other public placements.
7. Maintain documentation that supports all transportation mileage.

## **Comments of Otego-Unadilla Officials**

Otego-Unadilla officials agree with these recommendations.

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# IMPROVEMENTS ARE NEEDED IN GOVERNANCE AND MANAGEMENT CONTROLS

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A school board is responsible for the governance and oversight of school district affairs, personnel, and properties. The school board should establish policies and should delegate the administration of the school district to the superintendent and senior managers who should operate the school district within the established policies. The superintendent and senior managers should then be held accountable for results.

Part of the superintendent's and senior management's responsibilities include establishing, implementing, and maintaining an effective management control system. The controls should be designed to help ensure management's objectives are met, reported data are valid and reliable, assets are safeguarded, and laws are complied with. The controls include the policies and procedures put in place by management to provide oversight, supervision, accountability, and ongoing monitoring of a school district's operations. The audit determined that the board's governance and management controls need improvements.

## **Board Governance**

A school board is responsible for ensuring that the school district meets all legal requirements, operates in accordance with its mission, and uses its assets appropriately. A school board is also responsible for hiring the superintendent and has ultimate responsibility for the fiscal health and stability of the school district. The audit identified opportunities for the board to improve its governance and oversight related to the fiscal and control environments.

## *Fiscal Oversight*

Section 170.2(k) of the Regulations of the Commissioner of Education (Regulations) and Section 1718 of the Education Law require that the Board keep incurred obligations within the amount of the total annual appropriations voted or authorized and the prior year's outstanding encumbrances. In addition, the board may make transfers or authorize the chief school officer to make transfers within limits

established by the board. Without these controls, Otego-Unadilla is at risk of overspending its budget. The chief school administrator is responsible to the board for keeping the adopted budget in balance and for maintaining control over the expenditures within the budget parameters established by the voters. The day-to-day administration of the annual budget is centralized in the business function under the supervision of the business official and members of the business office staff. The audit found several examples where Otego-Unadilla could improve its fiscal oversight of expenditure controls, fund balance projections, and extraclassroom activity funds.

Section 170.2(k) of the Regulations and Section 1718 of Education Law require the Board to ensure that appropriations are available before expenditures or encumbrances are made. This may require budget transfers before purchase orders are issued or payments are made.

The February 2001 Budget Status Report included negative balances in the General Fund of approximately \$96,492. The negative balances were found in four accounts that had negative balances of more than \$5,000 and would require board approval for a transfer. Two accounts that had the largest negative balances were in Psychological Services (\$30,000) and Teachers' Retirement (\$24,000).

One aspect of good budget administration is an accurate prediction of the year-end surplus or deficit. Information concerning fund balance is particularly valuable to the board and administration when making final decisions about the upcoming budget. A fund balance projection should be calculated starting in January of each year. A revised fund balance projection should be calculated each month until the following year's budget is enacted.

Otego-Unadilla did not provide the board with a fund balance projection. Such information is critical as the board considers a budget for the upcoming year since the total amount of the fund balance, with the exception of up to two percent of the new year's budget, may be used to reduce the tax levy in the next school year.

The audit found that Extraclassroom Activity Fund reports are not presented to the board in accordance with Regulation

172.3 which requires records of receipts and expenditures to be presented to the board at least quarterly.

### *Review of Board Minutes*

The official minutes of board meetings represent the legal and historical record of the actions of the board and are open to inspection by the public. The official minutes must be in a suitable condition for such review at all times. The audit reviewed the minutes and noted the following areas for improvement.

- The minutes from October 2, 2000, October 16, 2000, November 6, 2000, November 8, 2000, and November 20, 2000 were not signed by the district clerk. The district clerk should always sign the minutes to signify their official standing.
- In addition, official minutes from three meetings (July 17, 2000, August 21, 2000, and September 11, 2000) could not be provided.

### **Management Controls**

A school district must implement controls over financial operations to help ensure: assets are safeguarded against loss from theft or unauthorized use; compliance with laws, regulations, and policies; the reliability and integrity of reports and data; and operational efficiency, economy and effectiveness. These controls may include preparing accurate and timely budget and fiscal reports, keeping the accounting system current, establishing purchasing and payroll procedures, and maintaining an effective inventory system. The audit determined that Otego-Unadilla needs to improve its management controls related to the encumbrance of funds, the accounting for the Extraclassroom Activity Fund, segregation of duties, cash receipts, inventory, and written procedures.

### *Extraclassroom Activity Fund*

Extraclassroom activity funds are defined as monies raised other than by taxation or through charges of a board of education for, by, or in the name of a school or student body. Activity funds are raised and spent by student bodies to promote the general welfare, education, and morale of all

students, and to finance the normal, legitimate extracurricular activities of the student body. The superintendent of a district has the responsibility and the authority to implement all policies and rules pertaining to the supervision and administration of extraclassroom activity funds in accordance with established policies and rules of the district's board of education.

Section 172.2 of the Regulations requires a board to make rules and regulations for the establishment, conduct, operation, and maintenance of extraclassroom activities and for the safeguarding, accounting and audit of all moneys received. Otego-Unadilla did not have rules or regulations regarding extraclassroom activities.

The Department publishes a pamphlet *The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds* (Plan) that describes the procedure for the management and accounting of Extraclassroom Activity Funds. The plan meets the requirements of the Regulations and has the approval of the Department. The use of the Plan is not mandatory provided schools adopt adequate alternative plans of their own. Since no rules or regulations were submitted for the audit's consideration, the funds were audited using the Plan as criteria. Otego-Unadilla did not adequately control extraclassroom activity funds, did not appoint a faculty auditor, did not bond the central treasurer, and did not maximize the return of funds.

The Extraclassroom Activity Fund's ending balance for the 1999-2000 book balance does not agree with the financial statements. There is a discrepancy of approximately \$10,000. Otego-Unadilla's certified public accountant (CPA) indicated a net adjustment was made to reflect the Extraclassroom Activity Fund accurately. Otego-Unadilla confirmed that their accounting system, INFOFUND, could be used to record account activity but there has not been time to convert the Extraclassroom Activity Funds to the system. Otego-Unadilla continues to use paper ledgers to record entries for the entire Extraclassroom Activity Fund and the individual funds.

There was no faculty auditor appointed by the board. The Plan requires that the central treasurer prepare a report every quarter showing the activity for each organization and submit a copy of the bank reconciliation to the board and the

faculty auditor. In addition, the faculty auditor will call in the ledgers kept by the activity treasurers at least twice a year in order to compare the balances as shown on the central treasurer's report with the activity ledger.

The board named the payroll coordinator the central treasurer for the Extraclassroom Activity Fund. The payroll coordinator is not bonded for her duties for the approximate amount of the funds, as required by the Plan.

The Plan suggests, as a guiding principle, the investment of Extraclassroom activity funds and establishment of the authority to use the earnings. Otego-Unadilla did not invest Extraclassroom Activity Funds with substantial amounts of money into board-authorized safe investments, such as a certificate of deposit.

### *Segregation of Duties*

Key duties and responsibilities should be divided or segregated among different individuals to help reduce the risk of loss or misuse of funds. The segregation of duties also helps reduce the possibility of an individual perpetrating and concealing errors or irregularities. Key duties include authorizing, approving, and recording transactions; issuing and receiving assets; making payments; and reviewing or auditing transactions. Although no irregularities were found, the internal claims auditor and the payroll coordinator both have responsibilities that are considered incompatible for control purposes.

- The position of a school district's internal claims auditor is a discretionary appointment of a board. However, without a claims auditor, a board is required to review all claims with supporting documentation before payment. An internal claims auditor helps ensure the prompt payment of bills and improve workflow in the business office. The Board appointed internal claims auditor at Otego-Unadilla is the business manager of the central business office CO-SER purchased from the Delaware-Chenango-Madison-Otsego BOCES (BOCES). The BOCES is responsible for processing most of Otego-Unadilla's business functions (i.e., cash receipts, payroll, personnel, and accounts payable). The business manager for BOCES supervises the BOCES' central business office staff, which processes Otego-Unadilla's work.

The audit views this as a conflict with the intent of Education Law Section 1709(20)(a) which prohibits the appointment of..."the official of the district responsible for business management;..." as an internal claims auditor. While the BOCES' business manager is not an official of Otego-Unadilla, she is employed by the vendor from whom the board purchases business services, which includes purchasing and accounts payable. Her position with that vendor is to supervise the provision of business services. In so doing, she exercises sufficient influence over Otego-Unadilla's business operations to warrant exclusion as the internal claims auditor in order to comply with the Education Law's intent, which is to have an impartial person reviewing the claims on behalf of the board.

- The personnel function adds and deletes employees from the payroll. The payroll function pays employees on the payroll. These functions are incompatible from a control perspective because one person should not exercise control over the entire process. The payroll coordinator is responsible for payroll and personnel functions at Otego-Unadilla. The payroll coordinator calculates the employees' pay (hourly), deductions, accruals, and forwards the appropriate information to the central business office for input into INFOPAY. The payroll coordinator also receives the payroll checks from the central business office, puts them through the check signer, into envelopes, and distributes them. In addition, no other Otego-Unadilla staff are cross-trained to handle either of the payroll or personnel functions. Although the board approves new hires and the superintendent approves/certifies each payroll, there are no supervisory approvals on the forms used to add/delete/modify payroll data submitted by the payroll coordinator.

Otego-Unadilla needs to review the responsibilities assigned to the payroll coordinator or institute compensating controls and cross-train staff.

### *Cash Receipts and Revenues*

There are no written procedures to guide staff in the proper handling of cash receipts. Another concern is that one person, the payroll coordinator, is responsible for most of

the cash receipt duties, which raises the issue of segregation of duties.

- Although the mail is opened and distributed by the superintendent's secretary, the secretary does not consistently restrictively endorse all checks received and does not prepare a list of receipts.
- Section 170.2(i) gives the board of education the power to adopt a pre-numbered receipt form, to be issued by someone other than the treasurer, authorized to receive money in the first instance. The payroll coordinator receives monies, issues receipts and the treasurer follows up with an official receipt. The payroll coordinator has not been authorized by the board to receive monies.
- At the time of the audit, the receipt and bank deposit records were forwarded to the BOCES central business office once a month for recording in the accounting system. Good business practice would require the updating of the cash receipts journals at least once a week. In addition, the payroll coordinator keeps a handwritten cash flow statement so Otego-Unadilla officials will know current balance. Updating the cash receipts postings in a timely manner would eliminate the need for a handwritten cash flow statement to keep officials apprised of the current balance.
- Board policy Number 5530 requires monies of \$250 or greater to be deposited daily. Other monies retained at the school must be deposited weekly. This policy is not followed in all cases. The cafeteria department head keeps the sales tax monies collected from daily sales in a secured location on school premises. These monies are submitted to the business office secretary once a month for deposit. Sales tax for the Extraclassroom Activity Fund is removed from the deposit to be made, held in the safe, and deposited into a sales tax bank account in Trust & Agency once a month.
- An audit of the pre-numbered treasurer's receipt ledger to verify receipts were deposited is not being done.

## *Inventory and Fixed Assets*

According to the Office of the State Comptroller Financial Management Guide (Guide), the maintenance of adequate fixed asset records and the fair reporting of fixed assets enable an agency to conform with Generally Accepted Accounting Principles (GAAP), and provide management with tools for establishing appropriate controls. Responsibility for assets can be assigned to an individual to reduce the risk of loss, damage, and theft. The planning of future acquisitions can be facilitated with a sufficient knowledge of the value, location, condition, and useful life of the assets under an agency's control. Otego-Unadilla did not establish the necessary controls over its assets. Otego-Unadilla did not conduct a physical inventory, tag or mark new equipment, or remove surplus equipment from its records.

According to the Uniform System of Accounts for School Districts, "A physical inventory should be taken annually and reconciled with the property records on file." The Guide adds that, "Of course, this need not be done every year for each department but should be done in some of the departments each year. Over a three or four year period physical inventories should be performed for all departments." Citing insufficient resources, Otego-Unadilla officials acknowledge that physical inventories are not performed. Without this element of a fixed asset inventory control system, the board cannot be assured that Otego-Unadilla's assets are secure, whole, and serving their intended purposes.

The Uniform System of Accounts for School Districts requires that all equipment purchased and received by the district be checked, logged, and stored in accordance with established procedure. Otego-Unadilla does not have procedures in place for all buildings to tag or mark new equipment or fixed asset purchases. In addition, entries are not generated for surplus items. Otego-Unadilla indicated that Industrial Appraisals was hired in 2000 to tag all equipment (desks, computers, etc.); however, this was for insurance purposes. During this appraisal, computer equipment owned by BOCES through a Learning Technology CO-SER was incorrectly tagged. Otego-Unadilla's CPA, in the last several management letters, cited the inability of Otego-Unadilla to record the yearly

activity and has given a qualified opinion concerning the value of the fixed assets. The audit found that no one person is responsible for maintaining the fixed asset inventory, specifically tagging new purchases, tracking equipment surplused, and verifying physical inventory. The computer coordinator has been tracking computers and classroom equipment on an Excel spreadsheet.

## **Written Procedures**

Education Law Section 2503 (2) requires a school board to establish policies and procedures concerning school district operations. Policies and procedures should be developed for budgeting, purchasing, accounting and auditing, travel, transportation, school lunch, operation and maintenance, safety, toxic substances, energy conservation, disaster preparedness, and other areas. Copies of the policies and procedures should be readily available and distributed to school district officials and staff. In addition, school district staff should adhere to the policies.

Board policy should clearly state the mission of the school district, the objectives to be reached, and the standards to be maintained. It should also include the manner in which the school district is to perform these tasks including the assignment of responsibilities and delegation of duties to specific staff members, the methods used, the procedures followed, and the reasoning applied in conducting a school district's business.

The board has set the overall tone of the control environment by establishing policies and communicating them to district managers in the form of Board Policy. When the board establishes policies, management should follow up by establishing written procedures. The audit acknowledges that procedures exist; however, they are not written. Otego-Unadilla administrators agreed written procedures are important controls. The Comprehensive District Education Plan and the Policy Manual refer to a school district administrative manual, which has not yet been created. While this is not a comprehensive list, the audit considered the following written procedures to be necessary:

- purchasing, which is in process of being developed. Otego-Unadilla has a memo from the central business

office that provides some guidance on requisitions and purchase orders. The procedures should also include the appropriate use of claims (expenditures not using a purchase requisition) to ensure account funds are not overspent.

- travel including usage of credit cards, obtaining travel advances, conference attendance, food and beverages at meetings/training/conference, and reimbursement rates.
- State aid to ensure forms are submitted on time, and the proper coordination exists among buildings, special programs and the business office when needed.
- fixed assets to include disposal of surplus assets, receipt and tagging of equipment, and minimal inventory value.
- accounting and operations for Extraclassroom Activity Funds.
- blank/manual check, specifically, establish a dollar limit for signatures and a reconciliation procedure.
- employee personnel records - to address the inspection by employees of their personnel files and including third parties. (District policy number 6420)
- public access to District records. (District policy number 3310)
- attendance records in order to instruct administrative and instructional personnel of Otego-Unadilla, specifically the procedures for recording and maintaining attendance records. (District policy number 7122)
- supplies and expendable equipment purchased and received by Otego-Unadilla shall be checked, logged, and stored.
- orderly and efficient management of records, including the legal disposition or destruction of obsolete records.
- investments.
- various accounting functions, besides purchasing, to facilitate analysis and evaluation of Otego-Unadilla's

financial status. Specifically, payroll (time, attendance), accounts payable, and cash receipts (accounts receivable).

- employment process (advertising/posting, interview, reference/credential check, offer, acceptance, and starting).
- payments, reimbursements, and verification of petty cash fund.

## **Recommendations**

8. The Board should review the budget status report to assure that accounts do not exceed appropriations.
9. Issue budget status reports to include the Extraclassroom Activity Fund and prepare fund balance projections in January of each year.
10. The district clerk should sign and retain official Board minutes.
11. Mass encumber and make transfers on a timely basis.
12. Ensure that closing entries are made to ensure that the financial statements and accounting records agree.
13. The Board should appoint a faculty auditor, bond the central treasurer, and consider investing surplus monies of the Extraclassroom Activity Fund.
14. Appoint an internal claims auditor in compliance with Education Law Section 1709(20)(a).
15. Develop a program of cross-training other staff in the duties of key individuals in the business office function.
16. Segregate responsibilities for the cash receipt process. Record checks into a log, restrictively endorse the checks, prepare deposits for the bank, and the daily deposit slips should be verified against the cash receipts log kept by the superintendent's secretary.

17. Forward cash receipts and bank deposits to the central business office at least weekly. Sales tax monies should be deposited more often than once a month.
18. Assign the responsibility of maintaining inventory to one person, and establish a minimum value for items to be included in the inventory.
19. Consider developing a procedures manual.

### **Comments of Otego-Unadilla Officials**

Otego-Unadilla officials agree with these recommendations except for numbers 13 and 14 which call for the appointment of a faculty auditor and a different internal claims auditor. They believe that they have adequate internal controls with the existing staff assignments.

Otego-Unadilla Central School District  
Contributors to the Report

- James A. Conway, Audit Manager
- Melissa Walters, Auditor-in-Charge
- Ronald Talarico, Associate Auditor
- Jean Stone, Senior Auditor

## *Unatego Central School*

Comments on the Draft Report  
Written by Nicholas R. Rosas, Business Manager

On behalf of the Board of Education and the Administration of Unatego Central School, I would like to thank the Audit Team from the State Education Department. We found the team very easy to work with, and their input both during the fieldwork and in the written report was very helpful.

The audit team arrived shortly after the arrival of a new superintendent (July 1, 2000), and myself as Business Manager (November 2000). The analysis of district procedures was something we had considered via a consultant, so it saved the district money as well.

Most of the findings and criticisms in the audit were problems that were observed by the Board, the superintendent, and myself. The issues of Extra-classroom Auditor and Internal claims auditor were the only areas where we disagree strongly with the audit.

Unatego did not have many written procedures two years ago. This, along with a high administrative turnover, made for many haphazard management practices. We have begun addressing those practices by instituting written procedures and staff training.

### **Attendance**

One area of concern that has been addressed is attendance. With the state mandate of period attendance on the horizon, we have used it as an opportunity to correct attendance record keeping at the Junior/Senior High School. We have upgraded our Winschool software package, and are training both teachers and clerical staff in its use and correct attendance procedures. We are also using its student record keeping ability to generate accurate Cohort data. The quality of the Cohort data was a concern in the audit.

### **Internal Controls**

As part of the audit, the internal control procedures & practices were examined. While the audit found nothing wrong with the results, it did cite several deviations from the State Education Department Internal Control checklist. Most of these were valid observations, and we have taken steps to correct as many as we can. However, Unatego is faced with a problem common to small rural districts. We just don't have enough staff to sufficiently segregate duties.

One area that we disagree strongly with is the criticism of our use of the BOCES Business Manager as our Internal Claims Auditor. Unatego Central School contracts with the Delaware-Chenango-Madison-Otsego BOCES for business office services,

including accounts payable and payroll. Because BOCES processes our bills for payment, and is also a vendor selling services to the district, the auditors feel it is improper for the BOCES Business Manager to act as our Internal Claims Auditor.

It is the district's position that we are better served by having an experienced business official review claims rather than assign it to someone here with no experience. The BOCES Business Manager has no authority to make purchases on behalf of the district, has no access to district funds, and can pay no bills without district approval. All authorizing signatures are made by district employees. All checks are returned to the district for signatures. The BOCES Business Official reports to the DCMO BOCES Assistant Superintendent for Management Services, and her work is subject to his review. The independent auditors for both BOCES and the district (different firms) have never expressed concern with the arraignment. Given the staff restrictions in a small district, we are confident this is the best way to insure compliance with all purchasing and paying guidelines and that it is the best way to safeguard district funds.

### **Extra-classroom auditor**

The audit cites our lack of an appointed extra-classroom auditor. We think that this is just a question of semantics. We do not use building principals as auditors, but appoint a faculty member to fill that role. He is responsible for enforcing all guidelines and must sign all payment requests. We appoint a separate staff member as Extra-classroom treasurer. All checks are signed by both the treasurer and the district's Business Manager.

### **Conclusions**

The Audit Report will be a very useful tool for us. It's made us take a hard look at some things here in the district. Even on the issues where we disagree, we had to think long and hard about. Again, we thank the team for the time and effort they put into the report.

**NEW YORK STATE EDUCATION DEPARTMENT  
OFFICE OF AUDIT SERVICES  
AUDIT REVIEW PROCEEDINGS**

**Requests for Audit Review**

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from a final audit report issued by the Office of Audit Services.

An organization requesting an audit review must make a written application to the Associate Commissioner for Planning and Policy Development, New York State Education Department, Room 128 EB, Albany, New York 12234 within 30 days of receiving the final audit report. An organization may request a review of an audit whenever the final audit report directs the recovery of funds from the organization and one or more of the following conditions is met:

- Recovery of funds would cause immediate and severe financial hardship to the organization, thereby affecting the well-being of program participants;
- The organization's violation was caused by erroneous written guidance from the State Education Department;
- The State Education Department failed to provide timely guidance on the matter or condition when the organization had previously requested such guidance in writing; and/or
- The report contains errors of fact or misinterpretation of laws, statutes, policies or guidelines.

Organizations requesting an audit review must submit a written application describing how one or more of the above conditions have been met. This application must include all evidence and information the organization believes are pertinent to support its position.

An audit report which recommends improvements in internal controls of administrative or financial systems, but has no material financial impact on the organization, will not be considered for an audit review proceeding.