Garden City
Union Free School District

Internal Controls Over
Selected Financial Operations

Report of Examination

Period Covered:
July 1, 2006 — November 30, 2007

2009M-46

Thomas P. DiNapoli
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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 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 Garden City Union Free School District, entitled Internal Controls Over Selected Financial Operations. 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
The Garden City Union Free School District (District) is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District’s financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are seven schools in operation within the District, with approximately 4,200 students and 830 employees. The District’s budgeted expenditures for the 2006-07 fiscal year were $85 million, which were funded primarily with State aid, real property taxes, and grants.

Scope and Objective

The objective of our audit was to examine the internal controls over selected financial operations for the period of July 1, 2006 to November 30, 2007. Our audit addressed the following related questions:

- Did the District establish and account for the Employee Benefit Accrued Liability Reserve properly?
- Are internal controls over Business Office operations appropriately designed and operating effectively to adequately safeguard District assets?
- Have District officials designed and implemented effective internal controls over payroll processing to ensure that payments are properly authorized and supported?
- Did the Board and District officials implement and monitor adequate policies and internal controls relating to the District’s procurement procedures?
- Have the Board and District officials established adequate controls, policies and procedures to safeguard the District’s information technology equipment and data?

Audit Results

The Board and District officials need to improve their oversight of District operations. We found that they either had not established adequate policies and procedures or did not monitor for compliance with existing ones. As a result, the District over-funded its Employee Benefit Accrued Liability Reserve (EBALR), and had internal control weaknesses in its Business Office operations, payroll processing, purchasing, and information technology.

The District established an EBALR on November 17, 2003 using about $1.5 million of available funds. Moneys from this reserve may be used to pay employees for compensated absences (e.g.,
vacation time) upon separation from District service. Money from this reserve has not been used since its inception, and the reserve contained $5.2 million in excess fund balance during our audit period. According to District officials, the excess fund balance was set aside to pay for other post employment benefits (OPEB), such as retiree health insurance, which is not a permitted use of EBALR moneys. In addition, we found that the District had not allocated the interest earned on EBALR moneys to the EBALR reserve, as required by law. Rather, EBALR interest earnings have been improperly added to the general fund where their use is not restricted to the purpose for which the reserve fund was established. We estimate that the EBALR’s interest earnings for the 2006-07 fiscal year were approximately $120,000.

We found that the District had no written procedures for the protection and use of electronic signatures, or for the appropriate authorization and review of wire transfers. Additionally, Bank reconciliations were not properly prepared for all District bank accounts and the District did not issue pre-numbered cash receipt forms. These control weaknesses place the District’s cash assets at an increased risk of mismanagement, misuse, or loss.

The District did not include the annual salaries paid to eight administrators and five technology specialists, totaling $1.6 million, in the Board minutes made available for audit and posted on the District’s web site for the general public. The Board minutes presented to us (certified by the District Clerk as the official Board minutes) and the minutes posted on-line (on the District’s official web site) did not indicate the salaries of the 13 District employees. The five technology specialists also received fringe benefits totaling approximately $97,000 without any evidence of Board approval. Also, eight additional individuals received $22,398 for 484 hours of overtime that was not pre-authorized in writing. Without Board authorization and public recording of salaries and fringe benefits, and adequate controls over overtime, the District could pay employees salary and benefits that the Board does not intend them to receive, or pay for unnecessary overtime.

The District paid five vendors a total of $732,571 for professional services without soliciting competitive proposals. In addition, the District did not have written agreements with one of the providers, an architect, who received $95,674 during the audit period. One professional firm was overpaid $1,615 because the firm charged for services at hourly rates greater than the amounts specified in their agreement. The District’s purchase order system is not operating effectively because 15 of the 34 claims we reviewed totaling $169,918 were for confirming orders. We also found that 560 gallons of diesel fuel, valued at $1,517, were unaccounted for. As a result of these internal control weaknesses, the risk is increased that District funds are not being spent in the most prudent and economical manner.

Finally, the District does not have written policies and procedures that address the areas of computer user permissions and disaster recovery. As a result, critical financial data is subject to an increased risk of loss or misuse.

**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 the issues raised in the District’s response letter.
Introduction

Background
The Garden City Union Free School District (District) is located in the Town of Hempstead, Nassau County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District’s financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are seven schools in operation within the District, with approximately 4,200 students and 830 employees. The District’s budgeted expenditures for the 2006-07 fiscal year were $85 million which were funded primarily with State aid, real property taxes, and grants.

The District maintains several reserves, including an Employee Benefit Accrued Liability Reserve that was established for the cash payment of accrued compensated absences due to District employees upon separation from service. At June 30, 2007, this reserve had a balance of $8,125,479.

The Assistant Superintendent for Business is responsible for overseeing the District’s Business Office. He supervises Business Office employees who maintain the District’s financial accounting records and process the District’s cash receipts, disbursements, and payroll. He also serves as the District Clerk. The purchasing agent is responsible for authorizing purchases, and the District Treasurer is responsible for receiving, disbursing, and holding District money.

Objective
The objective of our audit was to examine the internal controls over selected financial operations for the period of July 1, 2006 to November 30, 2007. Our audit addressed the following related questions:

• Did the District establish and account for the Employee Benefit Accrued Liability Reserve properly?

• Are internal controls over Business Office operations appropriately designed and operating effectively to adequately safeguard District assets?

• Have District officials designed and implemented effective internal controls over payroll processing to ensure that payments are properly authorized and supported?
• Did the Board and District officials implement and monitor adequate policies and internal controls relating to the District’s procurement procedures?

• Have the Board and District officials established adequate controls, policies and procedures to safeguard the District’s information technology equipment and data?

Scope and Methodology

We examined the District’s internal controls over select financial operations for the period July 1, 2006 to November 30, 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 the issues raised in the District’s response letter.

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. The Board should make the CAP available for public review in the District Clerk’s office.
Employee Benefit Accrued Liability Reserve

One of the chief fiscal responsibilities of school board members and school district officials is preparing an annual budget that identifies the resources the school district has to spend in the coming year, and how those resources will be expended. Budgets show how revenues obtained from real property taxes, State aid and other sources will be appropriated to pay for school district operations and obligations. Any fund balance that remains can be legally reserved for a specific statutory purpose, or can be maintained, up to a statutory limit, as unreserved fund balance. Unreserved fund balance is intended to promote cash flow and provide a cushion to help school district officials manage unexpected costs. During our audit period, Real Property Tax Law limited the amount of unreserved fund balance a school district could retain to no more than three percent of the next year’s budgetary appropriations. Unreserved fund balance can also be used to reduce the tax levy in following year’s budget.

Because reserved portions of fund balance are committed for specific legal purposes, these moneys cannot be appropriated to fund programs in the following year’s budget. Reserve funds are created under various laws and are used to finance the cost of a variety of objects or purposes. The laws under which the reserves are established (or sometimes mandated) determine how the reserves can be established, funded, expended or discontinued.

An Employee Benefit Accrued Liability Reserve (EBALR) fund may be created under the General Municipal Law. Moneys from this reserve may be used to make cash payments to employees upon separation of service for unused sick leave, holiday leave, vacation time, time allowances granted in lieu of overtime compensation and any other forms of payment for accrued leave time due. Interest earned on money in the EBALR becomes part of the reserve fund. Should the District determine that the EBALR is no longer needed, the moneys in the fund may be transferred to certain reserve funds authorized by law.

The Board formally established an EBALR for $1.5 million on November 17, 2003. Minutes from the Board meeting held on that date stated that the reserve was created using available funds, and that

1 In July 2007, legislation was enacted to change the Real Property Tax Law statutory limit of unappropriated fund balance to three percent of the 2007-08 fiscal year’s budget and four percent of the 2008-09 fiscal year’s budget.
the money set aside would be used for the payment of amounts due to employees upon termination. Money from this reserve has not been used since its inception; instead, the District paid for these expenses from its operating fund. Meanwhile, the District has used available fund balance to increase the balance in the EBALR to $8,125,479 at June 30, 2007. However, as of June 30, 2007, the liability for termination payments that can be paid from this reserve totaled only $2,957,592. As a result, the District has over-funded the liability for compensated absences by $5,167,887 (175 percent). Excess EBALR funds represent money that could have been used for other District purposes or could be redirected to other reserve funds authorized by law.

According to the Assistant Superintendent for Business, the excess balance in the EBALR was set aside to pay for Other Post Employment Benefits (OPEB), such as retiree health insurance benefits. While an EBALR may be established and used to pay for accrued but unused time earned upon separation from service, paying for retiree health insurance is not a permitted use of this fund. Currently there is no reserve fund authorized by law for the purpose of paying retiree health care costs.

District officials may have used the EBALR to keep the District’s unreserved fund balance under the statutory limit. If the excess reserved fund balance of approximately $5.2 million were added to the District’s unreserved, unappropriated fund balance of $2.7 million at June 30, 2007, the District’s retained fund balance would have been approximately nine percent of the 2007-08 budget, which significantly exceeded the three percent limitation permitted by law. Rather than using available fund balance in previous years to overfund the EBALR, District officials could have used the $5.2 million to fund other reserves, or to finance District operations.

The District is not required to establish a separate bank account for this reserve; however, it must be accounted for separately from other District moneys, and interest must accrue to the fund. The District has invested EBALR money with general fund moneys. While it is permissible for the District to invest EBALR moneys with general fund moneys, the separate identity of the sources of the moneys invested must be maintained and a pro rata share of the interest earned credited to the reserve fund. However, we found that the District had not allocated any of its interest earnings to the EBALR. As a result, interest earnings on EBALR moneys have been improperly added to the general fund, where their use is not restricted to the purpose for which the EBALR was established. We estimate that the EBALR’s interest earnings for the 2006-07 fiscal year were approximately $120,000.
Recommendations

1. District officials should credit the pro rata share of interest earned on invested funds to the EBALR.

2. Rather than depositing year-end surplus into the EBALR, District officials should instead determine how the surplus can be used more productively to finance non-recurring expenses or to pay off debt.

3. District officials should analyze the balance in the EBALR and transfer moneys in excess of the amounts necessary to satisfy liabilities incurred or accrued against the EBALR fund to other reserve funds as authorized by law.

4. District officials should pay compensated leave benefits to employees who are separating from the District from the EBALR, and not from operating funds.
The Board is responsible for establishing a good system of internal controls to provide reasonable assurance that District officials and personnel properly safeguard assets; authorize, record, and report accounting transactions; comply with pertinent laws and regulations; and routinely monitor and review financial activities. An effective internal control system includes policies and procedures intended to provide reasonable assurance that cash transactions are properly initiated, accurately recorded, deposited in a timely manner, and are properly approved and documented. For example, the use of electronic signatures must be supervised by the appropriate official, online banking duties and authorizations must be clearly defined and independently reviewed, bank reconciliations should be performed each month and presented to the Board, and receipts should be documented by the issuance of pre-numbered cash receipt forms.

We found that the Board policies were not adequate to safeguard the District’s cash assets, and District officials did not develop procedures to guide District personnel in performing their job duties. Specifically, there were no written procedures for the protection and use of electronic signatures, or for the appropriate authorization and review of online banking transactions. Additionally, bank reconciliations were not properly prepared and pre-numbered cash receipt forms were not issued. These control weaknesses place the District’s cash assets at an increased risk of mismanagement, misuse, or loss.

Treasurer’s Signature Disk — The Treasurer is the custodian of all District moneys and has the authority to sign all checks on behalf of the District. When authorized by the Board, someone other than the Treasurer may sign checks using the Treasurer’s facsimile signature, but must do so under the Treasurer’s supervision and control.

We found that the District did not establish formal policies and procedures for the use of facsimile signatures, and the Treasurer did not always supervise and control the use of her facsimile signature. The Treasurer had four signature disks that she kept in a vault located in the District’s Business Office; District officials could not explain why there was a need for four signature disks. These disks were accessible by the District’s accountant, Assistant Superintendent for Business, and the Assistant Superintendent for Personnel; none of these officials was an authorized signatory during the 2006-07 fiscal year. The District’s accountant applied the Treasurer’s signature to checks when the Treasurer was not present; we were unable to determine whether either Assistant Superintendent used the signature
disk to sign District checks during our audit period. At the July 2007 reorganization meeting, the Board appointed the accountant to be the Deputy Treasurer and authorized him and the Assistant Superintendent for Personnel to be official signatories for District checks for the 2007-08 fiscal year. However, there was no authorization for these individuals to use the Treasurer’s signature disk in her absence.

Due to this control weakness, we examined 10 expenditures that were made using the Treasurer’s signature disks totaling $10,469 to determine whether they were valid District transactions and found no irregularities. However, the absence of comprehensive policies and procedures for the control and use of the signature disks, and the Treasurer’s lack of control over the use of the signature disks, increase the risk that her signature could be used inappropriately.

**Electronic Wire Transfers** — Electronic wire transfers of school district funds are usually effective within minutes of being executed. The Treasurer, as custodian of District funds, is normally the official responsible for authorizing wire transfers. To ensure wire transfer transactions are appropriate, the District should establish written policies and control procedures that indicate how the transfer should be performed, and that require the approval of each transaction by another District official or employee. In addition, proper authorization and proper segregation of duties is critical for electronic transactions. The authorization and transmitting functions should be segregated and, if possible, the recording function should also be delegated to someone who does not have either approval or transmitting duties.

With the exception of an investment policy, which is required by General Municipal Law, the Board did not adopt written policies addressing banking transactions and District officials did not develop specific procedures for wire transfers. The District’s accountant, who was not authorized by the Board to initiate wire transfers, was the only person during our audit period to initiate wire transfers. The transfers were made to other District bank accounts as well as to external bank accounts. The wire transfers were not approved in writing by any other District official or employee before or after the transfers were made. All depository banks, with one exception, confirmed the wire transfers with the accountant. Therefore, most wire transfers were performed without an independent review of the appropriateness of the transfer.

We tested five wire transfers made between District bank accounts during the audit period, totaling $18,500,000, to determine that they were made for valid District purposes. Although our audit found no irregularities, the District will continue to be at risk for improper wire transfers occurring and going undetected if an unauthorized
employee (the accountant) is permitted to make transfers and receive
confirmations without proper oversight.

Bank Reconciliations — The reconciliation of bank account balances
with the accounting records is a necessary element of an effective
internal control system for cash. Monthly bank reconciliations lead
to more accurate records and quicker detection of errors in account
balances. Bank reconciliations ensure that account balances are
accurate and reflect the District’s true financial position, which
enables the Board to make more informed decisions. With this process
in place, along with proper Board oversight, the risk of errors going
undetected is lessened, and the control environment is strengthened.

The District does not have any policies or procedures dictating how
bank reconciliations should be prepared. We reviewed the District’s
bank reconciliations for its three general fund bank accounts and
found that only one account is reconciled each month. Although the
Treasurer prepares a reconciliation of the bank account to which cash
receipts are deposited, she does not periodically reconcile the general
disbursement account and payroll checking account. Instead, she
prepares only an outstanding check list for these two accounts. Because
the Treasurer does not perform bank reconciliations properly, errors
or irregularities could occur without being detected and resolved in a
timely manner.

Cash Receipts — An essential means of control over cash collection
includes the requirement to issue duplicate pre-numbered cash
receipt forms and post such receipts to a log or cash receipt journal
immediately upon receipt. This helps to ensure that all cash received is
properly accounted for. In addition, The Commissioner of Education
Regulations require that pre-numbered receipts be issued to establish
an audit trail. The receipt forms need to be retained, including forms
that have been voided. The Treasurer or some other District official
should review logs or journals to detect errors, inappropriate entries,
or voids that occurred to prevent the loss or misuse of cash receipt
data and reduce the risk that District moneys could be stolen.

We found that the Board had not adopted a policy concerning cash
receipts, and District officials had not instituted adequate cash
collection procedures. The three employees who collect cash did not
issue pre-numbered cash receipts to ensure that all cash received was
properly accounted for. In addition, during our audit period, the District
did not keep a log of all the cash collected other than cash received
for health insurance or adult education. As of November 2007, all
receipts are recorded in a manual cash receipts log. However, this
log is not reconciled to the District’s bank statements to determine if
the cash receipts were properly recorded and deposited in the bank.
We reviewed the cash receipts log for mid November to December 2007 and found that the District received about $195,605 in receipts. However, since the Treasurer and other employees who receive cash do not issue pre-numbered receipts, the District’s cash receipt process is missing crucial segments of an audit trail. In addition, without the necessary supporting documentation, and the lack of a reconciliation of the manual cash receipts log to the bank statements, there is no way to determine that receipts are entered correctly and completely into the accounting records. Because of these weaknesses, the District does not have adequate assurance that the moneys received were properly recorded and deposited in the bank.

5. The Board should adopt, and employees should adhere to, written policies for cash receipts and disbursements. These policies and procedures should include the following requirements:

   • The Treasurer should keep personal control and custody of her signature disk and directly oversee its use. Access to her signature disk should not be available to unauthorized individuals.

   • Wire transfers should be initiated only by authorized individuals.

   • Bank reconciliations should be performed monthly to compare bank balances to balances in the general ledger cash account. Any differences should be investigated and resolved. District officials should present bank reconciliations to the Board as part of the Treasurer’s report on a monthly basis.

   • District employees collecting receipts should issue pre-numbered duplicate receipt forms. The cash receipts log should be reconciled to the bank statements to ensure that all moneys received by the District are properly accounted for.

6. The Deputy Treasurer, who is authorized to sign checks in the absence of the Treasurer, should be issued a signature disk that contains his own signature.

Recommendations
Payroll

The primary objective for internal controls over payroll processing is to ensure that employees are paid salaries and wages, and provided benefits, to which they are duly entitled. Internal controls over payroll consist of written Board authorization for salaries, wages and fringe benefits. The Board is also responsible for approving written policies providing guidance regarding employee entitlements, including the accrual and use of leave time, and the approval of overtime pay.

The District did not include the annual salaries paid to eight administrators and five technology specialists, totaling $1.6 million, in the Board minutes made available for audit and posted on the District’s web site for the general public. The Board minutes presented to us (certified by the District Clerk as the official Board minutes) and the minutes posted on-line (on the District’s official web site) did not indicate the salaries of the 13 District employees. The five technology specialists also received fringe benefits totaling approximately $97,000 without any evidence of Board approval. In addition, District officials have not developed written procedures governing the pre-authorization of overtime. Because of these weaknesses, employees may have received compensation to which they were not entitled.

The Board must clearly define and publicly authorize employees’ compensation and benefits to ensure employees are paid what they are entitled. Documentation of the Board’s authorization of salaries, wages and fringe benefits in writing, by resolution, policy document, negotiated employee contract, or collective bargaining agreement is an important control over payroll and fringe benefit expenditures. To ensure accountability and transparency to the public, all compensation and fringe benefits provided to District employees should be limited to amounts authorized by the Board at public meetings and recorded in Board minutes that are readily available for audit and the general public’s review.

Annual Salaries — Although the salaries of most employees are included in one of the seven collective bargaining agreements between the District and its employees, 14 individuals were not covered by any of these agreements.

We reviewed salary payments for the 14 employees (nine administrators and five technology department employees) whose job titles were not included in any collective bargaining agreements. We found that the Board minutes presented to us for audit (certified
by the District Clerk as the official Board minutes) and the minutes posted on-line (on the District’s official web site) did not indicate the salaries for eight of the administrators and the five technology department employees. During our audit period, these 13 employees received a total of approximately $1.6 million in salary payments. The Board minutes presented to us for audit, and the minutes posted online, showed that the Board authorized hiring the 13 employees by resolution, but the resolutions did not include their annual salaries. In addition, subsequent resolutions stated that the employees were entitled to a salary increase, but there was no indication of the amount of the increase. The resolutions did not indicate that attachments were available which showed the employees’ annual salaries at the time they were hired and their subsequent salary increases.

At our exit conference held on May 11, 2009, about one year after the end of our fieldwork, District officials presented us with Board minutes identical to the minutes presented to us for audit and posted online, with the exception that pages of attachments, listing employees’ annual salaries and salary changes were included after each Board meeting’s minutes.

Fringe Benefits — The District’s five technology department employees were not covered by any collective bargaining agreement, and their fringe benefits were not authorized by Board resolution or District policy. The District paid these employees’ health insurance benefits totaling $58,000, and the employees used 170 days of accrued leave totaling approximately $39,000. The health insurance benefits and payments for accrued leave time conformed to benefits found in the collective bargaining agreement for Civil Service Employees Association employees, although the technology department employees’ job titles are not included in this agreement.

Since the Board minutes presented for audit, and readily available for the public, did not include approved salaries for certain employees and did not indicate that such salaries were available elsewhere, the District failed to ensure accountability and transparency to the public. In addition, without specific policies, resolutions, employment contracts or collective bargaining agreements to define and authorize fringe benefits, there is an increased risk that fringe benefits will not be paid in accordance with the Board’s expectations, and employees could receive benefits that the Board does not intend for them to receive.

Overtime

A critical control over overtime expenditures is written pre-approval of the overtime worked and the subsequent approval of the employee's timesheet for payment. This helps ensure that the District incurs only necessary overtime costs. Properly designed and maintained time
records help supervisors and staff who process payroll determine employees’ regular and overtime hours worked.

The District expended about $1 million on overtime during our audit period. During the 2006-07 fiscal year, the District’s custodial and maintenance and grounds departments accounted for over 60 percent of the District’s total overtime costs. The Board has not established formal policies and procedures for overtime. Prior approval for overtime is communicated verbally, and the District does not require written documentation indicating the number of overtime hours authorized. District employees complete overtime claim forms on a bi-weekly basis. However, since the District does not have formal policies and procedures for overtime, the overtime claim forms vary in form and substance from department to department.

We compared employee sign in sheets to overtime claim reports for eight employees who were paid approximately $200,000 of overtime during the audit period. We reviewed the supporting documentation for 484 hours of overtime totaling $22,398 paid to these employees for two bi-weekly pay periods ending on July 14, 2006 and November 30, 2007 and found that controls over the authorization and approval of overtime were weak. We were unable to verify that any of this overtime was preauthorized since authorization is communicated verbally. A written record of prior approval for overtime would enable supervisors to compare the number of hours actually worked to the number of overtime hours authorized for any given job. Since overtime is not pre-approved in writing, there is an increased risk that the District could incur unnecessary overtime costs.

**Recommendations**

7. The Board should ensure that all salaries authorized by resolution be readily available for audit and public inspection. Each such resolution should either include the amount of salary or indicate that the salary is posted to an attachment.

8. The Board should ensure that fringe benefits provided to employees are covered by the terms of District-wide policies, resolutions, employment contracts or collective bargaining agreements.

9. The Board should establish a District-wide overtime policy, or individual policies for each negotiated employment contract, that adequately addresses the pre-authorization of overtime. Overtime authorizations should be documented and not made verbally.
Purchasing

An effective purchasing process helps to obtain necessary goods and services at a reasonable cost and in compliance with all applicable legal requirements and ensure that taxpayer dollars are spent in the most efficient manner. Comprehensive purchasing policies and procedures governing the purchase of goods and services and the safeguarding of District assets are essential. These policies and procedures should also provide guidance to District officials before they contract with a vendor for purchases. Contracts should clearly describe the vendor’s responsibilities, and District officials should ensure that vendors adhere to contract terms so that taxpayer money is spent in an economical manner.

The District needs to improve its internal controls over purchasing. We found that the District paid five vendors a total of $732,571 for professional services without soliciting competitive proposals. In addition, the District did not have written agreements with an architectural firm that received $95,674 during the audit period. We also found that a firm providing occupational and speech therapy services was overpaid $1,615 for services that were charged at rates that exceeded the contracted terms. The District’s purchase order system is not operating effectively because 15 claims totaling $169,918 were for confirming orders. We also found that over 560 gallons of diesel fuel valued at $1,517 were unaccounted for in one month. As a result, of these internal control weaknesses, the risk is increased that taxpayer moneys could be spent unnecessarily or inappropriately.

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. General Municipal Law requires the District to adopt internal policies and procedures governing the procurement of goods and services when competitive bidding is not required. A request for proposal (RFP) process is meant to ensure that the District receives the desired service for the best price. It is important for District officials and professional service providers to enter into agreements prior to any services being performed. It is also the District’s responsibility to verify that the services received and prices paid are in accordance with Board-approved contracts.

Professional Services

Request for Proposals — The District’s purchasing policy states that the District will contact a number of professionals and request that they submit written proposals when competitive bidding is not
required for the service needed. District officials did not always follow this policy and did not always solicit written requests for proposals for the procurement of professional services.

During the audit period, the District paid 35 professional service providers approximately $1.5 million. We tested payments totaling approximately $1 million that the District made to 11 professional service providers and found that the District hired five of these professionals without soliciting RFPs. These professionals collectively received $732,571 during the audit period. The professionals included:

- Two firms providing occupational and speech therapy services ($371,167)
- One firm providing legal services ($252,869)
- One firm providing architectural services ($95,674)
- One firm providing tutoring services ($12,861).

Without the solicitation of competition, there is an increased risk that services of appropriate quality are not obtained at the lowest possible price, and purchases may not have been made with the most prudent and economical use of public moneys in the best interest of the taxpayers.

**Written Contracts** — A written agreement for professional services provides the District and the service provider with a clearly defined and mutually agreed upon basis for determining entitlement to payments. Written agreements may be used to verify that the fees charged by the professional service providers are in accordance with Board resolutions. It is necessary that the agreements indicate the period, the services to be provided, and the basis for compensation for those services. Therefore, it is important for District officials and professional service providers to enter into written agreements prior to any services being performed. It is also the District’s responsibility to verify that the services received and prices paid are in accordance with Board-approved contracts.

We found that one of the 11 professional service providers tested was paid without the benefit of a contract for services. This provider received $95,674 for architectural services during the audit period. A purchase order dated August 28, 2006 indicated the firm was hired to provide architectural services related to renovations to the District’s high school and middle school. Officials did not provide a reason why the District failed to enter into an agreement with the architectural firm.
In addition, the District failed to monitor payments made to professionals to ensure that they were paid according to their agreements. We found that one of the firms providing occupational and speech therapy services was overpaid a total of $1,615 because the firm billed the District at rates that exceeded contract amounts by $15 to $20 per hour. Until we brought this to District officials’ attention, they were unaware of the overpayment because they do not normally compare claims submitted by professionals to applicable contracts. The failure to verify that the prices paid were in accordance with Board-approved contracts resulted in the District paying more for services than the Board authorized.

**Confirming Purchase Orders**

Effective controls over the purchasing process include the use of a purchase order system. The District’s purchasing agent must typically verify that funds are available for a purchase before a purchase order is sent to the vendor for goods or services. A purchase order system that is functioning properly is an effective tool in controlling District expenditures, because it confirms that the purchasing agent is aware that there are sufficient funds to pay the claim, and that the purchase is properly authorized. A confirming purchase order occurs when an official or employee places a verbal order with a vendor, and then fills out a purchase order simply to confirm that the District made the purchase. These purchases are generally made outside of the normal purchasing process, such as for emergency purchases. It is important for District personnel to identify confirming orders by writing “confirming” or “emergency” on the orders. This practice allows District officials to track confirming orders and ensure that District personnel use them only for emergency purchases. If the District routinely makes confirming purchases, there is limited assurance that budget appropriations are available prior to the order being placed, which could result in over-expending appropriations.

We examined 34 claims totaling $297,006 paid during our audit period which required a purchase order. We found that 15 claims (44 percent of claims tested) totaling $169,918 had dates which preceded corresponding purchase orders, indicating that they were confirming orders. The purchase orders did not have the words “confirming” or “emergency” written on them to indicate that they were emergency purchases. For example, on August 8, 2007, the District paid a vendor $50,000 for electrical/lighting repair work at the high school. The payment was supported by two invoices submitted by the vendor, dated July 20, 2007 and July 30, 2007, for work that had already been performed.

2 The claims were paid to vendors who were the subject of other tests we conducted to determine whether the District complied with its procurement policy regarding the solicitation of competition for purchase contracts, public work contracts and professional service contracts.
been completed. However, the purchase order for this work was not prepared until August 8, 2007, the same date the payment was made to the vendor.

When purchases are made outside of the normal purchasing process, the possibility exists that the goods and services purchased are not the best quality and price. In addition, there is no verification that budget appropriations are available prior to the order being placed, which could result in over-expending appropriations. It is good business practice to avoid using confirming purchase orders, except for emergency situations, and then only upon the purchasing agent’s approval.

**Fuel Purchases**

School districts must establish a system of internal controls over diesel fuel storage and pumping facilities to provide assurance that the diesel fuel purchased is properly recorded and used appropriately. A good system of internal controls consists of policies and procedures adopted by the Board that help ensure that the fuel inventory is protected from loss or theft. These policies should require limiting access to fuel stores; maintaining perpetual inventory records that identify quantities purchased, delivered and dispensed; and reconciling differences in fuel usage between the fuel pump readings and the fuel usage tickets.

District officials did not establish adequate internal controls over fuel purchases to protect against loss, waste and misuse. In addition, the District does not have policies and procedures over fuel usage, and no one investigates differences between fuel pump meter readings and the fuel usage tickets.

The District purchased $164,392 of diesel fuel during the audit period. The District has one fuel pump which holds approximately 7,800 gallons of diesel fuel. The pump is located at the District’s transportation garage to provide fuel for District vehicles. The fuel pump meter shows both the amount of fuel dispensed and the number of gallons of fuel available in the fuel tank. The Transportation Supervisor told us that only he and the Shop Supervisor have access to the key, and therefore, are the only ones who can turn on the pump. He stated that the fuel pump is available to employees only from 8:00 a.m. to 2:00 p.m. Monday through Friday.

The District maintains fuel usage tickets to keep track of the appropriate data for each individual dispensing fuel. Each time an employee dispenses fuel, he/she is supposed to complete a ticket to record the vehicle number, odometer reading, number of gallons dispensed, and the name of the driver. Although the Assistant Transportation Supervisor stated that monthly reconciliations are prepared that compare meter readings from the fuel pump with the fuel usage tickets, we found that these reconciliations were incomplete.
The reconciliations did not calculate the differences between the fuel pump meter readings and fuel usage tickets, and no one investigated the differences.

Based upon this control weakness, we performed our own reconciliation of the diesel fuel used in November 2007 to determine if any discrepancies existed. We found that fuel pump meter readings showed a total of 6,195 gallons of diesel fuel dispensed during the month. However, fuel usage tickets prepared by District employees indicated usage of only 5,635 gallons, a difference of 560 gallons (9 percent of the total actual usage). There was no indication that anyone investigated this significant difference. District officials did not know what happened to the 560 gallons of fuel, valued at $1,517.

The District’s fuel purchases were not adequately protected from waste, theft, or misuse because no one calculated or investigated the differences between the actual usage of fuel and the amounts recorded on fuel usage tickets. As a result, 560 gallons of District fuel could have been used for non-District purposes.

**Recommendations**

10. District officials should follow provisions of its purchasing policy and award all professional services contracts only after soliciting requests for proposals.

11. The Board should approve written agreements with all professionals who provide services to the District. District officials should ensure that these agreements clearly stipulate the services to be provided and the basis for compensation.

12. District officials should require the claims auditor to compare invoices to corresponding contracts before any payments are made to ensure that hourly rates and services performed are in accordance with contract provisions.

13. The use of confirming purchase orders should be limited to emergency situations. The individual initiating the purchase should indicate the reason why the order was placed before the purchase order was prepared. Confirming purchase orders should be clearly marked as “confirming” in order to avoid duplicate orders.

14. The Board should adopt comprehensive policies and procedures for its fuel purchases that address the acquisition and usage of fuel and the maintenance of accurate and timely inventory records. District officials should maintain perpetual inventory records that identify quantities purchased, delivered and dispensed. These records should be reconciled to periodic physical inventories; any differences identified should be promptly investigated and resolved.
The use of information technology (IT) affects the fundamental manner in which transactions are initiated, recorded, processed and reported. The District’s widespread use of information technology presents a number of internal control risks that must be addressed. These risks include unauthorized access to data, unauthorized changes to data in master files, and a potential loss of data. District officials must therefore design an effective system of internal controls to safeguard computerized data from loss and misuse. This system should include policies and procedures to control and monitor access to financial data and a formal disaster recovery plan to minimize the damage that a disaster would cause to operations if the IT system fails.

The District uses a financial accounting software package (financial software) to process and maintain the District’s financial transactions. The District has a Student Acceptable Use Policy that addresses unacceptable uses of the District’s computer system but it does not adequately address all major areas of the District’s IT operations. There are no written policies and procedures that address the areas of computer user permissions or disaster recovery. The failure to establish and monitor comprehensive policies and procedures related to IT increases the risk of errors and irregularities occurring and not being detected in a timely manner.

User Permissions — Access controls are meant to provide reasonable assurance that computer resources are protected from unauthorized use and modifications. To control electronic access, a computer system or application needs a process to identify and differentiate among users. User accounts identify the user and establish relationships between the user and a network, computer, or application. Generally, the access control policy should be based on the concept of least privilege, where employee access is granted based only upon what an individual needs to complete his or her job duties. An employee’s unique user account and user access should be deactivated when the individual is on extended leave, or when District employment has been terminated.

District officials have not established formal policies and procedures outlining how computer system user permissions should be established and have not established any policies or procedures to review computer system user permissions on an ongoing basis. We reviewed user permissions assigned to employees in the District’s Business Office and found that six employees had permissions in financial software modules that were clearly outside the scope of their job duties. For example, the District’s Treasurer and payroll
clerk have full access to all of the information contained in the accounting, payroll and human resources modules, even though they do not need this access to perform their job duties. This access includes the ability to add, update, delete and print any transactions within these applications. In addition, at December 27, 2007, five former employees had active user permissions within the District’s financial accounting software. Two of these individuals had resigned in September 2006, over a year earlier.

The failure to establish and monitor comprehensive policies and procedures relating to user access of computer-processed data increases the risk that errors and irregularities could occur and not be detected and/or corrected in a timely manner. By not properly assigning user permissions by job description, the District failed to safeguard important financial data.

Disaster Recovery — A disaster recovery plan, sometimes referred to as a business continuity plan, describes how an organization is to deal with potential disasters. Such an event could be a power outage, hardware failure, fire or damaging storm. Disaster recovery planning consists of deciding in advance what, how, when and who are needed to provide a solution that will sustain critical business functions. The planning process includes steps that identify and document key elements in a successful disaster recovery plan. Disaster recovery planning is an ongoing, dynamic process that continues throughout the information system’s lifecycle.

We found that the Board has not established a formal disaster recovery plan. Consequently, in the event of a disaster, District personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures. This could negatively impact the District’s ability to resume normal operations.

**Recommendations**

15. District officials should develop and adopt comprehensive IT policies and procedures to address all major areas of IT operations.

16. District officials should review and revise user permissions to the financial software and compare them with job descriptions to ensure that users only have access to transactions within the scope of their responsibilities.

17. District officials should remove users who are no longer employed and deactivate user accounts when persons are on extended leave.

18. District officials should develop a formal disaster recovery plan to address the possible loss of computer equipment and data in the event of a disaster.
APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials’ response to this audit can be found on the following pages.
GARDEN CITY PUBLIC SCHOOLS
56 Cathedral Avenue • P.O. Box 216 • Garden City, NY 11530-0216
Tel: (516) 478-1010 Fax (516) 294-8348

ROBERT FEIRSEN, Ed.D.
Superintendent of Schools

May 29, 2009

Mr. Jeffery P. Leonard, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, NY 11788-5553

Dear Mr. Leonard:

The Board of Education and administration of the Garden City Union Free School District extends their thanks to your office for the time and effort devoted to the examination of internal controls over selected financial operations completed for the period beginning on June 1, 2006 and ending on November 30, 2007. The School District is pleased to note that the report of the auditors demonstrates that the Board of Education acted in good faith and includes no findings of fraud, misappropriation of funds, financial wrongdoing, or other improprieties by district personnel. The School District appreciates the comments and recommendations of the Office of the State Comptroller, and they will be of great assistance in the district’s continuing our efforts to implement best practices in all aspects of operations.

I would like to highlight several points contained in the enclosed School District Response:

- Many of the recommendations presented by the auditors have already been put into place.
- The School District recognizes the Comptroller’s position on the use of EBALR moneys. However, it requests that the Report include information provided in the District Response to provide context for Board of Education resolutions and to make it clear that decisions concerning EBALR were based on expert opinion and reached after full and public discussion.
- While there is a need for additional written guidelines, procedures were in place for reconciling bank accounts, approving overtime, initiating wire transfers and limiting confirming purchase orders.
• Statements contained in the draft Report concerning the authorization of salary and benefits provided to School District employees could easily lead readers to draw erroneous conclusions. As detailed in the Response, the Board of Education—and the public—always had full knowledge of the compensation to be provided to all employees through exhibits that were included with Board Agendas, posted at Board Meetings and enclosed with official minutes of meetings. The draft Report’s findings in this matter are simply inaccurate. The School District suggests that the language in the Report of Examination be modified to recognize the use of the aforementioned exhibits ("yellow sheets") and that the recommendation associated with this issue state, “The Board should ensure that all salaries authorized by resolution should either include the amount of the salary or indicate that the salary is posted on an attachment.”

Thank you for your time and attention to the School District’s concerns. Garden City Union Free School District looks forward to working with the Office of the State Comptroller in efforts to strengthen controls, safeguard assets and ensure accountability to the public. Please do not hesitate to contact me if you need any additional information.

Sincerely,

[Signature]

Robert Feirsen, Ed.D.
Superintendent of Schools
The Garden City Union Free School District (the “School District”) has received the draft Report of Examination of Internal Controls Over Selected Financial Operations completed by the Office of the State Comptroller (“OSC”). This document serves as the School District’s response to the draft Report.

The draft Report demonstrates that the Board of Education has acted in good faith and that there are no findings of fraud, misappropriation of funds, financial wrongdoing or other improprieties by district personnel. The School District is pleased to note that it has already implemented many of the draft Report’s recommendations by taking timely action on the recommendations presented by its external (independent) auditor and the counsel provided in the Initial Risk Assessment conducted by the district’s internal auditor. The OSC can be assured that the remainder of the recommendations in the Report will be addressed with equal seriousness in the Corrective Action Plan (CAP) to be issued at a later date.

The School District would like to commend the members of the OSC staff who conducted the audit. OSC representatives were courteous, professional and thorough, and they worked under some rather difficult conditions, as the central administration building is very pressed for space. We also extend our deep thanks to the OSC for its advice and assistance in support of district efforts to ensure that business operations reflect best practices, demonstrate transparency and ensure accountability to the taxpayers.

On the whole, the Report provides valuable guidance that will result in the improvement of performance. At the same time, the School District believes it is important to respond specifically to several items to address inaccuracies and clarify areas that might lead readers of the report to erroneous conclusions. These items were discussed with the OSC’s field team after the draft was received by the School District; the meeting took place on May 11, 2009 and was attended by Trustees of the Board of Education, school district administrators and a member of the School District’s Audit Committee.

Employee Benefit Accrued Liability Reserve (EBALR)

School districts have received conflicting guidance concerning the purposes of EBALR and the appropriate use of such funds. The School District believes that a full assessment of the status of EBALR should include a more complete description of the history
associated with its designation of funds for this reserve, as it provides the context essential for understanding the district’s decisions.

In brief, the School District designated funds for the reserve for two purposes: compensated absences, and liabilities associated with post-employment health care benefits. As there is no disagreement concerning the designation of funds for compensated absences, the remainder of this section will focus on the latter issue. The School District emphasizes the following points:

- The School District established the EBALR after its external auditor provided the School District with information and guidance concerning the requirements imposed by GASB-45. The external auditor suggested the School District begin accruing reserves in contemplation of the significant liability the School District would assume for post-employment health benefits; these benefits had in the past been funded on a “pay as you go basis” that would no longer be acceptable under GASB-45 standards. Given these circumstances, the establishment of the EBALR reserve would serve to guarantee the School District’s long-term financial health and protect taxpayers, both current and future, from increases in borrowing costs and spikes in taxes.

- The School District therefore placed funds in the reserve for post-employment benefits in response to standards advocated by GASB-45 and in full belief that this action constituted best practice. As a demonstration of its commitment to complying with new GASB-45 regulations, the district hired a highly regarded firm, to conduct the required actuarial study in 2007, two full years ahead of the mandated date for its completion.

- The actuarial study identified a significant liability for post-employment benefits of $95 million.

- After the completion of the actuary’s report, the external auditor met with the School District to discuss the magnitude of the post-employment health care benefits liability and the potential cost savings to taxpayers from funding that liability.

- The School District committed the funds to EBALR with full disclosure to the community. The requirements of GASB-45 have been discussed numerous times at Board of Education meetings, and the designation of fund balance has been authorized by Board of Education vote at Public Sessions.

- The State Education Department has similarly recognized the importance of reserving funds for accrued employee benefits. In guidance available to all school districts, the Department’s Educational Management Services approved the funding of a “Reserve for Employee Benefit Accrued Liability” for “the payment of any employee benefit due an employee upon termination of the employee’s service” (www.emsc.nysed.gov/mgtserv/accounting/reserve_funds.pdf). As noted by the Comptroller’s Office, moreover,

  “The state and local governments have to start preparing for these costs....These are difficult fiscal times, and the impulse may be to push this issue aside. But more than one million New Yorkers are counting on these health benefits. The responsible, good government thing to do is to start preparing for the future in order to protect health care benefits” (OSC press release, May 8, 2008 entitled “DiNapoli Urges State and Local Governments To Begin Managing Escalating Health Care Costs”).
In a related fashion, the district also based its actions on the 1992 GASB 16 and Office of the State Comptroller documents from 1994 indicating reserve funds may be used for expenditures associated with compensated absences including FICA, Medicare, retirement system contributions and other employee benefits.

It is important to note that the School District ceased adding to the EBALR account upon notification that the inclusion of post-employment benefits might not be an appropriate use of these funds. The School District has also ended the practice of adding interest earnings on EBALR moneys to the general fund, although it wishes to point out that the previous practice provided revenues that reduced the burden placed on taxpayers.

The School District also takes strong exception to the statement, “District officials may have used the EBALR to keep the District’s unreserved fund balance under the statutory limit.” As explained in detail above, the School District was guided in its appropriations by expert opinion, reached and explained its decisions in Public Sessions and had no intention to engage in any form of subterfuge concerning statutory limits on fund balance. It is most unfair for the OSC to question the intent of School District Trustees and administrators—who prudently and with guidance from its auditors and actuaries set aside funds for a recognized and measured liability—particularly when the evidence points to a thoughtful and thorough decision-making process that was discussed in detail in public meetings.

In response to the recommendations for this section, please note the following:

- The School District has credited the pro-rata share of interest and earnings to the EBALR account, beginning with the year ending June 30, 2008, and will continue to do so into the future.
- The School District has ceased placing year-end surplus funds into EBALR, effective July 1, 2007, and will look to fund other reserves and non-recurring activities with any fund balances.
- The School District has instituted the procedure of paying compensated leave benefits from EBALR, or in the case of active employees due compensation for unused vacation, paying such compensation from a specific benefit code established for this purpose.

Treasurer’s Signature Disk

The School District believes it is important to respond to several points in connection with the use of the Treasurer’s signature disk. Where needed to provide clarity in this and subsequent sections, statements from the draft (provided in italics) have been cited as references.

“The District’s accountant applied the Treasurer’s signature to checks when the Treasurer was not present.”

As noted at the exit conference with the field team, the School District’s accountant is listed on the July 2006 Board resolution as an authorized signatory on the district bank accounts. In addition, the accountant was also appointed as Deputy Treasurer in July 2007, with the authorization to perform all activities that are approved for the Treasurer.
"We were unable to determine whether either Assistant Superintendent used the signature disk ...."

As stated at the exit conference, neither the Assistant Superintendent for Business nor the Assistant Superintendent for Personnel used the signature disks during the period of the audit. The Assistant Superintendent for Personnel has used his own signature disk once in the time since the completion of the audit, with the full and appropriate permission of the Board of Education and authorization to do so in the absence of the Treasurer and Assistant Treasurer. The Treasurer, Deputy Treasurer, and Assistant Superintendent for Personnel now have their own signature disks, with their own names on them; each one is authorized by Board of Education resolution.

**Electronic Wire Transfers**

"The Board did not adopt written policies addressing banking transactions, and District officials did not develop specific procedures for wire transfers. The District's accountant, who was not authorized by the Board to initiate wire transfers, was the only person during our audit period to initiate wire transfers."

The School District is pleased that no irregularities were found in the audit. In response to the above assertions, the School District notes that the accountant was approved as Deputy Treasurer in July 2007, (a date within the audit period) and therefore was authorized to perform wire transfers. Board Policy #6240-Investments states, "In accordance with this policy, the Business Official or his/her designee is authorized to invest and/or deposit all funds." In addition, a July 2006 Board of Education resolution states that in the absence of the Treasurer, the Assistant Superintendent for Business is authorized to invest School District funds. During the time period examined by the audit, the accountant performed that function under the direct knowledge of the Assistant Superintendent for Business.

**Bank Reconciliations**

The School District believes that bank reconciliations were prepared in a proper fashion, and it bases its procedures on the Commissioner's Regulations that identify the elements to be included in a Treasurer's Report. The district appreciates the recommendations for refinement of its practices.

The School District deems it important to note that although not codified in written form, the School District does, in fact, reconcile all accounts, including the two sub-accounts (general disbursement and payroll) each month. However, only the master account during the time of the audit was presented to the Board of Education. The district now submits all three accounts as part of the monthly Treasurer's Report to the Board of Education.
In response to the recommendations for these sections of the draft Report, the district responds:

- All authorized signatories have their own signature disks.
- The Treasurer does keep personal control and custody of her signature disk, as do the other two individuals so empowered: the Deputy Treasurer, and the Assistant Superintendent for Personnel.
- Wire transfers are initiated by authorized staff. During the audit period, the transfers were carried out by the School District’s accountant at the direct request of, and with the full knowledge of the Assistant Superintendent for Business.
- Complete bank reconciliations are presented to the Board of Education on a monthly basis. The minutes of Board meetings show that the reports are read and accepted each month.

Payroll

“To ensure accountability and transparency to the public, all compensation and fringe benefits provided to District employees should be limited to amounts authorized by the Board at public meetings and recorded in Board minutes available for audit and review by the general public.”

The School District takes strong exception to the implication that the Board acted in a manner that was in some way deceptive or misleading to the public. As demonstrated repeatedly at the exit conference, the official minutes of Board meetings have always contained exhibits identifying specific salaries for employees, and the Board has always been provided with these exhibits before it authorized any compensation for employees. Furthermore, these exhibits, known in the community as “the yellow sheets,” have always been part of the Board’s official minutes; it was also the Board’s consistent practice to post these sheets for community review at Board Public Sessions.

Frankly, the School District is at a loss to understand how this process was not made clear. While it is true that various School District officials receive summaries of Board meetings to keep in their offices for reference, these are not official Board minutes which, conforming to established practice, are written on sheets numbered in consecutive order and signed by the District Clerk. All minutes are maintained in books kept in the Superintendent’s Office, where they are available for inspection by anyone who makes such a request. While the School District appreciates OSC’s recommendation to place salaries directly in authorizing Board resolutions, it is not accurate to state that neither the Board nor the public had access to salary information. The School District made this point during the exit conference (whose purpose, as stated by OSC staff, was to address inaccuracies and misconceptions), and the district provided the field team with official minutes that authorized every salary. The fact that the School District’s process for authorizing salaries is misstated in the draft Report is therefore very disappointing.

“At our exit conference, held on May 11, 2009, District officials presented us with another set of Board minutes, which we were told were ‘the official Board minutes’ that included attachments listing all the salaries of all of the employees.’”

Again, the School District stands by its statements that the Board and the public had full knowledge of the salaries to be earned by all employees through the “yellow sheets” referenced above. In addition, the School District rejects the implication that there might
be more than one set of minutes maintained for Board meetings: as noted in the preceding section, official minutes are maintained in the prescribed manner and contain the original signature of the District Clerk. The official minutes are kept in the Superintendent’s Office where they are readily accessible for review. We do not know which materials the field team examined in connection with questions related to Board of Education meeting official minutes, but the School District is certain that a review of the official documents would have revealed that the “yellow sheets” consistently accompanied all salary resolutions.

**Fringe Benefits**

The draft Report accurately notes that the fringe benefits provided to five technology department employees conformed to benefits found in the collective bargaining agreement for the Civil Service Employees Association, even though the five employees were not members of the bargaining unit. It should be noted that CSEA and the School District had agreed to include those employees in any new collective bargaining agreement, but negotiating the other terms of the successor agreement took longer than anticipated, leaving those five employees officially unaffiliated even though they were to be covered as soon as agreement on a new contract was reached.

**Overtime**

The School District is pleased that there was no finding that any overtime was fraudulent. Procedures for approval of overtime were in place in the district, but as the report indicates, approval should have been provided in writing, rather than orally.

In response to the recommendations for the above sections, please note the following:

- The Board of Education has always formally approved all employment agreements in open meetings. The district has discontinued the use of “yellow sheets” and now places salary information directly into Board resolutions.
- The Board will ensure that all fringe benefits provided to employees are covered by terms of District-wide policies, resolutions, employment contracts or collective bargaining agreements.
- The School District agrees that overtime requests and approvals should be in writing, and policies and procedures for operationalizing this recommendation are now in place.

**Purchasing**

The School District acknowledges the comments of the OSC in the area of purchasing and appreciates suggestions that would result in the implementation of more effective controls. Areas cited as lacking competitive proposals are explained below.
Professional Services

“We found that the District paid five vendors a total of $732,571 for professional services without soliciting competitive proposals.”

The architect cited in the draft Report was conducting work related to a bond for which the firm was the architect of record. A contract with the firm was signed in 1999, and the architect was working under those terms and conditions. Furthermore, the architect of record was hired after the completion of an RFP process through which multiple architectural firms were interviewed before finalists were presented to the Board of Education for its final review and selection. The School District recognizes the OSC’s guidance on this matter and understands that best practice would have the Board reappoint the architect on an annual basis.

Similarly, additional sums were paid to the School District’s attorney. The attorney was appointed annually by the Board at its Reorganization Meeting. The School District agrees that an RFP for legal services should be utilized periodically to solicit proposals from other firms.

The School District appreciates the guidance of the Office of the State Comptroller on matters related to the purchase of professional services, but notes that there has not always been agreement on the need for RFPs in connection with such services, particularly in the area of special education. Indeed, the School District only became aware that RFPs for special education services were desired by the OSC when it read recent audit reports of other school districts.

Confirming Purchase Orders

Data show that the vast majority of confirming purchase orders originated with the facilities department; maintenance work often results in purchase orders issued after-the-fact because they result from emergency situations where speedy action is required.

“We found that 15 claims (44 percent of claims tested) totaling $169,918 had dates which preceded corresponding purchase orders, indicating that they were confirming orders.”

The above statement creates the misleading impression that a high percentage of all claims are confirming purchase orders. As strongly emphasized at the exit conference, this is most certainly not the case. First, it is important to note that 5 of the 15 confirming orders examined were for the same vendors cited in connection with the professional services discussion referenced above. Thus, the claims reviewed by the auditors hardly constitute a representative sample. In addition, the School District engages a highly respected firm as its claims auditor, and the company is vigilant in its work. An analysis of all claims reviewed by the claims auditor during the audit period (with the first month for which data are available being November 2006) demonstrates that 6,625 claims were audited, with only 500, or 7.54%, identified as confirming orders.
Fuel Purchases

The School District has procedures for controlling fuel usage, as explained at the exit conference. In addition, it is not uncommon to dispense fuel after 2 p.m., as buses are often in use until late in the evening for special field trips, cocurricular activities and athletics. Thus, pumping fuel after “normal hours of operation” does not indicate that any improprieties were taking place.

In response to the recommendations for these sections, please note the following:

- The School District will seek to comply with all recommended purchasing policies and procedures, although it notes the difficulty anticipated for soliciting meaningful proposals for specialized professional services, particularly in the areas of curriculum and instruction.
- The School District has been making every attempt to limit confirming orders to emergencies. As of July 2008, the district began encumbering “blanket POs” for such items as legal and other professionals services, based on an estimate of expenditures.
- Fuel purchases are being reviewed by School District central office personnel to identify weaknesses in written procedures and to ensure that any deficiencies are addressed. The School District assures the OSC that it will put into place policies and procedures that address the acquisition and usage of fuel and the maintenance of accurate and timely inventory records.

Information Technology

In relation to comments about user permissions, it should be noted that since the time of the audit, the School District has reviewed procedures in this area and has implemented changes to ensure that permissions are provided only on a “need to know” basis. Employees who have left the system cannot be deleted, as doing so will also delete any history of transactions carried out by those individuals. Instead, these individuals are “deactivated” rather than deleted from the system.

In connection with comments related to disaster recovery, the School District is pleased to inform the OSC that it is has developed a disaster recovery plan; the first part of a two-phase plan has already been put into place. Due to cost considerations, the plan is being implemented over two budget cycles (2008-09 and 2009-10).

Again, the School District thanks the OSC for the opportunity to respond to the draft Report. The School District strongly supports the audit process and welcomes all efforts to ensure that its practices serve the taxpayers of the community.
APPENDIX B

OSC COMMENTS ON THE DISTRICT’S RESPONSE

Note 1

While the District asserts that the public always had full knowledge of the compensation to be provided to all employees, we were not provided with evidence of this during the course of our audit. The Board minutes presented to us for audit (certified by the District Clerk as the official Board minutes), and the minutes listed on the District’s website, did not contain the salaries of the 14 employees indicated in our report and did not include any attachments that showed these salaries. It was not until the exit conference, one year after our fieldwork had ended, that the District provided us with Board minutes containing attachments indicating Board authorization for these salaries. In order to ensure accountability and transparency to the public, evidence of Board-authorized employees’ salaries should be readily available for review by the general public.

Note 2

We have revised our report to clarify this issue.

Note 3

GASB 45 does not require school districts to fund the full liability for other post-employment benefits (OPEB), but continues to permit the funding of the current portion of the liability (pay as you go funding). The objective of GASB 45 is to more accurately reflect the financial effects of OPEB; how the benefits are funded is a management decision that must comply with statutory authority.

Note 4

The guidance from the State Education Department does not address the issue of reserving money for the payment of health insurance benefits due to employees in the years after their termination of District service. Instead, it refers to reserving money for the payment of employee benefits due an employee upon termination of the employee’s service, which is the purpose of an EBALR. The payments are made for accrued leave time earned and accumulated during employment with the District.

Note 5

While the State Comptroller’s Office indicated it is essential that school districts start preparing for OPEB costs, the Office never recommended that school districts finance EBALRs with money intended for post employment health benefits. EBALR funds are not allowed by law to be used for such benefits.

Note 6

There is a significant difference between the reporting requirements of GASB Statement 16, “Accounting for Compensated Absences,” and the requirements for an EBALR, which is established
pursuant to General Municipal Law (GML). In July 1994, the State Comptroller issued guidance for the implementation of GASB Statement 16, which specified the items to be included in the liability and offered suggestions for calculating the liability. This liability can include factors such as FICA, Medicare and retirement system contributions, in addition to employees’ salaries. However, GML limits an EBALR to only the total value of accrued and unused time earned by school district employees and payable to those employees upon termination of service. It does not include related payments such as FICA, Medicare and retirement system contributions.

Note 7

The response states that the EBALR was over-funded in order to provide money for post employment benefits. However, the District’s decision to annually use available fund balance to increase the EBALR by a total of $6.6 million between November 2003 and June 2007 also had the effect of maintaining the unreserved fund balance at or below the legal limit of what could be retained each fiscal year.

Note 8

The District’s accountant (Deputy Treasurer) should not use the Treasurer’s signature disk unless the Treasurer is present. If the Deputy Treasurer is authorized to sign checks, he should do so with his own signature disk.

Note 9

Both the Assistant Superintendent for Business and the Assistant Superintendent for Personnel had access to the signature disks. Because all the signature disks at the District contained the Treasurer’s signature, District officials have no means of identifying who used the disks to sign District checks.

Note 10

While the District’s accountant was appointed as the Deputy Treasurer in July 2007, that appointment did not state that he was authorized to independently perform wire transfers. The Board developed policies regarding the deposit and investment of District funds (which the Deputy Treasurer was permitted to perform), but the policies were silent with regard to procedures regarding wire transfers, including who was authorized to perform such transfers and the oversight of transfers. Wire transfers made during the audit period were used for investment purposes, to transfer money between bank accounts, and to pay general expenditures.

Note 11

Bank reconciliations that are not available in written form are not prepared in a useful and proper fashion and do not allow for proper supervisory review and oversight.

Note 12

The contract cited in the response was dated June 1998 and related to capital improvements undertaken by the District as part of a five-year plan financed with the issuance of serial bonds. The payments made to the architect during our audit period referred to capital improvement projects unrelated to
those included in the 1998 contract. Therefore, the architect was not working under the terms and conditions of the 1998 contract.

Note 13

The solicitation of RFPs is addressed in the District’s procurement policy. The District’s purchasing regulations, revised in November 1996, states that “the district will contact a number of professionals and request that they submit written proposals when competitive bidding is not required for the services needed.”

Note 14

We added information to clarify this issue. For the fiscal year ended June 30, 2006, the District’s external auditor’s expenditure tests also disclosed evidence of confirming purchase orders. The external auditor’s report for the year ended June 30, 2007 indicated the prior year recommendation regarding confirming purchase orders had not been fully implemented.

Note 15

The District was unable to account for 560 gallons of fuel dispensed during November 2007. Therefore, we do not believe that the procedures to control fuel usage are adequate.
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, and payroll and personal services.

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, 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 upon the reported objectives and scope by selecting for audit those areas most at risk. We selected financial condition, cash receipts and disbursements, payroll, purchasing and information technology for further audit testing.

Our examination also included the following:

- We analyzed the liabilities for compensated absences, along with the related reserve, in order to determine if the District’s reserve amount was reasonable and that the interest earned on the reserve moneys was accounted for correctly.

- We added the excess fund balance in the EBALR fund to the unreserved unappropriated fund balance at June 30, 2007 to determine the revised percentage of fund balance retained.

- We examined District cash receipts logs and bank statements in order to determine whether cash/checks that were received by the Business Office were accounted for in compliance with the Commissioner’s regulations.

- We examined bank reconciliations in order to determine if they were complete and accurate. We tested outstanding check amounts used in these reconciliations for their validity and the length of time they were being carried as outstanding items.

- We reviewed the minutes of the Board of Education meetings and the Board policy manual.

- We examined employment contracts in order to determine if payments to employees were made in accordance to the respective collective bargaining agreements. This included tests
for base salary; overtime payments; termination payments and payments for leave accruals. Manual and electronic records were also obtained and tested in order to test internal controls over the District’s leave accrual records.

- We reviewed District policies for purchasing to determine if they adequately addressed the procurement of goods and services.

- We verified that purchases were made, goods were received and claims were processed as authorized.

- We examined bid, quote and RFP documentation to determine if the lowest responsible vendor was selected.

- We compared paid claims to contractual agreements to confirm rates and services.

- We calculated fuel usage to determine if any shortages or overages existed by comparing beginning balances plus deliveries less fuel usage.

- We reviewed all computer use and information technology policies.

- We interviewed the Director of Technology and other District officials regarding computer use policies and procedures.

- We examined user permission reports to determine if access rights to the computer systems were granted using the concept of least privilege.

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.
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