



Pawling Central School District

Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2010 — January 3, 2012

2012M-185



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2013

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 compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Board of Education governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Pawling Central School District, entitled 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 Pawling Central School District (District) is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools 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 three schools – an elementary, middle and high school – in operation within the District, with approximately 1,310 students and 360 employees. The District's budgeted expenditures for the 2011-12 fiscal year were \$35.8 million, which were funded primarily with State aid and real property taxes.

Scope and Objective

The objective of our audit was to examine selected District financial activities for the period July 1, 2010 through January 3, 2012. We expanded our scope period to July 1, 2004 for our review of capital projects and to July 1, 2009 through June 30, 2012 for our review of accounting records. Our audit addressed the following related questions:

- Did the Board provide adequate oversight to ensure that District officials properly followed capital project resolutions and prescribed tax certiorari reserve fund procedures?
- Did the District's Audit Committee perform its duties as authorized by law and its charter?
- Did District officials procure professional services at the most economical cost?
- Are the Treasurer's duties properly segregated?

Audit Results

The Board needs to improve its oversight of District operations. Specifically, we found issues with the Board's oversight of capital projects, the Audit Committee, procuring professional services, and the Treasurer's duties. This lack of oversight puts District funds at risk of being mismanaged or misappropriated.

We found that the Board did not provide adequate oversight of the District's capital projects and tax certiorari reserve funds. District officials overfunded the High School Roof project and burdened District taxpayers with \$1.3 million in unnecessary borrowing. In addition, we identified 10 projects

which were completed but were not officially closed. Also, the District's 2011 financial statements did not accurately reflect the amount authorized and the bond proceeds for the High School Roof project. Therefore, there is no assurance that account balances were accurate or reflected the District's true financial position. Further, the District paid approximately \$579,300 in tax certiorari claims from July 1, 2009 through June 30, 2012 from the general fund instead of using the tax certiorari reserve. This reserve had a balance of \$167,938 as of June 30, 2009, which increased to \$516,173 as of June 30, 2012. By not using the tax certiorari reserve fund to make associated payments, the District is accumulating taxpayer resources that could be used for other purposes.

We found that the District's Audit Committee (Committee) acted outside the scope of its authority. For example, the Committee Chair, who was also a Board member, acted in a supervisory capacity over the claims auditor and directed her to report directly to him, even though Education Law states that the claims auditor must report directly to the Board. The Chair also withheld information from District officials, including internal audit reports and Committee minutes. In addition, the Committee has been reviewing the District's budget and financial data, such as budget status reports, and analyzing the District's financial position, which are not included as part of its responsibilities in the charter. Acting outside its authority and withholding information from the Board inhibits the Board's ability to provide adequate oversight of District activities.

Although the District has a procurement policy, there is no specific guidance on the procurement of professional services. The District paid four professional service providers (legal, architectural, internal audit, and external audit) \$233,894 during the audit period without first soliciting competition. Because the District did not solicit competition for these services, the risk is increased that it could have paid more than necessary for the services.

The Board did not properly segregate the Treasurer's and Deputy Treasurer's duties over cash disbursements. The Deputy Treasurer does not supervise or have control over the use of his facsimile signature. In fact, we observed the Treasurer insert a single user name and password in the flash drive and affix both his and the Deputy Treasurer's signatures on District checks. Although our review of missing and voided checks did not disclose improper payments, when duties are not adequately segregated, the risk is increased that improper payments could be made without detection or correction.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they have already initiated, or plan to initiate, corrective action.

Introduction

Background

The Pawling Central School District (District) is located in the Town of Pawling, portions of the Towns of East Fishkill, Beekman, and Dover in Dutchess County, and a portion of the Town of Patterson in Putnam County. The District is governed by the Board of Education (Board), which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools 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 three schools – an elementary, middle school and high school – in operation within the District, with approximately 1,310 students and 360 employees. The District's budgeted expenditures for the 2011-12 fiscal year were \$35.8 million, which were funded primarily with State aid and real property taxes.

The Board-appointed claims auditor is responsible for reviewing all claims prior to payment. The Treasurer is the official custodian of all District funds and is the authorized signatory on District bank accounts. The District also appointed a Deputy Treasurer who assumes the Treasurer's duties in the event of his absence.

Objective

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

- Did the Board provide adequate oversight to ensure that District officials properly followed capital project resolutions and prescribed tax certiorari reserve fund procedures?
- Did the District's Audit Committee perform its duties as authorized by law and its charter?
- Did District officials procure professional services at the most economical cost?
- Are the Treasurer's duties properly segregated?

Scope and Methodology

We examined internal controls over selected District financial activities for the period July 1, 2010 to January 3, 2012. We expanded our scope period back to July 1, 2004 for our review of capital projects and from July 1, 2009 through June 30, 2012 for our review of accounting records.

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 B of this report.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they have already initiated, or plan to initiate, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the GML, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the District Clerk's office.

Financial Management Practices

The Board is ultimately responsible for the oversight and management of the District's financial resources, including capital project and reserve funds. The Board delegated this responsibility to the Assistant Superintendent of Finance and the Director of Facilities and Operations but must provide adequate oversight to ensure the District's financial resources are safeguarded. Adequate accounting records and effective procedures need to be in place to properly account for and report the District's financial activities.

The Board did not provide adequate oversight and management of the District's capital projects and tax certiorari reserve funds. As a result, District officials overfunded the High School Roof project, burdening District taxpayers with \$1.3 million in unnecessary borrowing. In addition, 10 projects were completed but were not officially closed. Also, the District's 2011 financial statements did not accurately reflect the amount authorized and the bond proceeds for the High School Roof project. Therefore, District taxpayers and stakeholders cannot be assured that account balances are accurate or reflect the District's true financial position. Further, the District paid approximately \$579,300 in tax certiorari claims from July 1, 2009 through June 30, 2012 from the general fund instead of using the tax certiorari reserve. This reserve had a balance of \$167,938 as of June 30, 2009, which increased to \$516,173 as of June 30, 2012. By not using the tax certiorari reserve fund to make associated payments, the District is accumulating taxpayer resources that could be used for other purposes.

Capital Projects – Capital projects are long term projects that require relatively large sums of money to acquire, develop, improve, or maintain capital assets such as land, buildings and roads. Given the costs involved, local governments and school districts often issue debt to complete these projects after the governing board has obtained voter approval. All capital projects must be properly planned so that an accurate estimate of costs may be determined.

The Board and District officials are responsible for ensuring that capital projects are properly planned, managed, and monitored. To accomplish this, it is essential for the Board and District officials to clearly define the scope of the project, sources of funding, maximum cost projections, project budget, timeline and other criteria at the onset of the project. Finally, the Board must pass a resolution closing projects that have been completed once all revenues have been received and all expenditures paid.

We found that the Board did not provide adequate oversight to ensure District capital projects were properly planned, managed, and monitored so that accurate cost estimates were determined and funding sources used were in accordance with the approved financing plan. Due to the lack of adequate oversight, completed projects were not closed in a timely manner and accurate accounting records were not maintained for capital projects.

In fiscal year 2005-06, the Board passed a resolution authorizing a maximum amount of \$1,910,000 to cover the cost of the High School Roof project. Of this amount, \$1,444,693 was to be funded by debt and the remaining \$465,307 funded through a grant. However, in May 2008 District officials elected to issue bonds for the authorized maximum amount of \$1,910,000, instead of the \$1,444,693 stipulated in the Board resolution, resulting in unnecessary borrowing of \$465,307. Ultimately, District officials did not expend the entire \$2,375,307 funding they obtained for the project; they only spent \$1,054,784 on the project. Therefore, District officials overfunded the High School Roof project by \$1,320,523, and issued debt the District did not need, causing District taxpayers to pay for unnecessary interest costs. Had the Board exercised proper and adequate oversight, District taxpayers would not be burdened with approximately \$1.3 million in additional costs. As of the end of fieldwork, the excess funds were being held in the capital projects account until District officials could determine what to do with these funds.

We also found that District officials did not close completed capital projects in a timely manner. The District's 2011 certified financial statements identified 13 ongoing capital projects. However, District officials told us only three of these projects were still ongoing. The remaining 10 projects were completed but were never officially closed. For example, the District made final payments on the Elementary School Electric and Elementary School Roof projects on June 26, 2007 and June 23, 2009, respectively, but the projects were still not closed as of the end of our fieldwork, July 2012.

Complete and accurate accounting records for capital projects are necessary for proper financial reporting and monitoring. We determined that District officials did not maintain accurate accounting records for capital projects. We randomly selected a sample of five of the 13 projects and compared the amounts reported on the 2011 financial statements to the amounts reported in the Board resolutions. The District's 2011 financial statements showed that the authorized amount for the High School and Henry Street Roof project was \$2,375,300, not the \$1,910,000 stated in the Board resolution. The financial statements also reported the proceeds of obligations as

\$1,444,700, instead of the \$1,910,000 District officials actually borrowed for the project.

Similarly, the District's 2011 financial statements reported that the Five-Year Plan would expend \$588,500. However, the reported amount had not been updated to include the 2008-09 and 2009-10 projects. Resolutions for the 2008-09 and 2009-10 projects authorized a combined amount of \$518,200, bringing the total amount which should have been reported at \$1,106,700. The failure to maintain accurate accounting records for the projects may have resulted in the public and stakeholders making decisions based on erroneous financial information.

These discrepancies occurred because the Board and District officials did not have procedures for monitoring and updating capital project records. In addition, District officials are not accurately presenting District operations on the financial statements because completed projects remained listed as ongoing instead of closed. These practices compromise transparency and accountability to the taxpayers.

Tax Certiorari Reserve – The purpose of a tax certiorari reserve is to pay the judgments and claims in tax certiorari proceedings in accordance with Real Property Tax Law. To ensure accountability to the taxpayers, District officials should use funds set aside in this reserve to pay for tax certiorari claims.

Although the District established a tax certiorari reserve, payments made for tax certiorari claims were not deducted from the reserve amount. The District paid approximately \$579,300 in tax certiorari claims from July 1, 2009 through June 30, 2012. However, instead of using the funds accumulated in the tax certiorari reserve to pay for these claims, these funds were paid from the general fund and recorded as negative property tax revenue entries. The Assistant Superintendent of Finance stated that this was done because the Board wanted to use available general fund moneys before using the moneys saved in the reserve account. The tax certiorari reserve had a balance of \$167,938 as of June 30, 2009, which increased to \$516,173 as of June 30, 2012.

By not using the tax certiorari reserve fund to make associated payments, the District is accumulating taxpayer resources that could be used for other purposes.

Recommendations

1. The Board should adopt a formal process for capital projects. Such a process should include a requirement to comply with Board resolutions and a written plan that clearly defines the scope of the

project, sources of funding, maximum cost projections, project budget, timeline and other criteria at the onset of the project.

2. District officials should formally close all completed capital projects.
3. District officials should ensure that the accounting records for capital projects are accurate.
4. The Board should require District officials to pay appropriate tax certiorari claims from the reserve fund.

Audit Committee

The Board established an Audit Committee (Committee) as required by Education law. The Committee, consisting of three Board members and two community members, operates under a charter which outlines its duties and responsibilities. According to the charter, the Committee is responsible for making recommendations regarding the appointment of the internal and external auditors, meeting with the auditors, assisting in overseeing the internal audit, reviewing the results of audits and the associated corrective action plans, and assisting the Board in implementing corrective action. The Committee also serves to provide a communications link between the external and internal auditors and the Board. The Committee does not have authority to oversee the District's claims auditor; the claims auditor must report directly to the Board.

We received complaints from Board members and District officials stating that the Committee exceeded its authority. District officials and Board members were concerned that the Committee Chair, who is a Board member, acted independently without consulting District officials or the Board regarding District matters. For example, the Chair acted in a supervisory capacity over the claims auditor and directed her to report directly to him, even though Education Law states that the claims auditor must report directly to the Board.

The Chair also withheld information from District officials and the Board. District officials and Board members expressed their frustration over various requests made to the Committee regarding internal audit reports and Committee minutes which they never received. In addition, the Committee has been reviewing the District's budget and financial data, such as budget status reports, and analyzing the District's financial position, which is not included as one of its responsibilities in the charter. The Committee also has taken over the request for proposal process from District management by handling all aspects of the process to obtain an external auditor. The Committee is only responsible for making recommendations to the Board regarding the selection of the external auditor. The Board is responsible for the final selection.

The Committee also selected the District's internal auditor and the areas for review without consulting the Board. The Chair stated that the Committee did not inform the Board about the internal audit areas selected for review each year to prevent administrators from learning in advance which areas would be reviewed. Committee members stated that they believed these actions were within the scope of their

power as an audit committee. However, the Committee's role is to make recommendations to the Board; the authority for the final selection of the internal auditor and areas for review remains with the Board. Acting outside its authority and withholding information from the Board inhibited the Board's ability to provide adequate oversight of District activities.

Claims Auditor – The audit and approval of claims is one of the most critical elements of a District's internal control system over expenditures. Education Law requires the Board to audit each claim voucher before authorizing payment. The Board may delegate the claims audit function by appointing a District employee, an independent contractor, or an individual employed through an inter-municipal cooperative agreement or through shared services to the extent authorized by law. The claims auditor must report directly to the Board and bring any concerns directly to the Board's attention. Education Law and New York State Education Department regulations also provide that the claims auditor must not be directly involved in the accounting and purchasing functions. The claims auditor must determine whether each claim is properly authorized and accurate, whether the purchase represents a valid District expense for goods or services, and whether the goods or services were actually received. The Board must provide the claims auditor with a written description of his or her duties so the claims auditor understands the Board's expectations for the position.

The Board appointed a part-time claims auditor and a part-time deputy claims auditor each year at the reorganizational meeting, but did not establish policies and procedures or guidance for the appropriate audit of claims. Further, the appointed claims auditor reported directly to the Committee Chair, who also was a Board member. There were three Board members on the Committee, but the claims auditor did not report at Committee meetings. Instead, she reported exclusively to the Chair. Board members told us that the Chair either did not share the claims auditor's verbal reports with the rest of the Board or only touched upon these reports briefly. This occurred because the Chair instructed the claims auditor to report directly to him. Without the ability to communicate directly to the Board, the claims auditor's independence is impaired, which diminishes the effectiveness of the claims audit process.

We randomly selected 20 claims¹ and their corresponding warrants, totaling \$125,327, to determine if the claims were properly supported, authorized, and accurate, and the purchases were made for valid District purposes. Our review did not disclose any significant

¹ The 20 claims were selected using a random number generator.

deficiencies. However, without established policies and procedures, guidance or direct communication with the Board, the effectiveness of the claims audit function is diminished.

In addition, the Chair initially informed us that, although the claims auditor and deputy claims auditor were secretaries in the middle school and high school, respectively, they were not involved in the purchasing function. To avoid the appearance of impropriety, they would not review claims for their respective buildings – the deputy claims auditor audited claims for the middle school and the claims auditor audited all other claims. However, our review of the claims showed that both the claims auditor and deputy claims auditor are responsible for signing for the receipt of goods. As both are directly involved in the purchasing function, they hold positions that prohibit them from auditing claims.

Because of these weaknesses, we reviewed 20 additional claims,² totaling \$19,719, that were audited by the claims auditor to determine who signed for the receipt of goods and if the claims auditor and deputy claims auditor were approving the claims for their respective buildings. We found one or more deficiencies with 15 claims totaling \$17,494; examples are detailed below.

- The claims auditor approved all 20 claims, including 12 claims totaling \$6,826 that were for the middle school.
- Although District officials told us that neither the claims auditor nor her deputy sign for claims for their respective schools, three claims totaling \$14,344 were signed by the deputy claims auditor acknowledging the receipt of goods for the high school.
- One claim was initially signed by the claims auditor as receiving the goods in the middle school. However, the claims auditor's name was then crossed out and two other middle school employees signed on top of her signature.

These errors occurred because the Board did not provide the claims auditor and the deputy claims auditor with adequate guidance to perform their duties. The Board's failure to appoint an eligible independent claims auditor and deputy claims auditor – and provide them with adequate guidance – increases the risk that moneys could be expended for inappropriate purposes. The risk is further increased

² We judgmentally selected all claims for the months of July and August 2011 that were coded as purchases for the middle school and high school because these are months when schools begin to receive goods for the school year and there is limited staff in the buildings.

that errors and irregularities may not be detected and corrected in a timely manner.

Recommendations

5. The Committee should limit its activities to the scope of what is included in its charter. In addition, the Committee should share all of its activities and information with the Board.
6. The Board should develop clear and specific policies and procedures or guidance for the claims auditor.
7. The Board should appoint a claims auditor and deputy claims auditor who are not involved with the District's accounting and purchasing functions. These individuals should report directly to the Board.

Professional Services

Contracts for professional services are not required by law to be competitively bid. However, General Municipal Law requires school districts to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. Although not required by law, prudent business practices provide that professional services be awarded after soliciting competition. One way to accomplish this is through the request for proposals (RFP) process, which is meant to help ensure that the District receives the desired service in the most favorable terms and conditions, or at the best value. It also provides District taxpayers with the greatest assurance that services are procured in the most prudent and economical manner without favoritism.

Although the District has a procurement policy, there is no specific guidance on the procurement of professional services. The District's policy requires that employees obtain three verbal quotes for purchases between \$3,000 and \$5,000 and three written quotes for purchases exceeding \$5,000. Further, Education law requires school districts to use an RFP process for their external auditor at least once every five years. The District paid amounts in excess of the District's \$3,000 quote threshold to five professional service providers totaling \$240,859. Of the five professionals, we judgmentally selected four that were paid in excess of \$10,000 during the audit period to determine whether contracts were awarded after soliciting competition, the Board signed formal contracts, and the professionals were compensated in accordance with agreed-upon rates. The District paid these four professionals \$233,894 for their services during the audit period.

Although we found that all four vendors had contracts with the District and were paid in accordance with their contracts, District officials did not solicit competition for the services procured from any of the four vendors during our audit period. The specific services included legal services (\$80,342), external audit services (\$74,100), architectural services (\$67,952), and internal audit services (\$11,500). In addition, the District has not sought competition within the last five years for external audit services, as required by Education Law. While we were conducting our fieldwork, the Committee was in the process of preparing an RFP for external audit services.

District officials could not explain why they have not issued recent RFPs for these services. The failure to solicit competition and the absence of specific guidance for acquiring professional

services increases the possibility that services may not be acquired economically and without favoritism or in the best interest of District taxpayers.

Recommendations

8. The Board should amend the District's purchasing policy and procedures to include guidelines for procuring professional services and ensure that District officials adhere to them.
9. The Board should ensure that District officials issue an RFP for external audit services at least every five years, as required by Education Law.

Treasurer's Duties

An effective system of internal controls ensures that there is adequate segregation of incompatible duties. At minimum, key duties such as authorization, recordkeeping, and asset custody must be segregated. A proper division of responsibility ensures that the work of one employee is independently checked in the course of another employee's regular duties. If it is not plausible to adequately segregate an individual's duties, District officials must implement compensating controls, such as procedures to ensure that someone reviews the individual's work. Concentrating key duties with one individual with little or no oversight weakens internal controls and significantly increases the risk that errors or irregularities might occur and go undetected. The Treasurer is the official custodian of all District funds and is the authorized signatory on District bank accounts. The Law requires the Treasurer's actual or facsimile signature to be affixed to District checks by the Treasurer or affixed under his direct supervision. The Board may, by resolution, designate a Deputy Treasurer to sign checks in case of the Treasurer's absence or inability.

The Board appointed a part-time Treasurer and a part-time Deputy Treasurer each year. However, the Board did not properly segregate the Treasurer's and Deputy Treasurer's duties over cash disbursements. The Treasurer's, and in his absence the Deputy Treasurer's, responsibilities include payroll, accounting and treasury functions, including drawing and signing checks. Additionally, the Treasurer maintains custody of the District's bank records and reconciles the District's bank accounts. The Treasurer also can initiate and record wire transfers, and prepare, enter, approve, and post all journal entries. With these incompatible duties, the Treasurer has the ability to make an unauthorized disbursement and conceal it in the accounting records.

Although the District has set up signatory requirements with District banks requiring both the Treasurer's and Deputy Treasurer's signatures to be affixed to District checks, the Treasurer controls the flash drive containing both signatures. The Deputy Treasurer does not supervise or have control over the use of his facsimile signature. In fact, we observed the Treasurer insert a single user name and password in the flash drive and affix both his and the Deputy Treasurer's signatures on District checks. During our audit period, the Treasurer was responsible for approximately \$55.5 million in cash disbursements. The Assistant Superintendent of Finance stated that the District has limited staffing and, to operate efficiently, some staff members perform various incompatible functions.

Due to these control weaknesses, we reviewed the District's cash disbursement data to identify gaps in the check numbers and checks made out to the Treasurer. We determined there were no checks made out to the Treasurer and selected a sample of 10 missing check numbers³ for further examination. Three of the checks were voided. The Treasurer informed us that four out of the 10 checks were wire transfers and explained that these gaps were attributed to human error because wire transfer numbers are manually entered and he forgot the last number issued. However, the Treasurer could not produce three checks and was unable to provide an explanation for why they were missing. We verified these checks had not cleared the bank. We also reviewed 25 voided checks totaling \$174,171 to determine if the checks were kept on file and the reason they were voided; we found no exceptions.

Although the sample we tested did not disclose improper payments, when duties are not adequately segregated, the risk is increased that improper payments could be made without detection or correction.

Recommendations

10. The Board should segregate the Treasurer's duties so that the Treasurer does not control all aspects of any financial transaction. Where it is not feasible to adequately segregate the Treasurer's duties, the Board should establish compensating controls to routinely monitor and review the Treasurer's work.
11. The Deputy Treasurer should maintain control of his facsimile signature at all times and supervise the application of his signature on all District cash disbursements.

³ We identified 10 gaps in the check numbers and used a random number generator to select one check number from each gap.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

PAWLING CENTRAL SCHOOL DISTRICT

W. Michael Mahoney,
Interim Superintendent of Schools
Finance



Warren Donohue,
Assistant Superintendent for

Elsa Kortright-Torres
Interim Assistant Superintendent for Instruction

Small Size ~ Diverse Opportunities

January 17, 2013

Tenneh Blamah, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Ms. Blamah:

On behalf of the Pawling Central School District we would like to thank you and the field team that reviewed the financial operation of our district. We found the team assigned to be knowledgeable, competent, courteous and professional in their examination of district financial operations.

At our exit conference, we addressed some of the issues identified in the Audit that we believe the district has responded to in a meaningful way. The first such example is that the Assistant Superintendent for Finance has now officially closed ten of the thirteen capital projects that were identified as completed but not officially closed. The second example is that the Board of Education has identified and codified in Policy an RFP process for the procurement of professional services. We will continue to proactively assess our operations and will strive to adopt your recommendations in our Corrective Action Plan.

In citing three issues that our district did not address appropriately, we acknowledge that the issue of payment of tax certiorari claims from the general Fund needs to be paid exclusively from the Tax Certiorari Reserve and we have already made adjustments to this practice. We also acknowledge that the Audit Committee acted outside the scope of its authority and beyond the responsibilities in the district charter. Finally, we recognize the shortcoming in not segregating the treasurer's and deputy treasurer's duties over cash disbursements. We are examining each of these areas with an eye toward adopting best practice. We look forward to identifying our ultimate adjustments when we submit our Corrective Action Plan.

Sincerely,

W. Michael Mahoney
Interim Superintendent

Cc: Pawling Board of Education
Warren Donohue, Assistant Superintendent for Finance

Pawling Central School District Administrative Offices, 515 Route 22, Pawling, NY 12564

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www.pawlingschools.org

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess District operations and identify areas where the District could realize efficiencies and protect assets from loss or misuse. 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: account records, capital projects, segregation of duties, and health insurance budgeting. Based on that evaluation, we determined that controls appeared to be adequate for health insurance budgeting and selected for audit those areas most at risk. We selected capital projects, account records, segregation of duties, and claims processing. We expanded our scope period to July 1, 2004 for our review of capital projects.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed appropriate District officials and personnel to gain an understanding of District operations.
- We reviewed a listing of active and closed capital projects, compared the financial statements to the list, and selected the three most recent active projects for further review.
- We selected a random sample of five capital projects and compared the amounts authorized on the resolutions to the financial statements.
- We reviewed the budgets, accounting records and vouchers for the three most recent active capital projects to perform a budget review and identify the budget appropriations.
- We selected a random sample of 20 claims and reviewed their corresponding warrants to ensure claims were properly authorized and accurate, and the purchases were made for valid District purposes.
- We judgmentally selected a sample of 20 claims to determine who was signing for the receipt of goods.
- We reviewed vouchers, requests for proposals and District policies to determine whether selection of professional services adhered to General Municipal Law and the District's purchasing policy.
- We reviewed the cash disbursement data and selected a random sample of 10 checks to determine why there were gaps in check numbers.
- We selected a random sample of 25 voided checks to determine why the checks were voided.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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

Andrew A. SanFilippo, Executive Deputy Comptroller
Steven J. Hancox, Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

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