



Seaford Union Free School District

Financial Condition and Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2004 - January 31, 2006

2006M-95



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State of New York Office of the State Comptroller

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 Seaford Union Free School District — Financial Condition and Internal Controls Over Selected Financial Activities.

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

EXECUTIVE SUMMARY

The Seaford 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 examine the District's internal controls over cash receipts and disbursements, purchasing, and capital assets for the period July 1, 2004 to January 31, 2006 and to review the District's financial condition from the 2002-03 fiscal year through the first half of the 2005-06 fiscal year. Our audit addressed the following questions:

- Has the District taken adequate action to address the excessive fund balance in the general fund and to monitor revenues and expenditures?
- Are internal control policies and procedures over cash receipts and disbursements, purchasing, and capital assets adequate to protect and account for District assets?

Audit Results

As a result of the inaccurate (underestimated) projection of year end unreserved fund balance at June 30, 2005, the Board and the District taxpayers were not provided with an accurate picture of the District's financial condition, and the Board was unable to prepare an accurate 2005-06 budget. The tax levy increase contained in the budget caused voters to reject the proposed budget twice. This resulted in the Board having to cut programs and adopt a contingency budget for 2005-06. Although it was later determined that additional fund balance was available for appropriation, this determination was made too late to restore program cuts; the additional fund balance was used to reduce the tax levy.

We found certain instances where the Board had either not established critical internal controls, or had implemented controls that were improperly designed or operating ineffectively. These weaknesses in internal controls could lead to errors and/or irregularities occurring and not being detected.

For example, duties were not adequately segregated within the Treasurer's office to ensure that no single person controlled most or all phases of certain transactions. The Treasurer performed many related financial duties, including collecting cash, signing checks, reconciling cash book balances to

bank balances, making transfers between bank accounts and funds, making journal entries, recording transactions in the accounting system and preparing financial reports at month end with little or no oversight by higher level District management. These duties are incompatible when they are performed by one individual.

A review of bank reconciliations performed during our audit period disclosed that, for the general fund bank accounts and the general disbursement bank account, the reconciliations did not compare the bank balance to a general ledger balance. Without accurate reconciliations, there is an increased risk that errors/irregularities may occur and not be detected and corrected in a timely manner.

We tested 40 claims, totaling approximately \$157,000, that were paid between October 2004 and January 2006 and found that claims, totaling \$39,349, were supported by copied invoices rather than original invoices. This increases the District's risk of making duplicate payments to vendors. In fact, we found one instance where the District paid a tutoring firm \$1,024 twice for the same services. The first payment was based on an invoice copy; the second payment was based on the original invoice.

We tested 181 claims which, according to District policy, required a purchase order. We found that 53 invoices, totaling \$163,743, were not supported by purchase orders. We also found 47 additional purchase orders, totaling \$195,566, that contained dates that indicated they were confirming purchase orders. When the District does not consistently use purchase orders prior to ordering goods and services, there is an increased risk that the purchases are not legitimate or authorized.

We tested payments to eight professionals who provided services to the District. Collectively, the District paid these service providers a total of \$515,653 between July 2004 and January 2006. The District did not use requests for proposals to solicit the services of any of these firms. In addition, the District paid five of the eight professionals a total of \$323,403 for services without entering into written agreements. The District overpaid a therapy service provider at least \$7,540 based on invoice charges in excess of the amount permitted by contract.

The District does not have adequate control procedures to verify that procurements comply with its competitive bidding process. We tested payments to seven vendors, totaling \$259,491, who provided the District with goods or services during the 2004-05 fiscal year. The District purchased \$49,563 of goods and services from two vendors without the benefit of competitive bid proposals as required by General Municipal Law Section 103.

Capital asset inventory records were not maintained in accordance with District policy. A physical inventory has not been conducted in at least three years. In addition, the inventory has not been updated to reflect asset disposals and transfers of assets. Incomplete and outdated District capital asset information increases the risk of loss of District assets, and can cause the District to incur unnecessary insurance costs.

Comments of District Officials

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

Introduction

Background

The Seaford 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. Responsibilities relating to the District's finances, accounting records and reports are largely those of the Assistant Superintendent for Business and the Treasurer. The District's annual financial statements are audited each year by independent auditors.

There are four schools in operation within the District, with approximately 2,700 students and 670 employees. The District's budgeted expenditures for the 2004-05 fiscal year were approximately \$43 million, funded primarily with real property taxes and State aid.

The District's internal controls are designed to provide reasonable assurance regarding the achievement of the Board's objectives. It is essentially a coordinated set of policies and procedures designed to help ensure that financial reporting is accurate, laws and regulations are complied with, and the District operates efficiently and effectively. A good system of internal control can result in the timely identification of errors and/or irregularities.

Objectives

The objectives of our audit were to examine the District's internal controls over cash receipts and disbursements, purchasing, and capital assets, and to review the District's financial condition. Our audit addressed the following related questions:

- Has the District taken adequate action to address the excessive fund balance in the general fund and to monitor revenues and expenditures?
- Are internal control policies and procedures over cash receipts and disbursements, purchasing, and capital assets adequate to protect and account for District assets?

Scope and Methodology

During this audit, we examined the internal controls over cash receipt and disbursements, purchasing, and capital assets for the period July 1, 2004 to January 31, 2006. In addition, we reviewed the District's

financial condition from the 2002-03 fiscal year through the first half of the 2005-06 fiscal year.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of District
Officials and Corrective
Action**

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

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*.

Financial Condition

A school district's financial condition determines its ability to provide public educational services to all students within the district. The responsibility for effective financial planning and management of the District rests with the Board, the Superintendent, and the Assistant Superintendent for Business. One of the primary responsibilities of the Board and the Superintendent is to ensure that District budgets are accurate. The Board and District management must make sure that budgets are prepared, adopted, and amended based upon reasonable and accurate assessments of resources that can be used to fund appropriations. They must also make sure that policies, procedures and competent personnel are in place to ensure that financial information is recorded correctly and timely. The Treasurer also plays a role in the financial management of the District by reporting financial information to the Board. It is the Board's responsibility to employ competent personnel that possess sufficient accounting and financial expertise to be able to prepare accurate financial statements.

An important aspect of budget preparation includes a reasonable estimate of fund balance at the end of the fiscal year. Information concerning the amount of reserved and unreserved fund balance is extremely important to the Board. The amount of unreserved fund balance available for appropriation has an impact on the amount of the tax levy needed to fund subsequent fiscal years' budgets. The unreserved portion of the fund balance is uncommitted and, therefore, available for the reduction of real property taxes in the next fiscal year. The reserved portion of fund balance represents moneys that the District may only use for specific purposes and, therefore, it is not available for the District to appropriate as a reduction to real property taxes in the subsequent year's budget. The District may retain a portion of this unreserved fund balance and not use it in the subsequent year. Section 1318 of the Real Property Tax Law limits this retained portion of the fund balance, known as the unappropriated fund balance, to no more than two percent of the ensuing year's budget. The portion of the unreserved fund balance that the District uses to reduce taxes is known as the appropriated fund balance.

The District's unreserved general fund balance at June 30, 2005 totaled \$2,675,513. However, the 2005-06 fiscal year budget prepared by the Superintendent and approved by the Board appropriated only \$525,000 of fund balance to reduce the tax levy. The remaining unreserved fund balance of \$2,150,513, represented 5 percent of the

approximately \$45 million of budgeted appropriations for 2005-06. Therefore, the District's unreserved fund balance was more than twice the amount allowed by law.

The excessive fund balance was caused in part by the Board's failure to properly budget and monitor appropriations and revenues. The Board's ability to perform this function was severely limited due to the lack of financial information provided by the District's officials. The Assistant Superintendent for Business did not provide the Board with periodic trial balances showing current financial condition. In addition, cash flow schedules were not provided to Board members. The Board did receive appropriation status reports and revenue status reports (showing the original and modified budget, fiscal activity to date, and available balances) from the Treasurer each month.

The Superintendent stated that he was told by the Assistant Superintendent for Business that the District would have only enough fund balance available in the general fund at June 30, 2005 to allow for the appropriation of \$525,000 to the 2005-06 fiscal year budget. According to the Superintendent, the Assistant Superintendent for Business did not provide fund balance projections to the Superintendent or the Board. There was no documentation available to explain how the year end fund balance projection was determined.

The tax levy set forth in the 2005-06 budget presented to the voters was significantly higher than necessary due to the inaccurate calculation of the available fund balance. District voters defeated the budget twice and, during July 2005, the Board adopted a contingency budget totaling \$44,218,131.

Subsequently, the Board learned from their external auditors that at June 30, 2005, the District's unreserved fund balance was actually \$2,675,513. However, the Board did not learn of the significant unreserved fund balance in time to reinstate programs that were eliminated in the contingency budget. Therefore, the Board increased the appropriation of unreserved fund balance from \$525,000 to \$1,726,240. On August 25, 2005, the Board adopted a revised contingency budget, reducing the tax levy by about \$1.2 million to \$32,034,741. The resulting tax levy was almost unchanged from the prior year.

Recommendations

1. At the time the budget is prepared, the Superintendent and Assistant Superintendent for Business should analyze the District's financial records (trial balances, revenue and appropriation status reports, cash flow analysis, etc.) and prepare a realistic estimate of the unreserved fund balance at the end of the current fiscal year.

2. The Assistant Superintendent for Business should provide the Board with periodic trial balances and cash flow statements.

Treasurer's Office

An important component of the District's internal controls is the operation of the Treasurer's office. The Treasurer is the District's chief accounting officer and is appointed each year by the Board. The Treasurer is the custodian of all District moneys and responsible for the receipt and disbursement of those moneys. Our audit disclosed that duties within the Treasurer's office were not sufficiently segregated to ensure that no single individual controls most or all phases of a transaction. In addition, bank balances were not reconciled to general ledger balances for a number of general fund accounts.

Segregation of Duties

An effective system of internal controls requires the separation of duties so that no single individual controls most or all phases of a transaction. Concentrating key duties (i.e., authorization, recordkeeping and custody) with one individual with little or no oversight weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected and uncorrected. If it is not feasible for the district to adequately segregate duties in an office, certain compensating controls can be implemented to limit the risk. These controls should include having someone independent of the office operations perform a review of the completed work.

We found the Treasurer is authorized to perform several incompatible financial duties including collecting cash, signing checks, reconciling cash book balances to bank balances, making transfers between bank accounts and funds, making journal entries and recording transactions in the accounting system with little or no oversight by District management. The Treasurer's office includes the Treasurer and the accounts payable clerk, which makes it difficult to segregate all incompatible duties. However, the lack of appropriate supervisory oversight increases the risk that the District may not prevent or detect errors and/or irregularities timely.

In January 2006, the District began requiring the Assistant Superintendent for Business to review and approve fund transfers. In addition, the Board appointed an internal auditor whose responsibilities include reviewing completed bank reconciliations and ensuring journal entries are properly supported.

Bank Reconciliations

The reconciliation of bank balances to general ledger cash balances is essential to ensure that District records reflect correct cash balances and that cash is safeguarded. Accurate and complete bank reconciliations should include the timely identification and documentation of any

differences. Of equal importance, bank reconciliations provide the opportunity for an internal verification of cash receipts and disbursement transactions. Without accurate and complete bank reconciliations, District officials cannot have a reasonable level of assurance that the accounting records are correct or that moneys have been properly accounted for.

Our examination of the Treasurer's bank reconciliations disclosed that three general fund bank accounts were not adequately reconciled to District records. The majority of District expenditures are paid from the general disbursement account. For the three accounts, the disbursements ranged from \$1.9 million to \$4.4 million. All three reconciliations had the same deficiencies:

- None of the reconciliations actually reconciled the bank balance to a general ledger balance.
- The reconciliations contained an outstanding check balance provided by the bank as well as cash entries noted as bank balance, cash receipts, cash disbursements, and various adjusting entries, but we were unable to match all entries on the reconciliation to District records or bank statements.

In addition, we also found that bank reconciliations for two general fund time deposit accounts were not reconciled to the general ledger balance.

Without accurate and complete bank reconciliations, District officials cannot have reasonable assurance that the accounting records are correct or that moneys have been properly accounted for. In addition, without accurate reconciliations, there is an increased risk that errors or irregularities may occur and not be detected and corrected timely.

Recommendations

3. The Board should review the duties within the Treasurer's office and institute controls to ensure a proper segregation of duties. If this is not possible, the Board should ensure that the Assistant Superintendent of Business and the internal auditor provide oversight and monitoring.
4. The Treasurer should reconcile each bank account to the corresponding general ledger account balance on a monthly basis and any differences should be promptly identified and resolved.

Claims Processing and Procurement

A component of the District's internal control system relates to policies and procedures governing claims processing and procurement. An effective claims processing system 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 expenses. In addition, 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 ensure that the District expends taxpayer dollars in the most efficient manner.

The District is not in compliance with its claims processing and procurement policies and the Board has not provided policy guidance for all claims processing and procurement functions. We found almost 100 instances where purchases were made without benefit of a purchase order. A duplicate payment occurred because payment was based on a facsimile copy of an invoice. The District did not select professional service providers through a RFP process, and some professional service providers did not have a contract with the District. In addition, the District did not always solicit competitive bid proposals or quotes as required by its procurement policy.

Claims Processing

In January 2006, the Board appointed a claims auditor. Prior to this appointment, claims were reviewed by the Assistant Superintendent for Business (purchasing agent) and the Treasurer. According to District policy, a claims audit includes verification that the submitted voucher is in proper form, does not include previously paid charges and is in agreement with the purchase order or contract on which it is based.

Duplicate Payments— Even though the District's purchasing policy does not contain a stipulation that a claim must be supported by an original invoice, it does require verification that claims do not contain charges that have already been paid. This can be accomplished by only approving claims that are supported by original invoices. The claims auditor's checklist does not include a step to ensure that a claim is supported by an original invoice. The District's practice of regularly paying claims supported by copies of original invoices, sales order forms and sales tickets may and did result in duplicate payments.

We tested 40 claims, totaling approximately \$157,000, paid between

October 2004 and January 2006 and found that 8 claims, totaling \$39,349, were supported by copies rather than original invoices. One claim for tutoring services of \$1,024 was paid twice. On January 21, 2005, the District paid the firm for services provided to four students between October 21, 2004 and December 22, 2004 based on a facsimile copy of an invoice. On February 18, 2005, the District paid the firm \$1,024 for the same tutoring services, based on the original invoice.

Purchase Orders — Effective controls over procurements include the consistent use of a purchase order system. A purchase order serves as the source document for vendor payment claims entered into the District's accounting system. A fiscal or accounting officer must typically certify the availability of funds before issuing the request to the vendor for the goods or services. A properly functioning purchase order system is effective in controlling expenditures because it confirms that the fiscal officer is aware of and authorizes the procurement.

The District's procurement policy requires the use of purchase orders. The purchasing agent is responsible for all purchasing using pre-numbered purchase orders. We tested 181 claims, which required a purchase order, to determine whether the District was using purchase orders in accordance with its policy. We found 53 invoices, totaling \$163,743, that were not supported by purchase orders. For example, the District purchased software costing \$80 in October 2004 and theatre tickets for a class trip costing \$5,060 in April 2005 but did not complete purchase orders for either purchase. The purchases were supported by approved vouchers, prepared on or after the invoice date.

Confirming Purchase Orders — A confirming purchase order is one that is prepared after goods have already been ordered from a vendor. District officials should restrict the use of confirming orders because these purchases are generally made outside of the normal purchasing process and, therefore, there is limited assurance that these purchases are made at the best price and quality, and are for legitimate and authorized District purposes. There is also no verification that budget appropriations are available prior to the order being placed. Therefore, confirming purchase orders should be used only in exceptional situations.

We identified 47 purchase orders, totaling \$195,566, which contained dates that indicated they were confirming purchase orders. For example, the District paid \$4,341 to a vendor on August 12, 2005 for drapery cleaning and repair in an elementary school. The firm's invoice indicated the service was provided on June 28, 2005 but the

purchase order was dated June 30, 2005. This purchase did not follow the normal purchase order process. District officials and employees ordered the goods or services without first submitting a requisition to the purchasing department and purchase orders were generally prepared after the invoice was received.

When officials and employees do not consistently use purchase orders, or they prepare purchase orders after an invoice has been received, there is an increased risk that the purchases will not be necessary or authorized.

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 payments. Therefore, it is important for District officials and professional service providers to enter into written agreements prior to the performance of any services. An effective agreement indicates the contract period, the service(s) to be provided, and the basis for compensation for those services. In order to allow for a proper audit of claims, the District must require all professional service providers to submit properly itemized invoices. The purchasing policies in effect during our audit period did not require that RFPs be used to solicit professional services nor did they require written contracts for professional services. A District policy, adopted January 2006, at the end of our audit period, requires that RFPs be used to solicit professional services.

Contracts with Professionals — We tested payments to eight professional services providers totaling \$515,653 between July 2004 and January 2006. The District did not use RFPs to solicit the services of any of these firms. In addition, the District paid five of the eight professionals a total of \$323,403 for services without any written agreement.

- Tutoring Services – From July 2004 through January 2006, the District paid \$126,469 to a firm for tutoring services. During our audit period, the District did not enter into a written agreement with this firm nor was the firm ever appointed by a resolution of the Board. After bringing this matter to the attention of District officials, the Board, at its April 6, 2006 meeting, adopted a resolution to hire this firm.
- Interim Director – From October 22, 2004 through August 12, 2005, the District paid \$97,200 to a consulting firm for the services of an Interim Director of Special Education at \$600 per day. At a special meeting held on September 23, 2004, the Board, by resolution, appointed the Interim Director to

serve through June 30, 2005. However, the resolution did not include the Interim Director's pay rate and the District did not execute a contract with the consulting firm.

- Home Tutoring Services – From July 2004 through January 2006, the District paid \$52,598 to a firm for home tutoring services. The District had no written contract with this firm for the 2004-05 fiscal year and Board minutes did not indicate that the Board had adopted a resolution to hire the firm. A document prepared and signed by the tutoring firm, dated September 1, 2005, states the services the firm would provide and the rate of compensation for those services. However, the document was never signed by a District official, and the minutes do not indicate that the Board authorized a contract with this firm.
- Driver Education Services – For the 2004-05 fiscal year, the District paid \$40,040 to a driving school to provide driver education services to students. Although Board minutes stated that the driving school was selected based on a review of competitive proposals, District officials were unable to locate any vendor proposals. Board minutes dated April 1, 2004 and May 5, 2005, stated that the firm's compensation rates were \$280 per student and \$300 per student, respectively. The minutes did not indicate the applicable effective dates and a description of the services was not provided. There was no documentation available to verify the District had entered into a contract with the driving school.
- Reading Services – From September 2005 through January 2006, an individual, who did not have a contract with the District, was paid a total of \$7,096 for reading services. Also, during the period July 2004 through January 2006, an independent contractor was paid a total of \$28,741 to provide special education reading services. In the minutes, the Board approved this consultant to provide reading services at a rate of \$65 per hour for the 2004-05 fiscal year and the summer of 2005. From July 2004 through August 2005, the District paid the reading service provider a total of \$21,645. The contractor, who increased her rate to \$72 per hour in November 2005, continues to provide services to the District although the Board has not approved these services or the hourly rate for the 2005-06 fiscal year.

Although the purchasing policy implies that the District should enter into contractual agreements for all significant purchases, there is

no specific provision requiring written contracts with professional service providers. As a result, the District failed to consistently enter into such contracts.

Payments to Professionals — In order to ensure that payments to professionals are made in accordance with contract provisions, it is essential that claims submitted by the professionals are compared to their contracts with the District. Our review of payments made to seven professional service providers disclosed that payments made to one professional exceeded the amount permitted by contract.

Between July 2004 and January 2006, the District paid a firm \$90,640¹ for various therapy services (occupational therapy, physical therapy, speech pathology, etc.). At least \$7,540 of this total represented payments in excess of the contractual compensation rates. In May 2004 and June 2005 the District contracted with this firm to provide therapists to District students for the 2004-05 and 2005-06 fiscal years, respectively. The contracts provide for compensation rates that ranged from \$38 for half hour sessions to \$120 for evaluations. The contracts further provided that services such as occupational therapy, physical therapy, speech therapy, resource room, group therapy and evaluations, when conducted at a private school or at the student's home, would incur an additional cost of \$8 per session. However, the contracts stated that applied behavioral analysis (ABA) services would not incur the additional \$8 charge, regardless of where it was performed.

In order to determine whether ABA services were charged the additional \$8 per session, we reviewed 16 claims, totaling \$84,474, for services provided in the 2004-05 fiscal year. The District paid this firm \$7,540 in excess of the agreed upon contract for ABA services. For example, an invoice submitted by this firm for services provided during January 2005 included a charge for 55.5 sessions of ABA services. The rate for each session was calculated at the contract specified rate of \$48 per session, plus an additional \$8 charge per session for providing the services at the student's home or at a private school. However, according to the contract, the additional \$8 charge does not apply to ABA services, no matter where the services are provided. Therefore, on this one invoice, the firm overcharged the District \$444 (\$8 x 55.5 sessions).

¹ Two claims, totaling \$6,166, paid in the summer of 2004, were for services provided during the 2003-04 fiscal year and were governed by a contract other than the two contracts indicated above.

Procurement

A good system of internal controls includes a comprehensive purchasing policy that outlines procedures for the procurement of goods and services. The policy should indicate circumstances requiring the use of quotations or the use of competitive bids as specified in General Municipal Law (GML) Section 103. Soliciting competition helps to ensure that contracts are entered into in a manner which is in the best interest of the public. The appropriate use of competition provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner, that goods and services of desired quality are being acquired at the lowest possible price and that procurement is not influenced by favoritism, extravagance, fraud or corruption.

The District did not establish clear and concise policies and procedures regarding purchasing and bidding procedures until January 2006, when the Board adopted a series of purchasing policies. The lack of clear and concise policies and procedures led to the procurement of certain goods and services without the solicitation of competitive proposals. Without the solicitation of competition, there is an increased risk that goods and services are not obtained at the lowest possible price and that purchases are not made with the most prudent and economical use of public moneys in the best interest of the taxpayers.

Competitive Bidding — We tested payments to seven vendors who provided the District with approximately \$259,000 in goods or services during the 2004-05 fiscal year. For five of the seven vendors, we determined that the District took advantage of New York State contracts or cooperative contracts. The District awarded contracts to the other two vendors without following competitive bidding procedures.

- On February 4, 2005, the District paid a company \$34,495 to repair a boiler in the middle school without the benefit of competitive bidding. Because the amount paid to the company exceeded \$20,000, this public work contract should have been awarded after public advertisement for competitive proposals. Instead, after soliciting quotes from four firms, the former Director of Facilities accepted a proposal from the company on August 17, 2004. Competitive bidding procedures were not followed because the former Director of Facilities bypassed the District's purchase procedures.
- On October 8, 2004, the District paid a vendor \$15,068 for band uniforms without the benefit of competitive bidding. The Director of the music department stated that the District purchased band uniforms from this vendor without publicly advertising for competitive proposals because the vendor

had been used in the past. The District reportedly received a significant donation (enough to cover band uniform purchases for a number of years) from a parent's group several years ago, with the stipulation that the money be used to purchase band uniforms from a certain vendor in the year of the donation. However, no one at the District was able to locate evidence of the amount of the donation, when it was received or the stipulation on the use. Purchases in excess of \$10,000 are subject to competitive bidding requirements, regardless of donation stipulations.

Quotes —The District's procurement policy requires the solicitation of three quotes for all public work contracts in excess of \$2,000. The District's purchase orders include a preprinted notation indicating this. During our examination of payments to professional service providers, we found that the District used a New York State contract for information technology technician services, and used the same firm for computer repair services. The District paid the firm \$26,788 during our audit period, July 1, 2004 through January 31, 2006, for computer repair services. Expenditures did not exceed \$20,000 in either the 2004-05 fiscal year or the 2005-06 fiscal year. We reviewed the 13 payments for repair services, ranging from \$359 to \$9,200, and found that the District had not solicited quotes, as required by its policy, for the four payments that exceeded \$2,000.

District officials did not solicit quotes because they believed the District was purchasing computer repair services from a New York State contract. Purchase orders supporting payments for computer repairs listed a State contract number as the source of the unit prices. However, we found that the contract was only for computer consulting and training services, not computer repairs. The purchasing agent who prepared and approved the purchase orders no longer works for the District.

The failure to seek competitive proposals may have resulted in the District not receiving desired goods and services at the lowest possible price.

Recommendations

5. The claims auditor should ensure that an original invoice is attached before approving a claim voucher for payment.
6. The District should recover the duplicate payment of \$1,024 made to the tutoring firm.
7. The Board and the purchasing agent should take steps to ensure that a purchase order is completed for all applicable purchases.

8. The Board and the purchasing agent should take steps to limit the use of confirming purchase orders to only emergency situations.
9. The District should enter into written agreements with all professionals at the beginning of the contract period and before any services are rendered.
10. The Board should follow provisions of its purchasing policy and award contracts to professional service providers only after soliciting proposals.
11. The District should recover the overpayments of at least \$7,540 made to the firm providing therapy services.
12. The claims auditor should verify that charges for professional services are based on contractual rates prior to approving claims for payment.
13. The Board should follow provisions of its purchasing policy and ensure that significant purchase contracts and public works contracts are awarded after solicitation of competitive proposals.
14. The purchasing agent should verify that services procured from the State contract are, in fact, included in the State contract.

Capital Assets

Capital assets have a useful life of more than one year and include land, buildings and building improvements, furniture, and equipment. The District's inventory of capital assets represents a significant investment of resources. According to the June 30, 2005 CPA report, the District had \$8.6 million in capital assets, of which \$6.9 million was land, buildings and improvements, and \$1.7 million was furniture and equipment. It is essential that District officials ensure that the District's capital assets are protected from loss, their value is maintained, and that they are used effectively. This protection can be accomplished by adopting policies, maintaining perpetual inventory records, conducting periodic inventories and establishing other safeguards. Performing periodic physical inventories and reconciling them with records helps to ensure the accuracy and effectiveness of the system and enables District staff to assess the condition of those assets. Incomplete and outdated information on capital assets can result in the District having inaccurate accounting records, and can cause the District to incur unnecessary insurance costs.

The District has an adequate capital asset policy. The policy calls for the maintenance of an inventory of assets by the Superintendent or his designee. It requires that all assets are recorded with sufficient identifying data and physically identified by means of an identification tag. The policy further requires that acquisitions, dispositions and transfers are to be recorded monthly. The policy provides for an annual physical inventory that is reconciled with the inventory record.

We found that the District did not adhere to its capital asset policy. Capital asset inventory records were not maintained in accordance with District policy. Although we found that the District's inventory record contained sufficient descriptions to identify the assets listed, we were unable to determine when the inventory record had been prepared. The inventory records have not been updated to reflect asset disposals and transfers of assets. The accounts payable clerk was designated by the Board as the employee responsible for maintaining the District's capital asset inventory record. She informed us that these records have been updated only to include asset additions. The inventory record has not been updated to account for any disposals or changes in asset location because she was not notified of asset disposals or transfers. Although the Superintendent informed us that an outside firm conducted a physical inventory of District assets three years ago, we were unable to find documentation to this effect. We were unable to determine when the District had last conducted a physical inventory of its capital assets.

The failure of District officials and employees to follow the capital asset policy means that the Board's expectations have not been communicated effectively. The failure to perform physical inventories increases the risk of loss of the District's capital assets. An inventory record that is not maintained diminishes accountability over the District's capital assets.

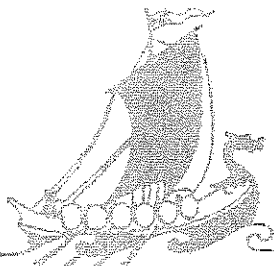
Recommendations

15. The Board should ensure that a complete physical inventory for all District assets is taken to establish a correct, current inventory record. Thereafter, acquisitions, dispositions and transfers of assets should be recorded, in accordance with the District's policy.
16. The Board should update its capital asset policy with procedures to ensure the timely and accurate reporting of all dispositions and transfers of fixed assets.
17. Physical inventories should be conducted annually, in accordance with the District's policy, and the results compared with the capital asset records. Any differences should be promptly investigated and resolved.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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ANDREA CALISTE
RICHARD DIBLASIO
MICHAEL D. SAPRAICONE

December 11, 2006

[REDACTED]
Office of the State Comptroller
New York State Office Building
Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Re: Seaford School District Audit

Dear [REDACTED]

The Seaford School District wishes to thank you and your staff for the response to our request for an audit, and for the most professional manner in which the audit was conducted. The completeness of your staff's review and recommendations will enable the Seaford District to make further changes that will strengthen internal controls, prevent potential over-billings from vendors, and more closely manage the District's assets.

We feel that the findings fairly represent the conditions at the beginning of the audit. Since a positive working relationship between your auditors and our office staff occurred early on, many of the recommended changes were acted upon prior to the issuance of your report.

For summary purposes, here are our responses to the draft report's findings and recommendations:

Financial Condition

Just before the audit was conducted, the District hired both a new Assistant Superintendent of Business and a new Treasurer; these individuals were given direction regarding their immediate adherence to the new "Fiscal Accountability" guidelines that had been recently communicated by the Office of the State Comptroller. Starting in February of 2006, the Board of Education was provided with accurate fund balance projections and trial balances on a monthly basis (1 & 2).

Treasurer's Office

In January of 2006, the Board of Education hired a most capable internal auditor, who immediately began to provide Administration and the Board with insights and suggestions for enhancing controls (3). The Assistant Superintendent of Business initiated a sign-off procedure after reviewing the Treasurer's Monthly Report, and Revenue Report, starting in February of 2006, and will be personally approving all journal entries, effective 12/1/06. The Treasurer has brought almost all bank reconciliations up to date, with the exception of several small inactive accounts that date back to 2003-2004; these reconciliations will be completed by 6/30/07 (4).

Claims Processing and Procurement

A separate Claims Auditor was hired by the Board of Education in January of 2006, and performed a complete analysis and approval process for all District warrants and payments, starting in February of 2006 (5 & 12). Also accomplished in January of 2006 was the adoption by the Board of Education of a most complete purchasing policy that addresses many of the issues found by the Comptroller's auditors. Changes in purchasing procedures were communicated to all of the District's departments, and by July 1, 2006, no purchase orders were then written and approved, without complete policy adherence (7, 8, 10, 13 & 14). The District has worked closely with the Comptroller's auditors to identify the two vendors that may have overcharged the District for professional services, in excess of their contractual rates (6 & 11). The District's legal advisors are completing a standard contract form that will be used for all professional service vendors, effective 1/1/07 (9).

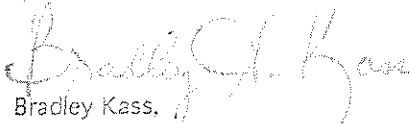
Capital Assets

In conjunction with the District's property-casualty insurer, a complete capital asset and appraisal report was prepared by an outside appraisal company. This detailed appraisal was delivered and accepted in October of 2006. This report will serve as the basis for future capital asset and specialized inventory management, and a new asset tracking procedure will be in-place by 1/1/07 (15, 16 & 17).

If you or anyone in your office has any questions, concerns, or further suggestions, please feel free to contact us immediately.

Sincerely,

BOARD OF EDUCATION


Bradley Kass,
President

BK/cto

APPENDIX B

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, 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 cash receipts and disbursements, purchasing, and capital assets for further audit testing.

Our tests for purchasing included:

- We verified whether the District made purchases, for the period July 1, 2004 to January 31, 2006, in accordance with bidding requirements.
- We verified if the District's purchasing practices conform to the District's purchasing policy.
- We verified that the District has contracts to substantiate the professional and consulting services being conducted, that RFPs are obtained, and that payments are made in accordance with the contracts.

Our tests for cash receipts and disbursements included:

- We requested the confirmation of accounts and balances from the banks.
- We analyzed completed cash disbursements for one month.
- We verified that bank reconciliations were performed properly.

Our tests for capital assets included:

- We tested assets disposed of, per the Board minutes, to determine the method used for disposal.
- We determined whether the disposal was in accordance with the Board policy.

In regard to the budget surplus, we reviewed the 2002-03 through 2005-06 fiscal year budgets versus actual revenue amounts to identify significant variances. We determined whether estimates for the ensuing year had been adjusted.

In regard to expenditures, we analyzed 2002-03 through 2005-06 fiscal year budgets versus actual expenditure amounts to identify significant variances. We determined whether estimates for the ensuing year have been adjusted. We determined whether the debt service appropriation was sufficient to meet debt service requirements. We reviewed appropriations to reserves for reasonableness.

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 C

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