



# Bridgehampton Union Free School District Financial Condition and Internal Controls

Report of Examination

Period Covered:

July 1, 2005 — October 31, 2006

2007M-220



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

January 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Bridgehampton Union Free School District, entitled Financial Condition and Internal Controls. 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.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller  
Division of Local Government  
and School Accountability*



# State of New York Office of the State Comptroller

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## EXECUTIVE SUMMARY

The Bridgehampton Union Free School District (District) is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (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 Objective

The objective of our audit was to examine the District's financial condition and controls over District assets and resources for the period July 1, 2005 through October 31, 2006. The scope of our audit related to procurement was limited to the extent that we did not receive a response to our request for disclosure of interest in contracts with the District from Ms. Tamara George-Turner and Mr. John Wyche, members of the Board during our audit period. Our audit addressed the following related questions:

- Has the District taken appropriate action to reduce excessive undesignated fund balance in its general fund and to monitor revenues and expenditures?
- Has the District lost significant revenue because of its practice of not charging tuition to non-resident students?
- Are internal controls over claims processing and procurement appropriately designed and operating effectively to adequately safeguard District assets?

### Audit Results

The unreserved, undesignated fund balance in the District's general fund at June 30, 2006 totaled \$1.7 million dollars representing 17 percent of the \$9.8 million of budgeted appropriations for 2006-07. Therefore, the District's unreserved fund balance was more than eight times the amount allowed by law. The District's unreserved fund balance has been in excess of the 2<sup>1</sup> percent limit allowed by law since at least June 30, 2001.

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<sup>1</sup> Legislation was passed during 2007 that will allow school districts to gradually increase the amount of undesignated fund balance that may be retained from 2 to 4 percent of expenditures over the next two school years.

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 District officials. The Board did not receive periodic trial balances, appropriation status reports, and revenue status reports prior to the middle of the 2005-06 fiscal year. In addition, for the 2002-03 through 2005-06 fiscal years we found that District officials significantly overestimated appropriations for programs for students with disabilities, and employee benefits. During this four year period, appropriations for students with disabilities and employee benefits exceeded expenditures by a total of \$2.6 million. Additionally, District officials informed us that the excessive fund balance was purposefully accumulated to help finance the expansion of the District's school building. In May 2005, and again in May 2006, the District asked its residents to authorize the use of available fund balance to establish a capital reserve fund for such expansion. On both occasions, taxpayers voted against the establishment of capital reserve funds for the expansion.

We found that the District did not receive tuition for any of the non-resident students who attended the District's school during the 2006-07 school year. The District could have charged approximately \$350,000 for nine non-resident students who were enrolled during the 2006-07 fiscal year, and made a related adjustment to reduce its tax levy.

We also found that the claims audit function is not independent because the claims auditor reports her findings to the Business Administrator and/or Superintendent of Schools rather than reporting directly to the Board. As a result of this weakness, the Board does not have adequate assurance that all claims are for appropriate District purposes.

The District procurement policy's improper exemption from competitive bidding of certain public work contracts, and the splitting of furniture purchases to avoid bidding requirements, led to the District's failure to adhere to the requirements and intent of General Municipal Law. We found that the District did not seek competitive proposals for electrical installations and repairs totaling \$28,503 and for refuse removal services totaling \$8,326 because the District's procurement policy inappropriately exempts these services from competitive bidding requirements. In addition, computer desks costing almost \$19,800 were purchased without public advertisement for bids because the total purchase was split to avoid compliance with competitive bidding requirements. As a result, the District has no assurance that it received these items at the best possible price.

### **Comments of District Officials**

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

# Introduction

## Background

The Bridgehampton Union Free School District (District) is located in the Town of Southampton, Suffolk County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (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 School Business Administrator and the Treasurer. The Board annually appoints a claims auditor who assumes the Board's powers and duties in regard to approving or denying claims against the District.

There is one school in operation within the District, with approximately 140 students and 75 employees. The District's expenditures for the 2005-06 fiscal year were approximately \$9.3 million funded primarily with real property taxes.

## Objective

The objective of our audit was to examine the District's financial condition and controls over District assets and resources. Our audit addressed the following related questions:

- Has the District taken appropriate action to reduce excessive undesignated fund balance in its general fund and to monitor revenues and expenditures?
- Has the District lost significant revenue because of its practice of not charging tuition to non-resident students?
- Are internal controls over claims processing and procurement appropriately designed and operating effectively to adequately safeguard District assets?

## Scope and Methodology

We examined the financial condition, budget preparation, non-resident student tuition, and purchasing procedures of the Bridgehampton Union Free School District for the period July 1, 2005 to October 31, 2006.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). The scope of our audit

related to procurement was limited to the extent that we did not receive a response to our request for disclosure of interest in contracts with the District from Ms. Tamara George-Turner and Mr. John Wyche, members of the Board during our audit period. More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

**Comments of District  
Officials and Corrective  
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix B, 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

The responsibility for effective financial planning and management of the District rests with the Board, the Superintendent, and the School Business Administrator. The Board and District management must ensure that budgets are prepared, adopted and amended based on reasonable and accurate assessments of resources that can be used to fund appropriations. They must also ensure 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.

An important aspect of budget preparation includes establishing a reasonable estimate of fund balance at the end of the fiscal year. Information concerning the amount of reserved and unreserved fund balance is necessary because the amount of unreserved fund balance available for appropriation impacts the amount of the tax levy needed to fund subsequent fiscal years' budgets. The reserved portion of fund balance represents moneys that the District may only use for specific purposes and, therefore, is not available for the District to appropriate to fund programs in the subsequent year's budget. The unreserved portion of the fund balance is the amount that is uncommitted and, therefore, available to fund programs. During the audit period, Real Property Tax Law limited the amount of unreserved fund balance a district can retain to no more than 2 percent<sup>2</sup> of the ensuing year's budgetary appropriations. The portion of the unreserved fund balance that the District uses to fund programs is known as the appropriated fund balance.

The District's unreserved, undesignated fund balance in the general fund at June 30, 2006 totaled \$1.7 million representing 17 percent of the \$9.8 million of budgeted appropriations for 2006-07. Therefore, the District's unreserved fund balance was more than eight times the amount allowed by law. The District's unreserved fund balance has been in excess of the 2 percent limit allowed by law since at least June 30, 2001.

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 District officials. The

<sup>2</sup> Legislation was passed during 2007 that will allow school districts to gradually increase the amount of undesignated fund balance that may be retained from 2 to 4 percent of expenditures over the next two school years.

Board did not receive periodic trial balances showing current financial condition until October 2005, after a new Business Administrator was hired. In addition, the Board did not receive appropriation status reports and revenue status reports (showing the original and modified budget, fiscal activity to date, and available balances) from the Treasurer prior to December 2005. Had the Board received these reports, they would have been aware of the District's financial position, and been better able to monitor the District's budget. Without the proper information the Board can not make informed decisions regarding the budget.

Additionally, District officials informed us that the excessive fund balance was purposefully accumulated to help finance the expansion of the District's school building. In May 2005, and again in May 2006, the District asked its residents to authorize the use of available fund balance to establish a capital reserve fund for such expansion. On both occasions, taxpayers voted against the establishment of capital reserve funds for the expansion.

Budgeted Appropriations — A school district's annual budget should include reasonable estimates of appropriations required to fund expenditures in the coming fiscal year. Accurate estimates prevent the levy of excessive, unnecessary real property taxes.

We analyzed appropriations and expenditures for the 2002-03 through 2005-06 fiscal years and found that District officials significantly overestimated appropriations for programs for students with disabilities and employee benefits. During this four-year period, appropriations for students with disabilities and employee benefits exceeded expenditures by a total of \$2.6 million.

<b>Overestimates of Appropriations — Programs for Students with Disabilities</b>			
<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Expenditures</b>	<b>Overestimated Appropriation</b>
2002/2003	\$974,968	\$568,288	\$406,680
2003/2004	\$1,015,632	\$712,868	\$302,764
2004/2005	\$907,315	\$707,001	\$200,314
2005/2006	\$919,250	\$616,588	\$302,662
<b>Total</b>			<b>\$1,212,420</b>

At the time budgets are prepared each year, the District has most of the information necessary to accurately estimate the costs associated with programs for students with disabilities. The expenditures for these programs are primarily for teaching services, tuition, and BOCES (Board of Cooperative Educational Services) services; all of which are established by contract.

The 2006-07 budget includes \$978,582 in appropriations for programs for students with disabilities. Since expenditures in this line item have never exceeded \$713,000 in any of the four prior years we reviewed, there is no reasonable basis for including an appropriation of \$978,582. The District's overestimation of this appropriation in 2006-07 will likely add to the District's excessive unreserved fund balance.

Employee benefits include health insurance premiums, and social security and retirement system contributions. Most of the information necessary to accurately estimate employee benefits is available at the time the budget is prepared each year. Health insurance premiums for the first half of the succeeding fiscal year are the same as those incurred during the second half of the current fiscal year. School districts receive estimates of the ensuing year's insurance premium changes (percentage increases) well in advance of the date of the increase; social security expenditures are directly related to employee salaries, which are regulated by employee contracts; and estimates for retirement system contributions for the upcoming fiscal year are provided to the District prior to the adoption of the budget. Despite having most of the information necessary to prepare realistic estimates for employee benefits, District estimates were inaccurate.

<b>Overestimates of Appropriations — Employee Benefits</b>			
<b>Fiscal Year</b>	<b>Appropriations</b>	<b>Expenditures</b>	<b>Overestimated Appropriations</b>
2002-03	\$1,489,125	\$1,068,285	\$420,840
2003-04	\$1,610,767	\$1,194,344	\$416,423
2004-05	\$1,759,321	\$1,494,794	\$264,527
2005-06	\$1,918,099	\$1,604,750	\$313,349
<b>Total</b>			<b>\$1,415,139</b>

The 2006-07 budget includes \$1,656,643 in appropriations for employee benefits. This estimate is approximately 3 percent more than the amount expended in 2005-06, which appears reasonable in light of past year's increases. Thus, it does not appear that the District overestimated this appropriation in 2006-07 budget.

**Recommendations**

1. The Board should develop a plan to reduce the unreserved fund balance in the general fund.
2. The Board should take steps to ensure that it receives the necessary financial documentation to provide fiscal oversight.
3. District officials should prepare accurate budget estimates based on prior years' experience, contracts, and available information from external sources.

## Non-Resident Students

Education Law states that a person over 5 and under 21 is entitled to attend the public schools maintained in the district in which said person resides without the payment of tuition. In addition, a district may accept non-resident students upon consent of and on terms prescribed by the school board. Those terms can include the payment of tuition in accordance with a formula set forth in the regulations of the Commissioner of Education (Commissioner). A non-resident student who began the school year as a resident of the district can be permitted to complete the school year on a tuition-free basis. The regulations of the Commissioner provide for the calculation of tuition for non-resident students.<sup>3</sup> The tuition rate adopted by the District must not exceed the State Education tuition rate.

For each school year, the Board adopted non-resident tuition rates for students attending Pre-Kindergarten, Grades Kindergarten to 6, and Grades 7 to 12. In addition, on April 20, 2004, the Board adopted a revised policy regarding the admission of non-resident students. The policy provides that:

- Non-resident students may be admitted to District schools upon payment to the District of the Board-adopted tuition charge.
- Regularly enrolled students who have moved out of the School District during the second semester of the school year may complete that school year. Such children enrolled in Grade 11 may complete both Grades 11 and 12 without payment of tuition.
- The child or children of a non-resident employee of the District may attend the District's school on a tuition-free basis.
- The Board may make exceptions or waive tuition charges through individual resolutions.

We found that the District did not receive tuition for any of the non-resident students who attended the District's school during the

<sup>3</sup> The Part 174 formula, which is also known as the "Seneca Falls formula" should be used by districts who do not keep their accounting records in a manner that would indicate the net cost of educating a non-resident student. The Education Department's State Aid unit electronically calculates the non-resident tuition charges using the information provided by each school district on their annual School District Annual Financial Report, or ST-3.

2006-07 school year, including nine who did not fall into any of the categories indicated above.

At April 2007, 16 students, representing 11 percent of the District's 141 students, did not reside in the District. Two of the non-resident students were high school seniors whose families moved out of the District between April 2006 and December 2006, and three others are the children of a non-resident employee of the District. In addition, the Board waived tuition charges through individual resolutions for two other non-resident students. Therefore, according to the District's admission policy they were entitled to attend the District school tuition-free. The remaining nine non-resident students were not in a tuition exempt category. Furthermore, the Board resolutions accepting their requests to attend the District school did not contain a provision waiving the payment of tuition. Therefore, the District was entitled to tuition for these students totaling approximately \$350,000 for the 2006-07 school year (see Appendix A). As a result, the District received no revenue to offset the cost of educating these students.

The District administration and Board indicated that they have allowed non-resident students to attend District schools in an attempt to maintain class size and diversity in the classrooms. The District's collection of tuition for the nine non-resident students would have resulted in an additional revenue source which, in effect, would have decreased the property tax burden on District residents.

#### **Recommendation**

4. District officials should follow the adopted non-resident policy and charge appropriate tuition for non-resident students.

## Claims Processing and Procurement

The objectives of internal controls over claims processing are to ensure that every claim contains enough supporting documentation to determine if it complies with District policies and that the amounts claimed represent actual and necessary District expenses. This process helps the District ensure that it is spending taxpayer dollars in the most efficient manner. The objective of a procurement process is to ensure that purchases result in securing goods and services in the right quantity, at the right time, and for the right price and to ensure that purchases are made in compliance with law and District policy.

A good internal control system requires clear policies and procedures to provide employees a solid basis for carrying out their duties. The Board adopted policies relative to claims processing and procurement. We found that policies and procedures governing the claims audit function were not sufficient to ensure an independent oversight of claims processing. In addition, our tests determined that controls associated with procurement were not sufficient to ensure that purchase and public works contracts were awarded after the solicitation of competitive bids.

### Claims Auditor

Auditing the District's bills before they are paid is the responsibility of the Board. However, the Board may adopt a resolution and appoint an individual who holds this position subject to the pleasure of the Board. A claims auditor serves a critical District function since the individual assumes the Board's powers and duties with respect to auditing claims. The claims auditor must ensure that proper original documentation is attached and the payment is for a legal purpose and was properly authorized.

We found that the claims auditor does not report her findings directly to the Board. Even though the claims auditor's job description requires that she report to the Board, the claims auditor stated that the only time she has ever met the Board was when she was interviewed for the position. The claims auditor stated that she has never given the Board any written report other than the signed warrant and reports problems to the School Business Administrator and/or Superintendent of Schools for corrective action. When a claims auditor reports directly to a District official who approves or supervises others who approve business transactions, purchases goods and/or services, or accounts for financial transactions, the claims audit function does not provide independent oversight of those activities. This increases the risk that the District will pay for inappropriate expenses.

Our test of 35 claim vouchers totaling approximately \$290,000 disclosed no indication that the District had paid for inappropriate expenses.

## Procurement

Another important component of the District's internal controls relates to policies and procedures over purchasing goods and services. We found that the District's procurement policy contains a provision stating that the District is not subject to competitive bidding requirements in awarding contracts for plumbing, electrical and sanitation services if the Board awards such contracts to vendors that have previous experience with the District and knowledge of District buildings. This is contrary to General Municipal Law.

Competitive Bidding — General Municipal Law requires public advertisement for competitive bid proposals when the purchase of goods or services exceeds a certain dollar threshold. The current threshold requires bids for purchase contracts in excess of \$10,000 and public works contracts in excess of \$20,000.

Our test of four vendors who were each paid more than the competitive bidding thresholds during the fiscal year ended June 30, 2006 disclosed that two of the four vendors were awarded contracts without the appropriate use of competitive bidding.

- An electrical contractor was paid \$28,503 for electrical installations and repairs during the 2005-06 fiscal year. This contract was not publicly advertised for bid. Since the majority of the costs were for labor, the contract was subject to the competitive bidding requirements for public works contracts. District officials have used this contractor for many years because he is familiar with the school buildings. According to the District's purchasing policy this contract was not subject to competitive bidding requirements; however, State law requires the advertisement for competitive bids for public works contracts in excess of \$20,000.
- In 2006, the District purchased computer carrels costing a total of \$19,790 from a furniture vendor without publicly advertising for bid proposals. The purchase was split to avoid compliance with competitive bidding requirements. A purchase order totaling \$8,005 was issued on March 13, 2006 for 28 computer carrels, which were received by the District the next month. On May 11, 2006, the District issued a purchase order to the same manufacturer in the amount of \$11,785 for 42 additional computer carrels, and those carrels were received in June.

Although the two purchase orders indicated that the vendor was selected after the solicitation of competitive quotes, the law requires the District to advertise for competitive bids. Also, the only quote on file was one submitted by the vendor who received the contract. The other “quotes” were merely copies of pages from furniture catalogues.

Quotes — General Municipal Law requires the Board to adopt written policies and procedures governing the procurement of goods and services not required by law to be made pursuant to competitive bidding requirements. The development and adoption of written policies and procedures help to protect the District’s taxpayers by assuring that competition is sought in a reasonable, cost effective manner for situations when competitive bidding is not required by law.

The District’s purchasing policy requires verbal quotes for purchase contracts between \$100 and \$1,000, and public work contracts between \$1,000 and \$5,000. Written quotes are required for purchase contracts between \$1,000 and \$10,000, and public work contracts between \$5,000 and \$20,000. All quotes, verbal or written, must be documented.

Our test of three vendors paid a total of almost \$17,000, disclosed that a vendor was awarded a public works contract without obtaining the appropriate amount of quotes as required by District procurement policy. Payments totaling \$8,326 were made for refuse disposal during the 2005–06 fiscal year to a sanitation contractor without soliciting the required written quotes. The District failed to follow procedures for obtaining competitive proposals for this public works contract because its procurement policy incorrectly exempts sanitation contracts from competitive bidding requirements.

The procurement policy’s improper exemption from bidding of certain public works contracts, and the splitting of furniture purchases to avoid bidding requirements, led to the District’s failure to adhere to the requirements and intent of General Municipal Law. As a result of the District’s failure to obtain certain goods and services after the solicitation of competitive proposals, there is no assurance that such goods and services were obtained at the best price.

## Recommendations

5. The Board should ensure the independence of the claims audit function and require the claims auditor to report directly to the Board.

6. The Board should periodically review the work performed by the claims auditor to ensure that established policies and procedures are being followed.
7. The Board should modify its procurement policy and delete the exemption from competitive bidding requirements for plumbing, electrical and sanitation services.
8. The Board should take steps to ensure that purchase contracts are not split in an effort to circumvent competitive bidding requirements.

**APPENDIX A  
BRIDGEHAMPTON UFSD STUDENT ENROLLEMENT**

**TABLE 1: 2002-03 THROUGH 2006-07 BRIDGEHAMPTON UFSD  
NON-RESIDENT STUDENT ENROLLMENT**

Grade	Non-Resident Student Enrollment				
	2002-03	2003-04	2004-05	2005-06	2006-07
K	0	0	2	0	0
1st	2	1	0	1	1
2nd	2	2	1	2	3
3rd	0	2	1	0	2
4th	2	0	1	1	0
5th	0	0	0	3	1
6th	0	0	1	0	2
7th	0	0	0	2	0
8th	0	0	1	0	2
9th	1	0	1	1	0
10th	2	1	1	0	1
11th	1	3	0	1	0
12th	1	1	2	0	2
<b>Subtotal K-12</b>	<b>11</b>	<b>10</b>	<b>11</b>	<b>11</b>	<b>14</b>
Pre-K	2	4	3	0	2
<b>Total</b>	<b>13</b>	<b>14</b>	<b>14</b>	<b>11</b>	<b>16</b>

**TABLE II: 2002-03 THROUGH 2006-07  
BRIDGEHAMPTON UFSD STUDENT ENROLLMENT**

Grade	Total Student Enrollment				
	2002-03	2003-04	2004-05	2005-06	2006-07
K	10	12	17	9	7
1st	7	7	13	9	9
2nd	11	11	6	9	9
3rd	13	13	8	3	8
4th	6	13	17	9	2
5th	11	8	14	16	9
6th	14	14	10	10	15
7th	9	13	13	10	11
8th	10	13	13	14	6
9th	9	15	15	11	15
10th	5	11	11	8	14
11th	10	9	8	9	10
12th	13	11	7	7	9
<b>Subtotal K-12</b>	<b>128</b>	<b>150</b>	<b>152</b>	<b>124</b>	<b>124</b>
Pre-K	15	11	9	18	17
<b>Total</b>	<b>143</b>	<b>161</b>	<b>161</b>	<b>142</b>	<b>141</b>

**TABLE III: 2002-03 THROUGH 2006-07  
BRIDGEHAMPTON UFSD  
NON-RESIDENT TUITION RATE BY GRADE LEVEL**

Grade Level	2002-03	2003-04	2004-05	2005-06	2006-07
Pre-K	\$9,256	\$10,182	\$22,895	\$20,801	\$24,856
K - 6	\$18,513	\$20,364	\$31,751	\$41,601	\$44,187
7 - 12	\$20,981	\$23,079	\$37,077	\$44,600	\$41,035

## **APPENDIX B**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

**Bridgehampton Union Free School District**


P.O. Box 3021 • 2685 Montauk Highway • Bridgehampton, NY 11932  
Telephone: (631) 537-0271 Facsimile: (631) 537-1030

Mr. John Pryor  
Principal

Dianne Boyd-Youngblood, Ed. D.  
Superintendent

Michelle Romanosky  
Business Administrator

January 4, 2008

  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
Veterans Memorial Highway  
Hauppauge, New York 11788-5533

Re: District response to, and corrective action plan for, draft audit report 2007M-222

  
On behalf of the Bridgehampton Union Free School District and its community, thank you for your valuable partnership in conducting a professional audit of the District's financial condition and internal controls during the period July 1, 2005 through October 31, 2006.

We are very pleased that your thorough review found no evidence, or even suggestion, of wrongdoing. We appreciate that your review identified several areas of opportunity for the District to enhance the controls then in place, and we will certainly implement those recommendations that have not already been implemented. As life-long learners, we are in continuous search of improvement.

As required by the General Municipal Law, The Education Law, and the Commissioner's Regulations, we respectfully submit the following as our corrective action plan. As you will read in the plan below, we have already implemented some of the recommendations. We will immediately begin work on implementing the remainder of the recommendations and expect those implementations to be complete earlier, but certainly not later, than the deadlines established in the plan below.

**Financial Condition**

**Recommendation #1:**

The Board should develop a plan to reduce the unreserved fund balance in the general fund.

**District Plan:**

The Board successfully addressed this issue during the process of setting the tax levies for the 2006-07 and the 2007-08 fiscal years. The Board appropriated \$4,000,000 of unreserved fund balance in 2006-07 and \$2,250,000 of unreserved fund balance in 2007-08, thereby reducing the level of unreserved, undesignated fund balance to \$305,987 or 3% of the 2007-08 budget, which is fully compliant with current law.

**Recommendation #2:**

The Board should take steps to ensure that it receives the necessary financial documentation to provide fiscal oversight.

**District Plan:**

As the draft audit report correctly indicates, the Board has been receiving these documents in a timely fashion since the middle of the 2005-06 fiscal year. However, in order to assure that this reporting continues, the Board will establish formal requirements for the receipt and review of necessary financial documents. These requirements will be established and effective by no later than June 30, 2008.

**Recommendation #3:**

District officials should prepare accurate budget estimates based on prior year's experience, contracts, and available information from external sources.

**District Plan:**

The District modified the budget development process for the 2007-2008 budget to align with the recommendation, and administration expects the level of unexpended appropriations at June 30, 2008 to be significantly lower than the years reviewed in the audit. The Board and administration will continue to monitor the District's budget to assure that it is adequate and appropriate for carrying out the District's mission.

**Non-Resident Students**

**Recommendation #4:**

District officials should follow the adopted non-resident policy and charge appropriate tuition for non-resident students.

**District Plan:**

The Board and District officials shall observe the adopted non-resident policy #5152 which was adopted on September 4, 2007 establishing tuition rates for non-resident students; and assure that the admittance of a non-resident student is precisely reflective of the Board's intentions in that instance.

**Claims Processing and Procurement**

**Recommendation #5:**

The Board should ensure the independence of the claims audit function and require the claims auditor to report directly to the Board.

**District Plan:**

In December 2006, the Board established a process for such reporting, which is now reflective in the claims auditor's job description. The claims auditor is complying with this process.

**Recommendation #6:**

The Board should periodically review the work performed by the claims auditor to ensure that established policies and procedures are being followed.

**District Plan:**

The Board will develop a process for the periodic review of the work performed by the claims auditor. This process shall be implemented by no later than June 30, 2008.

**Recommendation #7:**

The Board should modify its procurement policy and delete the exemption from competitive bidding requirements for plumbing, electrical and sanitation services.

**District Plan:**

The Board will modify its procurement policy as recommended. This modification shall be targeted for completion by June 30, 2008.

**Recommendation #8:**

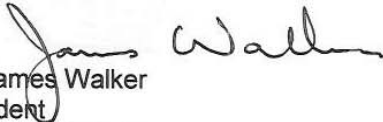
The Board should take steps to ensure that purchase contracts are not split in an effort to circumvent competitive bidding requirements.

**District Plan:**

The Board will charge its claims auditor with the responsibility of reviewing the current year cumulative purchasing history when auditing claims that may be subject to competitive bidding requirements to assure compliance with those requirements. This will begin with the 2008-09 fiscal year.

Please feel free to contact Dr. Youngblood, Superintendent of Schools, with any questions or further requests.

Sincerely,



Mr. James Walker  
President  
Board of Education

CC: Board of Education  
Dr. Dianne Youngblood, Superintendent of Schools  
Michelle Romanosky, School Business Administrator  
Phyllis Davis, Audit Committee Chairperson

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

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

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

Our examination included the following:

- We examined recent annual audit reports prepared by the District's public accounting firms for objective, scope, methodology and findings.
- We analyzed changes in fund balance.
- We reviewed and verified the surplus balance in the general fund.
- We reviewed revenue trends and their use in budget projections.
- We reviewed budget preparation procedures.
- We interviewed appropriate District officials regarding policies relating to non-resident students, we reviewed the District's policy book and minutes of the Board meetings.
- We reviewed and analyzed enrollment information obtained from District officials.
- We obtained, reviewed and analyzed non-resident tuition rate information from District officials.

- We reviewed the formal policy for purchasing and determined if it adequately addressed the procurement of goods and services.
- We interviewed officials to obtain an understanding of the claims auditing process.
- We examined paid claims to contractual agreements to confirm rates and services.
- We verified that purchases were made, that goods were received and claims were processed as authorized.

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

## APPENDIX D

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