



Yonkers City School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2004 - January 31, 2006

2006M-79



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

November 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 Yonkers City School District — Internal Controls Over Selected Financial Operations.

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 Yonkers City School District (District) is the largest district in Westchester County and one of the five largest districts in New York State. The District is governed by the Board of Education (Board), which comprises nine appointed 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.

In accordance with State Education Law, District funds are held and disbursed by the City's Commissioner of Finance at the District's direction. The District prepares its own annual budget. The District's Director of Finance and Chief Accountant are responsible for District finances, accounting records and reports. At the time of our examination, the Director of Finance and Chief Accountant positions were vacant.

Scope and Objective

We examined the District's internal controls over cash receipts, payroll, and claims processing for the period July 1, 2004 to January 31, 2006. Our audit addressed the following question:

- Were internal controls over District payroll, claims processing and cash receipts and disbursements appropriately designed and operating effectively?

Audit Results

We found instances in which the Board had either not established critical internal controls or had not provided adequate oversight to ensure that controls were implemented and operating effectively. These control weaknesses increased the risk that errors could occur or District assets could be lost or stolen without detection.

District employees should be paid for time worked, including overtime, according to the District's payroll policies and procedures. We identified 162 employees who were paid \$692,648 in excess of the Board-established overtime caps and without sufficient detail to substantiate the hours worked during the 2004-05 fiscal year. We also identified four employees who were provided higher salaries than they were entitled to by Board-policy or negotiated contracts, resulting in overpayments of \$134,840. In addition, the District paid five other employees for sick leave they were not entitled to while they were receiving worker's compensation benefits.

Further, during the period July 1, 2004 to October 31, 2005, the District paid claims totaling about \$154.7 million without an audit by the Board or an internal claims auditor. By failing to audit the claims before making payments, the Board significantly exposed District assets to errors and/or irregularities. The District also contracted for various professional services without seeking quotes from other vendors, increasing the risk the District may have paid too much for these services.

We also found the Board and District management had not adequately protected or accounted for District cash receipts and disbursements. Our tests determined that the District had not identified \$3.3 million in duplicate checks; had not deposit more than \$927,000 in checks on a timely basis; had not adequately tracked outstanding and voided checks; and had not accounted for the purchase and sale of hundreds of thousands of dollars worth of school bus stickers and passes. These problems can result in undetected errors, the waste or abuse of District resources, and the loss of interest revenue. We attribute the problems we found to the District's failure to segregate critical financial duties or perform regular reconciliations, and to the Board's failure to adopt and monitor compliance with policies that provide for the prompt deposit of checks and adequate control over the purchase and sale of bus stickers and passes.

Comments of District Officials

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

Introduction

Background

The Yonkers City School District (District) is located in lower Westchester County and its boundaries are the same as those of the City of Yonkers (City). There are 40 schools in operation within the District, with approximately 25,000 students and 4,500 employees. The District's budgeted expenditures for the 2004-05 school year were \$368.8 million, funded primarily with State aid and money provided by the City.

The District is governed by the Board of Education (Board), which comprises nine members appointed by the Mayor. 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.

The City is responsible for determining the total level of funding for educational expenditures. The District has no taxing power and relies solely on the City Council for appropriations. In accordance with State Education Law, District funds are held and disbursed by the City's Commissioner of Finance at the District's direction. The District prepares its own annual budget. The District's Director of Finance and Chief Accountant are responsible for District finances, accounting records and reports. At the time of our examination, the Director of Finance and Chief Accountant positions were vacant.

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 developed to help ensure the District complies with laws and regulations; reports financial data accurately; and operates efficiently and effectively.

Objective

The objective of our audit was to determine if District officials were properly safeguarding their financial resources. Our audit addressed the following question:

- Were internal controls over payroll, claims processing and cash receipts and disbursements appropriately designed and operating effectively?

**Scope and
Methodology**

We audited the District's internal controls over payroll and claims processing for the period July 1, 2004 to October 31, 2005, and internal controls over cash receipts for the period July 1, 2004 to January 31, 2006.

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 had initiated corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing the plan of action, the Board may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District Clerk's office.

Payroll

The Board and District officials are responsible for ensuring that District employees are paid for time worked, including overtime, according to the District's payroll policies and procedures. We identified 162 employees who were paid \$692,648 in excess of the Board-established overtime caps and without sufficient detail to substantiate the hours worked during the 2004-05 fiscal year. We also found that four employees were provided higher salaries than they were entitled to by Board policy or negotiated contracts, resulting in overpayments of \$134,840. In addition, the District paid five other employees for sick leave they were not entitled to while they were receiving Worker's Compensation benefits. These overpayments occurred because the Board and District officials did not have adequate procedures in place to ensure compliance with District policies.

Overtime Policy

In February 2003, the Board adopted a resolution that established caps of \$5,000, \$10,000 and \$12,000 for overtime earnings per year, based on whether the employee works an hourly, 10-month or 12-month schedule, respectively. The resolution also stated that no more than one administrator will be paid overtime for multiple programs (e.g., tutorials, targeted instruction) occurring at the same time in the same building. During 2004-05 school year, the District paid about \$9 million in overtime. We determined the District paid \$692,648 of that amount to 162 employees in excess of the caps or contrary to Board policy because the District failed to pre-approve and/or monitor overtime. Examples of these overpayments are shown below.

- Two District nurses earned \$21,935 and \$22,907 in overtime pay, respectively, exceeding the \$12,000 cap by \$9,935 in one case, and by \$10,907 in the other. Their time sheets showed only the dates worked; the program they were working in, without task or duty descriptions; and the total number of overtime hours, without the exact time of the day the overtime occurred. Therefore, the District does not have adequate records to verify the claimed overtime was for work done outside of the nurses' normal work hours.

After they had received the payments, the nurses wrote letters in October 2005 at the Superintendent's request, documenting reasons for their overtime work. They stated reasons included implementing a District-wide immunization program; scheduling nurses at District schools; monthly staff

development; liaising with a local health services provider; and working at community events. The nurses claimed they had verbal approval for working overtime.

- An administrator was paid \$27,758 - \$15,758 in excess of her \$12,000 overtime cap - for 712 hours of overtime. The administrator's overtime sheets did not show the time of day she worked overtime. We also identified 18 instances during the year when she claimed to have worked an unreasonably high number of overtime hours on the same day. For example, on November 29, 2004, the administrator claimed nine hours of overtime, in addition to her full-time work hours for the day. Although this overtime was approved, we question the credibility of the hours claimed.
- Two administrators at School 13 earned overtime during the 2004-05 school year for working at the same site at the same time which is in violation of the Board's policy. This practice resulted in 279 hours of overlapping administrative overtime that cost \$13,382.
- Approximately 90 percent of the sheets we reviewed did not show the time of day the overtime occurred. In seven instances, the same administrator put in for overtime more than once on the same day. Although sign-in and out sheets with time indications are maintained at individual schools, they are not monitored or reviewed to prevent noncompliance with district overlapping overtime policy.

All overtime payments to District employees should be limited to amounts or caps authorized by the Board. Overtime claim sheets should show the date, time of day and purpose of overtime along with proper authorization by a supervisor. In situations where overtime can be predetermined, such as administrative overtime for after-school programs, overtime should be pre-approved and scheduled to prevent overlapping. It is essential that District officials implement control procedures to ensure compliance with Board overtime policies and to avoid unauthorized overtime payments in the future. The Board should periodically request and review payroll reports, including District overtime costs, to monitor and assess the reasonableness of these costs.

During our audit period, District officials indicated they established a procedure to control and monitor overtime. The District reported that it now notifies the various schools and departments bi-monthly of which employees are nearing the maximum overtime allowed. If an

employee is approaching the cap, supervisory authorization is needed for overtime, and the supervisor reports this to the Board.

Inaccurate Salaries Paid

Employee salaries should be set in accordance with Board policies and negotiated contracts. We tested the pay status of 33 current teachers and administrators, and found that four of them had salaries that exceeded what they were authorized to receive.

The District's policy allows newly hired teachers and administrators to receive a maximum of 10 years credit for service and experience obtained at a school system outside the District. With the service credit, supported by certified statements of performance, the employee is placed at a higher level on the salary schedule and gets higher pay than the base salary. We found that three employees in our sample received more than the 10-year maximum allowed by the Board policy, resulting in their starting salaries being higher than the District's policy permitted. From the date (November 2000) the employees were hired through June 30, 2005, the District overpaid them a total of \$51,354.

Our review of Board minutes showed that the Board approved new employees' salary without considering prior years' service credit. However, staff in the District's Personnel Department subsequently calculated a salary that included consideration for prior years of service and they allowed more than 10 years of prior service credit when doing so. Personnel Department officials claim that they did so as an "employment incentive." District policy does not allow for such incentives and the final salaries were never submitted to the Board for their approval.

In addition, employees are compensated based on salary scales provided in the applicable union-negotiated contracts. However, we found that the District's physician-coordinator received a base salary of \$159,361 for the 2004-05 school year, even though the applicable contract establishes the annual salary for physician coordinator at \$75,875. Therefore, the District overpaid this employee \$83,486.

Inappropriate Sick Leave Payments

The District also reinstated a "sick bank policy" retroactively, whereby employees who depleted their accrued sick leave and remained out of work could receive payments from the sick bank to which other employees had contributed leave time. Employees are not allowed to receive sick bank payments if they are receiving Workers' Compensation payments. The District discovered that they had inappropriately let five employees charge sick leave from the sick bank, totaling \$35,090, while they were receiving compensation payments. This occurred because the District did not have a system

in place to identify employees who were receiving workers' compensation payments. The five employees have repaid, or are in the process of repaying, the sick bank benefits.

Recommendations

1. District officials should take steps to enforce compliance with existing payroll and overtime provisions contained in resolutions, policies and negotiated employee contracts.
2. The Board should periodically request and review payroll-related expenditures such as overtime to monitor and assess the reasonableness of such costs.
3. District officials should provide written pre-approval for all overtime for administrators and schedule staff to minimize the use of overtime in after-school programs.
4. Overtime records should be itemized to include date, time of day and specific purpose of overtime.
5. The Board should authorize total compensation for new employees, and stipulate the employee's base pay and amount of prior service credit in the minutes. Prior service credit should not exceed the maximum allowed by District policy.
6. All District employees should be paid according to the terms of their contracts or as approved by Board resolution.
7. District officials should ensure that future "sick bank" compensation claims are verified with the Worker's Compensation Board prior to payment.

Claims Processing and Procurement

The Board should audit and approve each claim, or provide for a claims audit function, before the claim is paid. However, we found the District did not adequately audit the \$154.7 million in claims paid over a 16-month period to ensure they were properly documented and represented legitimate District expenses. The Board should also adopt written procurement policies and procedures to ensure the District purchases goods and services prudently and economically. Since the Board had not adopted such policies and procedures, the District awarded nine professional service contracts, valued at \$1.5 million, without seeking quotes for eight contracts totaling \$742,722 and without documenting the award process. As a result, the District may have paid claims for inappropriate costs, or overpaid for purchases of goods and services.

Internal Claims Audit Function

State Education Law requires that the Board audit and approve each claim, except for contracted wages and debt service, and states that claims should be paid only after they have been audited. Since the purpose of the claims audit function is to ensure claims are actual and necessary District expenses, this function should be performed by the Board, or by a Board-appointed claims auditor who is independent of any business function in the District. The Board should develop written policies and procedures to describe how claims should be audited, and what documentation must accompany claims before they are approved for payment.

During the period July 1, 2004 to October 31, 2005, the District paid claims totaling \$154.7 million without the Board performing its audit function properly. Purchasing Department employees approve invoices for payment, and accounts payable clerks review the claim package for original invoices and proper documentation. Employees in these positions are involved in the purchasing and payment functions and should not approve claims for payment. When claims are not audited by the Board or an independent claims auditor, the District may not detect and prevent the payment of claims for excessive or inappropriate costs.

We also found the District paid claims that were not supported by adequate documentation to confirm the claims were accurate or legitimate costs. For example, the District awarded a \$95,000 contract for boiler repairs to a sole bidder. The contract was subsequently increased to \$175,000 via change orders. The vendor

had submitted a total of \$125,000 in claims for services rendered as of the date of our review. Although the vendor did not itemize the repair costs as required by the contract, the District paid the claims without determining the accuracy of the claims submitted in relation to the contract. Therefore, we cannot determine the propriety of the payments made for the boiler repairs.

No-Bid Contracts

The purpose of obtaining bids is to encourage competition to ensure goods and services are procured in the most prudent and economical manner without the influence of favoritism. When competitive bidding is not required, the General Municipal Law requires the Board to adopt written policies and procedures requiring that such goods and services be purchased based on a written request for proposal (RFP), written quotations or verbal quotations.

We examined nine professional service contracts totaling \$1.5 million and found that the District did not use RFPs prior to awarding contracts totaling \$742,722 to eight of the vendors. The District's procurement policy states that professional service contracts are awarded at the discretion of the Superintendent, subject to Board approval. The policy provided no other guidance or procedure for purchasing professional services, and does not require documentation of the award decision process. As a result of not using RFPs to obtain these professional services, the District may have lost significant cost savings opportunities.

Recommendations

8. The Board should audit all claims against the District, or appoint an independent internal claims auditor to perform this function. The claims auditor should report directly to the Board.
9. The Board should require that every claim contain enough supporting documentation to determine it is a proper charge and complies with related contracts or awarded bids.
10. The Board should review and amend the District's procurement policy to provide additional guidance for procuring professional services, including requiring the use of RFPs and documentation of the contract award process.

Cash Receipts and Disbursements

The Board and District management are responsible for safeguarding and properly accounting for District assets. We found the Board and District management had not adequately protected or accounted for District cash receipts and disbursements. Our tests determined that the District had not properly handled \$3.3 million in duplicate checks; did not deposit more than \$927,000 in checks on a timely basis; had not adequately tracked outstanding and voided checks; and had not accounted for the purchase and sale of hundreds of thousands of dollars worth of school bus stickers and passes. These problems can result in undetected errors, the waste or abuse of District resources, and the loss of interest revenue.

Duplicate Checks

Effective internal control requires the separation of duties so that no single individual controls most or all phases of a transaction. Assigning key duties (i.e., authorization, recordkeeping and custody) to one individual significantly increases the risk that errors and/or irregularities might occur and go undetected and uncorrected in a timely manner. However, we found that the District's Director of Finance has not segregated critical duties in the District's Finance Department (District Finance), or provided for adequate controls over manual checks.

Most District payments are made by checks generated by the District's computer system. However, the District's Accountant writes out checks manually in some circumstances (e.g., when a vendor needs immediate payment) and then enters the checks into the computer system. The Accountant's duties include preparing manual checks and manual check warrants; entering the manual check warrant into the computer system; voiding checks and issuing stop payments; and preparing monthly cash reports, which include manual checks, voids and stop payments. Thus, the Accountant has access to both manual checks and payment records. Further, while the City's Commissioner of Finance signs manual checks, no one reviews manual checks to verify accuracy and appropriateness. As a result, District assets are exposed to the risk of errors and/or irregularities that could occur and go undetected and uncorrected.

For example, in November, 2004 the Accountant entered four checks totaling \$3.3 million into the District's computerized check writing system. Seven months later, in June 2005, the District's computer system generated four checks for the same payments. The system generated the checks because the Accountant had failed to enter a code

with each manual check that prevents the system from producing a duplicate check. A clerk identified the problem before the checks were mailed out and brought the \$3.3 million in checks to the Accountant. Although the Accountant notified the City's Finance Department (City Finance) about the error and requested that the checks be voided, she did not send City Finance the required paperwork. Instead, the Accountant put the checks in her desk drawer. The \$3.3 million in checks remained outstanding on the District's bank reconciliation for seven months until we inquired about the checks in January 2006. Proper segregation of duties and regular review of the manual checks would have prevented or detected this error.

Cash Remittances to the City Cashier

The District receives cash payments at various locations, including District Finance and individual school buildings. Good business practice requires cash and checks to be deposited daily or as quickly as possible to prevent the loss or misuse of cash. Delay in remitting cash receipts can misrepresent the actual flow of cash in the District's financial records, make cash more susceptible to theft or loss, and reduce the District's interest income.

The District remits all moneys it receives to the City Cashier. To determine whether the District remits checks promptly, we selected and tested 48 of the 90 checks the District received between July 1, 2004 and January 31, 2006. These 48 checks, totaling \$4.8 million, were judgmentally selected to include both high-dollar and low-dollar amounts. Receipt dates were stamped on only seven of the 48 checks. We calculated the receipt date for the remaining 41 checks by adding seven days (mailing period) to each check's date, and subtracting the result from the date the check was remitted to the City Cashier. As shown in Table 1, the District took between two days and 120 days to remit the 48 checks; 31 to 120 days elapsed before the District remitted 19 (39 percent) of the 48 checks, totaling \$927,334.

Number of Checks	Aggregate Amount of Checks	Range of Days for Deposit
6	617,888	2 to 7 days
23	3,260,287	8 to 30 days
11	805,644	31 to 60 days
5	98,590	61 to 90 days
3	23,100	91 to 120 days
48	\$4,805,407	

Similarly, the District did not timely remit revenue to the City Cashier during the 2004-05 school year from the sale to students of bus passes. We found the Accountant made 60 remittances of bus pass revenue, totaling \$280,950, to the City Cashier between September 15, 2004 and June 15, 2005. We calculated the difference between the dates the District received the money from the schools and the dates the Accountant remitted the money to the City Cashier. Of the 60 remittances, only 10 were made within three days; 46 remittances were made between three and 30 days; and the remaining four remittances were made between 31 and 77 days. When cash is not timely remitted to the City, it is at risk of loss, theft or misuse. The District may also lose interest revenue because of delay in depositing these funds. Delay in remitting cash receipts is attributable to the District's lack of a formal policy stating the number of days within which cash must be remitted to the City Cashier.

Outstanding Checks

Reconciling bank balances to general ledger cash balances is essential to ensure that District records reflect the actual amount of cash in the bank. Accurate and complete bank reconciliations should include the timely identification, documentation and resolution of any discrepancies.

The District maintains separate checking accounts for payroll and vendor payments. City Finance transfers moneys into these accounts to fund the exact amounts of the District's payroll or vendor check run. District Finance relays the total amount of electronic and manual checks (as well as stop payments and voids) to City Finance. On a monthly basis, City Finance gives the bank a list of checks the District has written, which the bank uses to prepare the outstanding checks list. City Finance performs reconciliations and sends them to District Finance.

The payroll account reconciliation for September 30, 2005 listed 31 checks, totaling \$28,359, outstanding from July 15, 2004 to March 20, 2005. Outstanding checks included 10 checks, totaling \$18,980, to the same District employee. Although City Finance had submitted monthly reconciliations for District review, District Finance did not investigate these outstanding checks.

The vendor checking account reconciliation for September 30, 2005 included the four voided checks for \$3.3 million that the Accountant had put in a drawer. The checks had remained outstanding on the District's bank reconciliation for seven months but were not investigated by the District.

School Bus Passes and Stickers

The District's Department of Safety and Transportation (Department) prints stickers for yellow school buses and purchases monthly passes from a local bus company. The Department distributes the stickers and passes to the District's five high schools where they are sold to students at reduced rates. The Department processes applications for transportation and determines how much each high school student has to pay for the monthly passes and stickers, which are discounted and sold for \$25, \$20, \$15 or \$0, depending on the parents' income. During the period July 1, 2004 to October 31, 2005, the Department's Director purchased monthly bus passes (\$50 per pass) costing \$1.3 million from Westchester County. The Director also prints monthly bus stickers for yellow buses, but he could not provide us with the number of monthly bus stickers printed during the above period.

The Department has overall responsibility for school bus passes and stickers. However, neither the Department's Director nor District Finance could provide documentation showing the quantity, type and dollar amount of school bus passes and stickers sold during the audit period. This information was not available because District management did not require the Department's Director to develop a system to properly account for purchases and sales of bus passes and sales of stickers. Without a system in place, and controls to verify the system works as intended, the District cannot safeguard or account for these revenues.

Neither the schools nor the District office had records to show the number and dollar amount of passes and stickers distributed to and sold by each school because the Department's Director has not developed a control procedure to document this information. If the District does not account for bus pass sales, the District cannot properly project how many passes to purchase, as evidenced by the District's return of \$325,525 of unsold passes to Westchester County. Further, lack of accountability for both the distribution and sale of bus passes and stickers increases the risk for fraud or misappropriation of District revenues.

The Acting Director of Finance stated he was aware of the weaknesses and potential effect of such weaknesses at the schools. He said he was working with a vendor who will install electronic cash registers in the schools. The registers will record the type, quantity and the dollar amount of each bus pass sale. However, he did not provide us with any documentation to substantiate his statement.

Recommendations

11. The Director of Finance should segregate duties in the Finance office so that the work of one individual will be independently verified by another in the course of their regular duties.

12. The Director of Finance should review bank reconciliations monthly, follow up on long-term outstanding checks and investigate and correct any discrepancies.
13. The Board should adopt a cash receipt policy which establishes the number of days in which cash should be deposited. The Board should also ensure that all District cash is remitted to the City Cashier timely and deposited promptly.
14. The Board and District officials should develop and implement policies and procedures for purchasing, distributing, selling and accounting for school bus passes and stickers.
15. The Director of the Department should develop a system to account for school bus stickers and passes in accordance with District policies and procedures.
16. The Director of the Department or Finance Department personnel should periodically reconcile cash receipts from the schools to the total passes given to the schools and any unsold passes.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



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Bernadette Dunne
President, Board of Education

Bernard P. Pierorazio
Superintendent of Schools

September 29, 2006

████████████████████
Office of the State Comptroller
Division of Local Government Services
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Dear ██████████:

The Yonkers Board of Education welcomed the New York State Comptroller's audit on the internal financial control functions of the school district. The period of review was July 1, 2004 through January 31, 2006. The audit for this interval, in conjunction with the jointly sponsored Yonkers Board of Education and City of Yonkers fiscal review of the school district by KPMG, serves as a baseline for the district's management to use in making systemic improvements. During the period of this audit, strategic district policy makers and management positions changed, including the start of a new administration with the Superintendent appointment on December 21, 2005. Due to revisions in the City of Yonkers' Code of Ethics, which was initiated by the Mayor and enacted by the Council, Board of Education trustee membership changed. This change in leadership enabled the Board of Education and the Superintendent of Schools to begin the process necessary to meet today's financial standards of accountability.

The Yonkers Board of Education accepts the Comptroller's findings that the district had either not established critical controls or was not providing adequate oversight to ensure that these controls were effectively operating. In some cases, administrative procedures were done without Board awareness and/or approval. The Board is pleased that the Comptroller's Office did not find acts of criminality, similar to the KPMG report dated March 31, 2006.

The district is decisively responding to the Comptroller's findings regarding the design status, operational effectiveness of internal controls over payroll, claims processing and procurement, and cash receipts and disbursements. After a review of these detailed findings, the Board of Education has either taken action or will soon do so in alignment with the report's recommendations. Of utmost importance, as early as November, a Chief Financial Officer (CFO) is expected to be appointed with the responsibility of ensuring the highest standards of fiscal accountability that will go beyond the Comptroller's findings. The internal auditor will be in place by December 2006. An RFP will be published for a claims auditor.

The following information is a brief response to the Comptroller's report, indicating the direction in which the district is moving to raise the fiscal standards by which the Yonkers Board of Education will operate in the future.

PAYROLL

1. District officials should take steps to enforce compliance with existing payroll and overtime provisions contained in resolutions, policies and negotiated employee contracts.

The Comptroller's report documents that Board of Education policy, Board Resolution 03-2-198A, on overtime earning limits were not properly enforced in 2004-2005. In August 2005, a reporting procedure was initiated to document employees' overtime. The reports informed each employee and the immediate supervisor on the status of accumulated overtime. The findings from this procedure resulted in the Board of Education revised policy, Board Resolution 06-3-271B, in March 2006. This documentation and the ongoing review by supervisory administrators and staff have resulted in a more effective enforcement of the policy on overtime.

In regard to an administrator's overtime on November 29, 2004, which was questioned in the Comptroller's report, the subsequent review of the sign-in sheets for that day, in fact, indicated a clerical error. The sign-in sheet, showing the purpose and actual hours of the day that the administrator worked, contained a correction that was not brought forward to the summary payment timesheet. Therefore, the employee was overpaid by six hours.

Another example cited in the report was the violation of the overtime policy which states that only one administrator is to supervise extended school day activities. In the Spring of 2005, we intensified the review of administrators' overtime and the related documentation. At one school, which was cited in the report, there were occasions when multiple administrators earned overtime for purportedly the same supervision. Prior to this review, direct supervision of school overtime was initiated. Review and oversight of overtime continues to be monitored by central office administrators. The district made substantive progress in monitoring overtime limits. However, with our current level of automation, there is a need to structure our manual internal review process to adhere to Board policy.

2. The Board should periodically request and review payroll-related expenditures such as overtime to monitor and assess the reasonableness of such costs.

The Board of Education Audit, Budget and Finance Committee has requested a full 2005-2006 overtime report, which will be provided at its November meeting. Currently, the Board of Education is reviewing all additional reporting procedures until such time as the Chief Financial Officer (CFO) is in place.

3. District officials should provide written pre-approval for all overtime for administrators and schedule staff to minimize the use of overtime in after-school programs.

Based on Board of Education accepted annual budget, overtime budgets are prepared by central office administrators and disseminated to principals prior to implementation of extended day activities. These budgets are monitored regularly by the central office administrator. The Finance Department developed a new quarterly overtime notification system to inform employees and supervisors of an employee's total overtime.

4. Overtime records should be itemized to include date, time of day and specific purpose of overtime.

The implementation of a new automated time and attendance system will increase control of duplicated payments, clerical errors, and allow the district to more efficiently maintain compliance with overtime policies. (See #3 above)

5. The Board should authorize total compensation for new employees, and stipulate the employee's base pay and amount of prior service credit in the minutes. Prior service credit should not exceed the maximum allowed by District policy.

Based on the Comptroller's recommendation, personnel board resolutions reflect the details of the individual employee's situation including contingencies for all aspects of the salary. In addition, the administration will adhere to Board policy whereby experienced, newly hired teachers and administrators will not receive more than a maximum of 10 years credit for service and experience obtained at a school system outside the district.

6. All district employees should be paid according to the terms of their contracts or as approved by Board resolution.

Another shortcoming illustrated by the Comptroller's report, points out errors in determining starting salaries for employees for service outside the district. In regard to the four employees, mentioned in the report, who received more than the ten-year maximum, all were hired by the previous administration. Of the four, three are no longer employed by the district. Proper verification of granted credit was not made in one case, this individual is no longer employed by the district. In the cases of the other three individuals, longevity was granted for service outside the district. One of those employees was hired in November 2000 prior to the enactment of the policy restricting this process. The other two are no longer employed by the district. The Human Resources Department has corrected this process to comply with Board policy.

The Comptroller's review of Board of Education minutes also indicated that Trustees approve new employee base salary without knowledge of contractual increments in respect to prior years of service. This has been historical, due to the verification process which may take several months. Effective immediately, Board of Education resolutions concerning personnel will reflect employee's salary including contingencies for prior years of service. The Superintendent will

recommend that the Board of Education review and discuss the policy for granting outside service credit to new employees.

Another example, which was illustrated by the Comptroller's report was the district Physician who was hired at a salary of \$75,000 for a three-day work week. His work assignment was increased to five days per week in February 2001 with his salary proportionately increased by two-thirds. The Physician's salary was increased over the years per collective bargaining agreements. The change in his original work assignment should have been submitted to the Trustees by Board Resolution. The Board of Education will be given the opportunity to review and take affirmative action on this situation.

7. District officials should ensure that future "sick bank" compensation claims are verified with the Worker's Compensation Board prior to payment.

The Comptroller's report points out that the district discovered five employees were given sick bank pay in error. The district normally verifies "sick bank" compensation claims with the City of Yonkers Worker's Compensation Board. The reason for this overpayment stemmed from an error in process complicated by an arbiter's award. The "sick bank" process has been subject to internal review as a result of this error. The administration and the City of Yonkers are working towards improving the documentation process. The district is in the process of collecting the overpayments from the employees.

CLAIMS PROCESSING AND PROCUREMENT

8. The Board should audit all claims against the district, or appoint an independent internal claims auditor to perform this function. The claims auditor should report directly to the Board.

The Comptroller's report recommends that the district begin an independent claims audit process. This recommendation was discussed at the September 12, 2006 meeting of the Audit, Budget and Finance Committee. The Committee will implement this process immediately after it completes the selection and hiring of an Internal Audit Firm which should occur no later than December 2006.

9. The Board should require that every claim contain enough supporting documentation to determine if it is a proper charge and complies with related contracts or awarded bids.

The claims auditor will provide the appropriate supervision to ensure that claims will have sufficient supporting documentation.

10. The Board should review and amend the District's procurement policy to provide additional guidance for procuring professional services, including requiring the use of RFPs and documentation of the contract award process.

The Comptroller's report recommends that the district update its policy covering the award of contracts when competitive bidding is not required. The provision of additional guidance in the administrative selection process can be undertaken by

the Audit, Budget and Finance Committee as part of its ongoing monthly review and update of financial procedures.

CASH RECEIPTS AND DISBURSEMENTS

11. The Chief Financial Officer (CFO) should segregate duties in the Finance office so that the work of one individual will be independently verified by another in the course of their regular duties.

Some segregation of duties has already occurred. A senior accountant was hired in September 2006, and will be completing the segregation of duties and allow independent verification.

12. The Chief Financial Officer (CFO) should review bank reconciliations monthly, follow up on long-term outstanding checks and investigate and correct any discrepancies.

It will be the responsibility of the newly appointed Chief Financial Officer (CFO) to monthly review bank reconciliations. In this case, the identification of duplicate checks was discovered by a district accountant who did not indicate the anomaly to her supervisor, and, unfortunately, chose to hold, rather than void the checks in a timely manner. The checks were ultimately voided. The senior accountant has begun the process of reconciliation.

13. The Board should adopt a cash receipt policy which establishes the number of days in which cash should be deposited. The Board should also ensure that all district cash is remitted to the City Cashier timely and deposited promptly.

The Board of Education will establish and pass a policy that requires all cash receipts to be deposited within three days of collection. This policy will be enforced by the Chief Financial Officer (CFO) ensuring that all deposits are made in an appropriate amount of time.

14. The Board and district officials should develop and implement policies and procedure for purchasing, distributing, selling and accounting for school bus passes and stickers.

15. The Director of the Department should develop a system to account for school bus stickers and passes in accordance with District policies and procedures.

16. The Director of the Department or Finance Department personnel should periodically reconcile cash receipts from the schools to the total passes given to the schools and any unsold passes.

The report highlights the need for controls on the custody and sale of bus passes to high school students. Last year, the administration began work on an automated point of sale (Cash Register) system. This system is designed to implement control over the sale of bus passes cognizant with the need to streamline this process at the schools. This system is now active in the five high schools and the Transportation Department with the senior accountant assisting in the refinement of this system.

The Finance Department will document the new procedures developed for the purchasing, distribution, sale and accounting of bus pass and related transportation services. The Audit, Budget and Finance Committee will do a complete review, evaluation and refinement before recommending inclusion in Board of Education policy.

As we indicated earlier, the Comptroller's report highlights areas needing improvement now and demonstrates the need for our attention on an ongoing basis. The Comptroller's Office and the Legislature have helped us, and all other school districts, by requiring new procedures such as the internal audit process and the increased frequency of audits performed by the Comptroller's office itself. The Board of Education and the administration take the existence of these deficiencies seriously and are actively involved in making changes for the betterment of our students and the taxpayers of The City of Yonkers.

A formal corrective action response to the Comptroller's findings will be forthcoming as required by New York State Law.

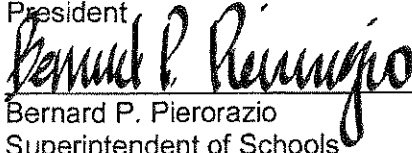
Sincerely,

YONKERS BOARD OF EDUCATION



Bernadette Dunne

President



Bernard P. Pierorazio

Superintendent of Schools

BPP:br

C: Board of Education Trustees
Jay Hvisc, Senior Budget Analyst

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 of Education 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 database(s). 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 payroll for further audit testing.

- We reviewed pertinent documents including the minutes of the Board's proceedings, cancelled checks, bank statements, payrolls, claims and various other accounting records and financial reports.
- We reviewed bank reconciliations for accuracy, completeness and timeliness.
- 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 Finance Department's receipts, to the deposit dates.
- We reviewed the policies and procedures relating to the manner in which claims are reviewed and approved.
- We examined paid claims for compliance with Board policy and bidding laws.
- We reviewed timesheets, leave time records and collective bargaining agreements or employee contracts. To calculate the total prior service credit granted to a sample of selected employees, we obtained and analyzed payroll records from July 1, 2000 through our audit period.
- We analyzed payroll disbursements for unusual payments and verified that selected payments were in accordance with union contracts and employment agreements.

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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