



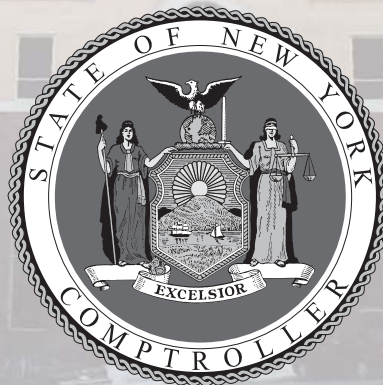
**Center Moriches  
Union Free School District  
Real Property Tax Increase and  
Procurement of Professional Services**

**Report of Examination**

Period Covered:

July 1, 2004 - June 30, 2005

2006M-91



# Table of Contents

	<b>Page</b>
<b>AUTHORITY LETTER</b>	3
<b>EXECUTIVE SUMMARY</b>	5
<b>INTRODUCTION</b>	7
Background	7
Objectives	7
Scope and Methodology	8
Comments of District Officials and Corrective Action	8
<b>REAL PROPERTY TAX INCREASE</b>	9
Recommendation	12
<b>PROFESSIONAL SERVICES</b>	13
Professional Services Contracts	13
Payments Not in Accordance With Board-Approved Rates	14
Recommendations	15
<b>APPENDIX A</b> Response From District Officials	16
<b>APPENDIX B</b> OSC Comments on the District's Response	20
<b>APPENDIX C</b> Audit Methodology and Standards	21
<b>APPENDIX D</b> How to Obtain Additional Copies of the Report	23
<b>APPENDIX E</b> Local Regional Office Listing	24

# State of New York Office of the State Comptroller

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## **Division of Local Government Services and Economic Development**

December 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Center Moriches Union Free School District — Real Property Tax Increase and Procurement of Professional Services.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by school district officials.

If we can be of assistance to you, or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government Services  
and Economic Development*



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The Center Moriches 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.

### **Scope and Objectives**

The objectives of our audit were to determine the reasons for an unexpected 38.4 percent increase in the District's 2004-05 tax rate and to examine the District's internal controls over procurement of professional services for the period July 1, 2004 to June 30, 2005. Our audit addressed the following related questions:

- What factors caused a 38.4 percent increase in the District's tax rate for the 2004-05 fiscal year, when taxpayers thought they approved a budget with a 13.7 percent increase?
- Did the Board solicit requests for proposals (RFPs) when procuring professional services and did the District adhere to the contracted terms of these services?

### **Audit Results**

The Board and District officials did not provide taxpayers with the required information, prior to the May 2004 budget vote, to make an informed decision before voting on the proposed 2004-05 fiscal year budget. In addition, there was a misconception among District taxpayers that the 13.7 percent increase in proposed spending also applied to the increase in the tax rate, when in fact, the tax rate increase was 38.4 percent.

Since the District's procurement policy did not require the use of an RFP process to procure professional services, District personnel rarely used an RFP to obtain competitive proposals for professional services. The District did not solicit competitive proposals for seven of the 10 professional service contracts tested and did not enter into written agreements with three out of the 10 professional service providers. In addition, we found that although the District's former School Business Administrator signed a contract with one firm, there was no documentation that the Board formally approved the contract. Finally, because approved contract rates were not adhered to, the District overpaid a professional \$9,127.

## **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 indicated in Appendix A, District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. OSC comments concerning the District's response can be found in Appendix B.

# Introduction

## Background

The Center Moriches Union Free School District (District) is located in the Town of Brookhaven in Suffolk 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 three schools in operation within the District, with approximately 1,400 students and approximately 250 employees. The District's budgeted expenditures for the 2004-05 fiscal year were \$27 million, funded primarily with State aid and real property taxes.

The District's internal controls consist of various processes created by the Board, department heads, and other District personnel, and are designed to provide reasonable assurance that the Board's objectives are being achieved. These processes are essentially a coordinated set of policies and procedures designed to help ensure that the District complies with laws and regulations, reports financial data accurately, and operates efficiently and effectively. A good system of internal control can result in the identification of errors and/or irregularities in a timely manner.

## Objectives

The objectives of our audit were to determine the reasons for an unexpected 38.4 percent increase in the District's tax rate for the 2004-05 fiscal year budget and to examine the District's internal controls over the procurement of professional services. Our audit addressed the following related questions:

- What factors caused a 38.4 percent increase in the District's tax rate for the 2004-05 fiscal year, when taxpayers thought they approved a budget with a 13.7 percent increase?
- Did the Board solicit requests for proposals (RFPs) when procuring professional services and did the District adhere to the contracted terms of these services?

**Scope and  
Methodology**

During this audit, we evaluated the District’s budgets from the 2001-02 through the 2004-05 fiscal years. We examined the major revenues and expenditures for these years and analyzed trends and information distributed to the public to determine the reasons for the unexpected 38.4 percent tax rate increase in the 2004-05 fiscal year.

In addition, we examined the District’s internal controls over the procurement of professional services for the period July 1, 2004 to June 30, 2005.

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 indicated in Appendix A, District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. OSC comments concerning the District’s response can be found in Appendix B.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk’s office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

## Real Property Tax Increase

A good system of internal control includes the process of preparing and adopting a structurally balanced budget. A balanced budget exists when revenues and appropriated fund balance equal appropriations. A budget is structurally balanced when recurring costs are financed with recurring revenues. The District's budget is a plan of financial operations, which provides a basis for planning, controlling, and evaluating District activities. The budget process usually begins with a series of public discussions that culminates in a budget being submitted to the school board for consideration. In the District, the budget approved by the Board is submitted to the District taxpayers for their approval. A number of disclosures and notice provisions are specified in statutes which are intended to ensure that taxpayers receive pertinent information prior to the budget vote, in order for them to make an informed decision. However, these disclosures are only intended to be a bare minimum. In fact, to understand the causes of large changes in spending and tax rates, such as the District experienced in the 2004-05 fiscal year, usually requires a great deal more information. District taxpayers only vote on the amount proposed to be spent by the District. They do not vote to approve or disapprove a tax rate or a tax levy increase.

Along with the proposed budget, the District is required to make available to the public a property tax report card that must include the total tax levy that would result from the adoption of the proposed budget and the percentage increase or decrease in the total tax levy from the preceding year. A school district budget notice must also be mailed to all taxpayers in the District prior to the budget vote. It is generally understood that the tax levy is only an estimate at the time of the budget vote. It is an estimate because District officials may not know the exact amount of State aid revenues expected to be received in the ensuing year. Therefore, the amount of the taxes to be levied is subject to change.

A State Senator and an Assemblyman asked us to review the circumstances leading to the budget vote on the proposed 2004-05 fiscal year budget. Numerous complaints received from taxpayers indicate that taxpayers believed that the District had proposed a budget with a 13.7 percent tax rate increase. As the law dictates, school budget votes are on appropriations and expenditures, and so the taxpayers actually voted on the budgeted increase in expenditures, which resulted in a tax rate increase of 38.4 percent.

However, the Board and District officials did not provide the disclosures required prior to the budget vote in May 2004; both the school district property tax report card and the school district budget notice are intended to enable taxpayers to make an informed decision before voting on the proposed 2004-05 fiscal year budget. Additionally, there was a misconception among taxpayers that the 13.7 percent increase in spending was the increase in the tax rate.

In May 2004, District officials provided the public with information showing that the proposed 2004-05 fiscal year budget (\$26.8 million) had a spending increase of 13.7 percent over the 2003-04 fiscal year budget. The information provided to the public clearly showed that the \$26.8 million amount was the proposed spending. In addition, a District newspaper issued in May 2004 stated: "We must place before you, the residents of our community, a budget for which we cannot project a tax impact."

Even though District officials did not mislead the public into thinking that the tax increase would be 13.7 percent, they could have more clearly informed taxpayers that the tax impact could be significant. We reviewed the information distributed to the District taxpayers for the proposed budgets for the fiscal years 2001-02 through 2004-05. For years prior to the 2004-05 fiscal year, budget information distributed to taxpayers by District officials included the estimated tax levy that would have resulted. In the information distributed for the proposed 2004-05 fiscal year budget, the amount of the resulting tax levy and tax rates were listed as "NA." A note described this designation as, "Pending uncertainties regarding issues that will directly impact the proposed tax levy and tax rate have made it impossible to calculate an estimate of this amount at this time. These issues include State aid, the results of the pending New York State court case brought by the Campaign for Fiscal Equity, and the assessed values of the properties located within the District. Therefore, the amount is currently considered, not available." We believe that this statement was not accurate. It is a generally accepted fact that the exact amount of State aid and the assessed values of properties in school districts are often finalized after the budget vote takes place. Therefore, the real property tax figure given in the property tax report card is an estimate. However, this estimate is essential to the taxpayers because it gives them an indication of how their approval of the budget impacts the property tax rate and tax levy, particularly in a case such as Center Moriches in the 2004-05 fiscal year, where a very large tax increase was pending.

Real property taxes increased by \$4.47 million, or 38.4 percent, from \$11.63 million in the 2003-04 fiscal year to \$16.1 million in the 2004-05 fiscal year. We found that the reasons for the increase were a proposed \$3.2 million increase in 2004-05 spending, the inability to use fund balance as a financing source, and the anticipated loss of other estimated revenues.

District officials used \$840,000 of available fund balance to help finance the operating expenditures in each of the 2002-03 and 2003-04 fiscal year budgets. The use of fund balance in those budgets helped reduce the District's tax increases. For example, in the 2002-03 fiscal year, the tax increase would have been approximately 18 percent rather than 9 percent had fund balance not been appropriated to reduce property taxes. Similarly, in the 2003-04 fiscal year, the tax increase would have been approximately 22 percent rather than 14 percent.

In September 2003, the Board was informed by its external auditors that unless steps were taken to reduce spending in the 2003-04 fiscal year, there would be no fund balance available to appropriate for the 2004-05 fiscal year budget. Even though the Board attempted to reduce spending, no fund balance was available to finance the 2004-05 fiscal year budget. At the same time, District officials were struggling with a reduction in certain building aid as well as the uncertainty of the amount of State aid to be included in the budget because the State Legislature had not adopted a budget. During the period of the budget preparation, presentations by the administration to the Board indicated an expected decrease in State aid. Therefore, once the decision was made to increase spending by \$3.2 million, the uncertainty of estimated revenues and the unavailability of fund balance left District officials with only one alternative, to increase property taxes.

At the time of the budget vote, the Board and District officials knew that just the proposed \$3.2 million increase in spending would result in a 29 percent tax increase. The Board also should have known that fund balance had been exhausted and was not available to be used as a budget financing source. These two factors combined would cause the estimated tax levy to increase by \$4.1 million, or 36 percent. Since there were uncertainties as to the anticipated decrease of State aid and other revenues in the following fiscal year, the Board may not have been able to project the remaining tax increase of 2.4 percent before the budget vote. However, at a minimum, an estimated tax increase, within the 29 to 36 percent range, could have been disclosed to the taxpayers before the 2004-05 fiscal year budget vote. This estimate

would have been a conservative estimate of the real property tax increase and not a “guess” or “overly optimistic” estimate, as the Board indicated. As a result, taxpayers did not have the required information to make an informed decision before voting on the 2004-05 fiscal year budget.

**Recommendation**

1. The Board should provide the taxpayers with legally required information prior to the budget vote. The Board should also seek training and information on best practices to improve its budget process.

## Professional Services

A main component of the District's professional services internal controls system relates to policies and procedures governing related claims processing and procurement. An effective claims processing system for professional services ensures that every claim contains enough supporting documentation for District personnel to determine whether it complies with statutory requirements and District policies, and that the amounts claimed represent actual and necessary District expenses. In general, an effective procurement process helps the District obtain services, materials, supplies and equipment of the right quality, in the right quantity, from the right source, at the right price, in compliance with all applicable Board and legal requirements. This process helps the District ensure that it expends taxpayer dollars in the most efficient manner.

We found that the Board's adopted policies relating to professional services claims processing and procurement were not operating effectively. As a result, District personnel acquired professional services without using an RFP process and paid four firms a total of \$29,000 without written contracts or Board resolutions. In addition, the District overpaid a vendor \$9,127.

### Professional Services Contracts

A written agreement for professional services provides the District and the individual or firm furnishing services with a clearly defined and mutually agreed-upon basis for determining entitlement to payments. Therefore, it is important for District officials and professional service providers to enter into written agreements that indicate the contract period, the services to be provided, and the basis for compensation for those services. An RFP process helps the District receive the desired services for the best price.

The District's purchasing policy regarding professional service contracts states that, "the Board may decide if the solicitation of request for proposals is in the best interest of the District." Because the District's purchasing policy leaves the decision of whether to solicit RFPs to the Board's discretion, District personnel generally do not solicit RFPs when seeking to obtain professional services.

We tested payments to 10 professional service providers, totaling about \$179,000. We found that the District did not solicit competitive proposals prior to selecting seven of the providers, which were paid approximately \$110,000. While the District is not required to issue

RFPs for professional services, doing so would help ensure the District was obtaining specified needed services at a reasonable price.

In addition, we found that, in some instances, there was no Board resolution approving the professional services to be provided and District personnel did not consistently create written agreements for these services. For example, of the 10 professional service providers, four providers were hired even though there were no Board resolutions authorizing the hiring. There were no written agreements with three of the four services providers. The District collectively paid these four professionals a total of \$29,000, as follows:

- Two home tutoring firms were paid \$18,725. The firms both submitted itemized invoices indicating hourly fees charged. However, there was no Board resolution or written agreement approving the hourly rate.
- A consulting firm was paid a lump sum of \$2,250 to prepare the “non-allowable pupil decimal calculation” for the State Education Department. Although the former School Business Administrator signed an agreement with the firm, there was no Board resolution authorizing the execution of this contract.
- In August 2004, the District paid a legal firm \$2,500 for services rendered regarding the authorization and issuance of a revenue anticipation note. In September 2004, the same legal firm was paid \$5,525, “as the District’s bond counsel for the 2004-05 school year, relative to Tax Anticipation Notes.” Although the Board appointed the firm by resolution for the services relative to the tax anticipation notes on July 6, 2004, the resolution did not indicate the fees to be paid.

Without written agreements or Board resolutions approving services to be provided and fees to be paid, there is no way for District officials to properly audit claims and determine if the fees charged were correct and for properly authorized services.

### **Payments Not in Accordance With Board-Approved Rates**

A good system of internal controls over claims processing includes procedures that ensure that before any claims are paid, claims are properly itemized, goods or services have been received, and amounts charged are accurate. They also ensure that prices or fees claimed are compared to those contained in contracts or Board resolutions. Proper management oversight and monitoring of policies and procedures ensures that controls are in place and operating effectively. Failure to establish good internal controls may result in the District making overpayments.

Our examination disclosed that the internal claims auditor was not able to properly audit the claims from three vendors because, as noted above, there were no contracts or Board resolutions which detailed the services or costs. In addition, on September 8, 2004, the Board adopted a resolution approving the hiring of a firm to provide special education home services at \$50 per hour.<sup>1</sup> However, our examination of the nine invoices, totaling \$24,340, paid to the firm indicated that the firm charged the District \$30 more per hour than the Board had approved. As a result, the District overpaid the firm \$9,127 during the 2004-05 school year.

## **Recommendations**

2. The Board should revise the District's procurement policy to require that the District award all professional services contracts only after soliciting RFPs.
3. The Board should enter into written agreements with all individuals and firms that provide professional services to the District. The Board also should ensure that these agreements clearly stipulate the services to be provided and the basis for compensation.
4. The claims auditor should compare invoices to corresponding contracts before any payments are made to ensure that hourly rates and services performed are in accordance with contract provisions, and that contractual maximum payments are not exceeded.

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<sup>1</sup>The Business Office Manager told us that this firm was hired at \$80 per hour based on a court stipulation that also specified that this particular firm be used. Our review of the court stipulation disclosed that although the District was ordered to use the firm, the District could pay the firm "up to and including \$100 per hour." The Board resolution approved the hourly rate of \$50 per hour.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

The District's response letter makes reference to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

In addition, the District's response letter refers to page numbers that appeared in the draft report. The page numbers have changed during the formatting of this final report.

## ***Center Moriches Union Free School District***

BOARD OF EDUCATION  
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Wendy R. Turkington, Vice President  
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Dr. Donald A. James  
*Superintendent of Schools*

Daniel E. Laub  
*Business Official*

Carol A. Sarames  
*Treasurer*

November 20, 2006

Office of the State Comptroller  
New York State Office Bldg., Room 3A10  
Veterans Memorial Highway  
Hauppauge, NY 11788-5533

Dear Comptroller:

### **Re: New York State Audit Report – November 2006**

The Board of Education and administration of the Center Moriches Union Free School District would like to thank the Office of the Comptroller of the State of New York for their thoroughness, professionalism, and dedication during the audit process. We are extremely pleased that after a comprehensive and thorough audit process, they noted only two (2) issues of concern. This gives the Board and the public yet another level of assurance that our business operations are fiscally sound and that our business office structure and internal controls are functioning as intended.

The first item, the matter of the previous administration's failure to estimate the tax rate for the 2004-2005 school budget, was a matter of public record before the audit process began. The second item, relating to the district's bidding process for professional services, is seemingly one of policy rather than one of law. In light of the significant gravity of this matter, the Board feels it is necessary and appropriate to respond to the issues raised. In reviewing the report, we have identified a number of specific items which we believe require clarification. They are as follows:

1. Real Property Tax Increase (Pages 8-10) – With respect to the fact that "District officials did not provide taxpayers with the required information, prior to May 2004 budget vote, to make an informed decision...", we accept the report's conclusions on this matter. The criticisms are well taken. We wish to assure our community that the district has already committed itself to making certain a situation such as this never occurs again. We wish to point out that the budgets for the 2005-2006 school year, as well as the 2006-2007 school year, were both presented in accordance with applicable State law and regulations, as will all future budgets.
2. Objectives (Page 6) – On Page 6 the report states the following as an objective: "What factors caused a 38.4% increase in the district's tax rate for the 2004-2005 fiscal year, when taxpayers thought they approved a budget with a 13.7 percent increase?" While the current

Board understands the seriousness of this issue, and has already taken steps to prevent a recurrence in the future, we are unaware of any objective testing, polling or analysis, conducted by the Comptroller's office during the audit process, which would support their conclusion that the entire electorate of the Center Moriches School District was under the impression they were voting on 13.7% tax increase. On Page 8 of the report, the Comptroller's office clearly indicates that the public received written notification in a May issue of the "District News," that this was not the case. While we do not dispute the fact that, as indicated on Page 8 of the report, "there was a misconception among the taxpayers that the 13.7% increase in spending was the increase in the tax rate," we do not believe there is any objective evidence to support the conclusion that the electorate were deliberately misled to think they were voting on a 13.7 tax increase, rather than a 13.7% spending increase, with an undetermined tax increase.

See  
Note 1  
Page 20

3. RFP Process for Professional Services -- On Pages 11-13 of the report, the district is criticized for not utilizing the RFP (Request for Proposal) process to solicit bids for professional services. In the interest of transparency, the district has already taken steps to comply with the Comptroller's recommendation that future service contracts are solicited using the RFP process. However, we feel it is necessary to point out that the district's procurement process for professional services is in full compliance with New York Law and Department of Education Regulations. We have been advised by counsel that these types of services are generally exempt from the RFP process. Per Page 744 of Fiscal Management, 19:61) "Competitive bidding is not required either with respect to the contracts for professional services requiring "for example," special skill or training, legal services, medical services, property appraisals or insurance (Trane Co. V Broome County, 76 A.D.2d 1015 (3d Dep't 1980); Appeal of Lombardo, 38 Educ Dep't Rep. 730 (1000); Opn. St. Comp 92-33)," a copy of which is hereto attached.
4. "Overpayment" of "Special Education Home Services" Provider - On Page 12 of the report, it indicates that the district "overpaid" the aforementioned provider in the amount of \$9,127. In this particular instance, although the District paid the service provider more than was Board approved, it did not pay more than the company billed for services awarded by a third party hearing officer during a dispute related to special education services. The district paid the provider \$80.00 per hour, the amount billed for services actually rendered to a District student, while the resolution approved by the Board of Education indicated \$50.00 per hour. Therefore, while the District paid more than Board approved, it did not overpay the provider beyond services rendered to a special needs student. Furthermore, the district engaged the service provider as a direct consequence of a court ruling on the matter.
5. Application of Fund Balance to Reduce Tax Levy -- On Page 9 of the report, it is mentioned that tax increases for the years 2002-03 and 2003-04 would have been significantly greater, 18% rather than 9% and 22% rather than 14%, respectively, if not for the use of an Applied Fund Balance, as a revenue source. This statement implies that the fund balance was being used by the district to artificially lower the tax rate, thus somehow masking increases in spending. We believe it must be made clear that it is usual, customary and, indeed, legally

See  
Note 2  
Page 20

See  
Note 3  
Page 20

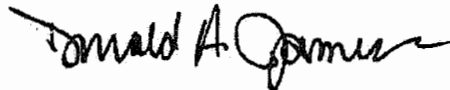
See  
Note 4  
Page 20

Office of the Comptroller  
November 20, 2006  
Page 3

required, that a Board of Education return any Unapplied Fund Balance in excess of 2% of the annual budget, to the taxpayers of their district in the subsequent year.

Again, the Board of Education wishes to thank the Office of the Comptroller of the State of New York for their hard work and diligence during this process. We agree that the regular audit of all government entities plays a vital role in assuring the appropriate and proper stewardship of public funds. We applaud the Comptroller's efforts to audit every district in the State, so that, upon completion of the process, we can all learn from the mistakes of the past and move toward a brighter future.

Sincerely, and on Behalf of the Entire  
Center Moriches Board of Education,



Donald A. James, Ed. Ed.  
Superintendent of Schools

Attachment

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

The audit report does not state that the entire electorate was under the impression that they were voting on a 13.7 percent tax increase. Our report does point out that we received numerous complaints from taxpayers on this issue as well as requests from State Legislators to initiate an audit. As detailed in the report, the District did not provide the required disclosures prior to the May 2004 budget vote and could have more clearly informed taxpayers that the tax impact of its proposed budget would be significant. For years prior to 2004, budget information distributed to District taxpayers included the estimated tax levy. In 2004, the District did not provide tax levy information, even though available information showed that the expected tax levy increase would be in the range of 29 to 36 percent.

#### Note 2

The District confuses good management practices with legal requirements. All the details of good management practices are not mandated by statute. For example, the law does not mandate that duties be segregated or that bank reconciliations be performed. Our report clearly states that the District is not legally required to issue RFPs for professional services. However, we believe that an RFP process is a good management practice that should be followed and would help ensure that the District obtains needed services at a reasonable price.

#### Note 3

As noted in the report, our review of the court stipulation disclosed that the District could pay “up to and including \$100 per hour.” The Board resolution approved an hourly rate of \$50. Because the additional \$30 per hour was not approved by the Board, the resulting additional costs resulted in \$9,127 being paid without Board approval.

#### Note 4

Our comments were not intended to imply that the District's use of fund balance was used to artificially lower the tax rate. Rather, we simply reported that the effect of using fund balance in 2002-03 and 2004-04 was to significantly reduce the potential tax levy. After the fund balance was exhausted, the District no longer had the option of funding a portion of the budget with fund balance, resulting in a higher tax levy for the 2004-05 fiscal year.

## 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: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, with the help of District personnel, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected procurement of professional services for further audit testing.

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

- We reviewed the key control activities of the Treasurer's office including the manner in which bank accounts are reconciled, duties are assigned, checks are signed and journal entries are accomplished.
- We verified that selected receipts were deposited in the District's banks on a timely basis by comparing dates that the District received moneys, to the dates noted on the Treasurer's receipts, to the deposit dates.
- We tested selected records and transactions, and examined pertinent documents including cancelled checks.
- We examined paid claims for compliance with Board policy and bidding laws.

Also, to determine the reasons for the 38.4 percent tax increase in the District's 2004-05 property taxes, we examined appropriate District records for the period July 1, 2000 through June 30, 2005, including audited financial statements, documentation for preparing the District's budgets, property tax report cards, and revenue and expenditure trends.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

## APPENDIX D

### HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

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Albany, New York 12236  
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<http://www.osc.state.ny.us/localgov/>

**APPENDIX E**  
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