



Great Neck Union Free School District Procurement and Financial Operations

Report of Examination

Period Covered:

July 1, 2005 — June 30, 2006

2007M-192



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2008

Dear School District Officials:

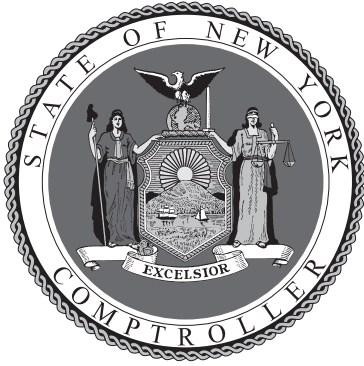
A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, 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 Great Neck Union Free School District, entitled Procurement and 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.

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

EXECUTIVE SUMMARY

The Great Neck Union Free School District (District) is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are 10 schools in operation within the District, with approximately 6,300 students and 1,600 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$152 million funded primarily with real property taxes, State aid, and grants.

Scope and Objective

The objective of our audit was to examine internal controls over procurement (other than electrical project contracts) and Business Office operations for the period July 1, 2005 through June 30, 2006, and to examine internal controls over the procurement of electrical project contracts for the period July 1, 2001 and June 30, 2006. Our audit addressed the following related questions:

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

Audit Results

In 2005-2006, the District made purchases normally subject to competition from approximately 1,900 vendors totaling about \$26 million. We reviewed the internal controls related to procurement of public works contracts and professional services and found that they were not always operating effectively. We tested payments totaling \$788,308 made to 12 vendors during the year ended June 30, 2006 and found that the District did not comply with competitive bidding laws and the District's purchasing policy for contracts with four vendors totaling \$605,231. For example, the District paid an electrical contractor a total of at least \$420,309 for three contracts without public advertisement for bids prior to the contract awards. In addition, between January 2003 and August 2003, a firm owned by the spouse of the electrical contractor was paid a total of \$765,000 for an electrical contract which was awarded

without the solicitation of competitive bids. Because District officials did not always comply with competitive bidding laws and the District's purchasing policy when procuring public work contracts, they were not always assured of receiving the best price for the services that were procured.

In addition, we found that three professional service contracts totaling \$520,693 were awarded without soliciting requests for proposals (RFPs) or any other means of soliciting competition. While the District is not legally required to use RFPs for procuring professional services, using RFPs is an effective way of ensuring the District receives the desired services for the best price. The three professionals included: a law firm that was paid \$281,184, an environmental consultant that was paid \$192,975, and a firm providing nursing services that was paid \$46,534. We believe that it is in the best interests of the District to periodically seek such competitive proposals in order to ensure that needed services are received at the best possible price.

We also identified control weaknesses in the Treasurer's office as well as a lack of control over budgetary transfers. The Board did not establish a dollar limit on the amount of budgetary transfers the Superintendent can approve, as required by the Commissioner of Education's Regulations. In addition, job duties in the Treasurer's office were not adequately segregated and the Treasurer did not maintain control over her signature disk. Such weaknesses reduce the effectiveness of the District's system of internal controls, and increase the risk that resources could be misused or that errors could occur without detection.

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 plan to initiate, or have already initiated, corrective action. Appendix B contains our comments on issues raised in the District's response.

Introduction

Background

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

There are 10 schools in operation within the District, with approximately 6,300 students and 1,600 employees. The District's budgeted expenditures for the 2005-06 fiscal year were \$152 million funded primarily with real property taxes, State aid, and grants.

Objective

The objective of our audit was to examine internal controls over procurement (other than electrical project contracts) and Business Office operations for the period July 1, 2005 through June 30, 2006, and to examine internal controls over the procurement of electrical project contracts for the period July 1, 2001 and June 30, 2006. Our audit addressed the following related questions:

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

Scope and Methodology

During this audit we examined the District's internal controls over purchasing and certain financial operations for the period July 1, 2005 to June 30, 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 C of this report.

Comments of District Officials and Corrective Action

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

to initiate, or have already initiated, corrective action. Appendix B contains our comments on issues raised in the District's response.

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*.

Procurement

A good system of internal controls includes a comprehensive purchasing policy that outlines procedures for the procurement of goods and services. It is necessary that the procurement policy indicate circumstances requiring the use of quotations or competitive bids to ensure that contracts are entered into in a manner which is in the best interest of the public and in compliance with the law. The appropriate use of competition provides taxpayers with the greatest assurance that goods and services of the desired quality are being acquired at the lowest possible price.

In 2005-2006, the District made purchases normally subject to competition from approximately 1,900 vendors totaling about \$26 million. While the Board adopted a purchasing policy in 1992, which they amended in 2003, District officials failed to comply with it when soliciting bids for public work contracts. We also found the policy does not require competitive proposals for professional services. The request for proposal (RFP) process ensures that the District receives the desired service for the best price.

Competitive Bidding

General Municipal Law and the District's procurement policy require that purchase and public work contracts be publicly advertised for bids and awarded to the lowest responsible bidder when they exceed \$10,000 and \$20,000, respectively. The purpose of obtaining bids is to encourage competition in the procurement of supplies, equipment and services which will be paid for with public funds.

School districts are also required to obtain a building permit from the State Education Department (SED) for construction projects costing in excess of \$10,000. Such projects must be supervised by a licensed architect or engineer, and following the completion of the project the architect or engineer must certify that the project was completed in conformance with the plans and specifications for the project.

The District's purchasing agent was responsible for ensuring that significant purchase contracts were subject to competitive bidding requirements. The Assistant Superintendent for Business was responsible for ensuring that significant public work contracts were subject to competition.

We tested payments totaling \$788,308 made to 12 vendors during the year ended June 30, 2006 and found that the District did not always comply with competitive bidding laws and the District's purchasing

policy when procuring public work contracts. The District entered into public work contracts totaling at least \$605,231 with four vendors without advertising for bids.

- During the fiscal year ended June 30, 2006, an electrical contractor was paid a total of at least \$420,309 for three contracts that were awarded without benefit of competitive proposals. (see section entitled “Payments to Electrical Contractors”)
- The District paid a vendor \$81,000 to install new ceilings and recessed lighting in a classroom and lobby. The Board awarded a contract to this vendor based on quotes received from a number of firms which were selected by a consultant under contract with the District.
- The District paid \$69,000 for asbestos abatement in one of the District’s elementary schools. The Board awarded a contract to this vendor based on quotes received from three vendors who were selected by a consultant under contract with the District.
- The District paid \$34,922 to a vendor for widening the exit/entry for a parking lot at one of the high schools, without advertising for competitive bid proposals. The Board awarded a contract to this vendor based on quotes received from four construction companies selected by the engineering firm that prepared the project specifications.

Because the District did not always comply with competitive bidding laws and the District’s purchasing policy when procuring public work contracts, they were not assured of receiving the best price for the services that were procured, and that District contracts were awarded in a fair and equitable manner.

Electrical Contractor

Our review of purchasing showed that the District had a history of undertaking electrical projects without obtaining competition and using the same or related contractors. Because an electrical upgrade contract awarded during the 2005-06 fiscal year was attributed to a 2001 contract, we researched the written agreement and contractual payments for the 2001 contract. In addition, we tested payments made for other significant electrical projects between 2001 and 2006. We found that between 2003 and 2006 the District entered into five public work contracts totaling \$1.3 million with two electrical contractors without soliciting competitive bid proposals.

The District paid an electrical contractor (Contractor A) \$306,436 to install primary electric switchgear for an electrical upgrade project during the 2005-2006 fiscal year. The District did not obtain a building permit from the SED and a licensed engineer or architect was not retained to oversee the project, as required by Commissioners Regulations. In addition, progress payments made to the Contractor were not reviewed and approved by an architect or engineer to certify that the work was completed according to specifications. Although the Board resolution awarding this contract, dated June 6, 2005, indicated that this was a change order to a contract that was awarded in 2001, the 2001 contract was certified by the project's engineer as having been completed on June 3, 2002. In addition, the 2001 contract was awarded to a firm other than Contractor A.

The District used Contractor A for three additional electrical projects without publicly advertising for bid proposals. The Contractor was paid \$85,000 in June 2005 for the installation of 60 overhead projectors in classrooms. Five companies were asked to submit quotes for this project and two responded. Furthermore, in June 2006, Contractor A was awarded a contract totaling \$81,380 for the installation of another 60 overhead projectors. Payments toward this contract were not made until the 2006-07 fiscal year, after our audit period. The District paid this same vendor at least \$28,873 during the fiscal year ended June 30, 2006 for the repair and maintenance of smoke alarms and security alarms.

We also found that payments totaling \$765,000 were made to Contractor B (whose president is the husband of the owner of Contractor A) between January 2003 and August 2003 for the installation of "electrical raceways." The Assistant Superintendent for Business informed us that the contract was not publicly advertised for competitive bid proposals, and there is no record of Board approval. Payments made to Contractor B were not certified by an architect or engineer verifying that work was completed in accordance with contract specifications.

District officials did not provide us with an explanation why this contract was not subject to competitive bid proposals while several other electrical contracts in effect between 2001 and 2004 totaling more than \$1 million were awarded after public advertisement for bid.

Because the District did not always solicit competitive bids for electrical service contractors, they were not assured that they received the best price for the services received, and that District contracts were awarded in a fair and equitable manner.

Professional Services

Competitive bidding is not required for the procurement of professional services which involve specialized skill, training and expertise; use of professional judgment or discretion; and or a high degree of creativity. While the District is not legally required to use RFPs for procuring professional services, using RFPs is an effective way of ensuring the District receives the desired services for the best price. Also, General Municipal Law requires the District to adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required. An effective and comprehensive purchasing policy would require the District to request written proposals from professional service providers whenever such services are needed. An RFP process is meant to ensure that the District receives the desired service for the best price. The purchasing policy in effect during our audit period did not require that RFPs be used to solicit these services.

In addition, a written agreement for professional services provides the District, along with the individual or firm furnishing services to the District, with a clearly defined and mutually agreed-upon basis for determining entitlement to payments. These written contracts provide a mechanism to help ensure the fees paid to professional service providers are in accordance with board intent.

We tested claims for five professional service providers who were paid \$582,971 during the 2005-06 fiscal year. We found that two of the professional service contracts, totaling \$62,278, for the internal auditor and public accounting services, were awarded through competitive proposal. However, we found that three professional service contracts totaling \$520,693 were awarded without the benefit of competitive proposals. In addition, although there was a Board resolution or written agreement with each professional, payments to one professional were not in accordance with the written agreement. The District did not solicit competition for the following:

- A law firm was paid \$281,184 as the District's legal counsel. This firm has served as the District's legal counsel for more than 20 years. Payments were based on an agreement prepared by the law firm.
- An environmental consultant was paid \$192,976 during the 2005-06 fiscal year. The District entered into a written agreement with the consultant in July of 1998 to oversee all major construction contracts. The Board reappointed this consultant each year at the organizational meeting. At the July 2005 organizational meeting the consultant was appointed at a rate of \$48,244 per quarter.

- A firm providing nursing services was paid \$46,534 during the 2005-06 fiscal year, which was \$2,721 greater than the amount specified in the contract with the District. The written agreement with the nursing services provider stated that the firm would bill the District at the rate of \$32.98 per hour, or \$247.35 if the service was provided for a full eight-hour shift. The eight-hour shift resulted in a discount to the District. However, we found that the nursing service billed the District \$263.84 for every eight-hour shift of service provided, or \$16.49 per shift more than the amount specified in the contract. Because the District was billed for 165 eight-hour shifts during the 2005-06 year, the firm was overpaid a total of \$2,721.

We believe that it is in the best interests of the District to periodically seek such competitive proposals in order to ensure that needed services are received at the best possible price. In addition, the failure of the District to pay the nursing services provider in accordance with the contract raises concerns about the effectiveness of the District's claims audit process.

Recommendations

1. District officials should follow provisions of its purchasing policy and the General Municipal Law and publicly advertise for bids for purchase contracts and public work contracts subject to competitive bidding.
2. The Board should ensure that all capital constructions projects which require a building permit be properly filed with the SED and are monitored by a licensed engineer or architect.
3. The claims auditor should ensure that all claims for capital projects are properly certified for payment.
4. The Board should award contracts to professional service providers only after soliciting competitive proposals.
5. The claims auditor should verify that all claims submitted by professional service providers are in accordance with written agreements.

Financial Operations

District managers are responsible for establishing adequate internal controls to properly safeguard and account for District assets. A good system of internal controls should be designed to provide reasonable assurance that District assets are properly safeguarded, accounting transactions are recorded and reported properly, and work performed is monitored and reviewed routinely. We identified control weaknesses in the Treasurer's office as well as a lack of control over budgetary transfers. Such weaknesses reduce the effectiveness of the District's system of internal controls, and increase the risk that resources could be misused or that errors could occur without detection.

Budget Transfers

It is the Board's responsibility to monitor the District's expenditures and keep them within the amount of the total annual appropriations to guard against incurring expenditures in excess of budget appropriations. A budget transfer should be made before a line item in the budget is over expended. Pursuant to the Commissioner of Education's Regulations, the Board may authorize the Superintendent to make budget transfers between line item accounts within set limits without Board approval.

In January 2006, the Board adopted a policy authorizing the Superintendent, or his/her designee, to make budget transfers, reclassifications, or adjust entries in general fund budget codes. The policy states that budget transfers will be made from "available appropriations in other accounts, revenue in excess of the amount budgeted, and/or unappropriated fund balance." While Commissioner's Regulations permit the Board to authorize the Superintendent to make transfers from available appropriations in other line item accounts, the Board cannot authorize the Superintendent to appropriate fund balance or expend revenue in excess of budgeted amounts.

In addition the Board's policy does not establish a dollar limit on budget transfers the Superintendent can authorize. Requiring that the Board approve transfers over an established amount can assist the Board in monitoring the budget and help to ensure that expenditures do not exceed what the Board intended when they prepared, and voters approved, the annual budget.

The Superintendent makes budget transfers throughout the year without prior Board approval. A report showing the over expended appropriations is given to the Board at the end of each quarter,

requesting approval of the transfers. The report does not show where there is an available appropriation in the budget to transfer from. When the Board periodically approves the Superintendent's transfers, a journal entry is made to offset the negative balance to an account called Board Authorized Transfers, which is a holding account, not an actual appropriation account. Appropriations are not actually transferred between budgetary accounts. At year end, this temporary account is cleared by journal entry. On September 19, 2005 the Board approved \$2,467,155 in transfers between appropriations. This action cleared the Board Authorized Transfers account for the 2004-05 fiscal year and transferred appropriations from accounts with available balances to accounts that were overdrawn.

Treasurer's Office

The Treasurer is the District's chief accounting officer and is appointed each year by the Board. Because the Treasurer is responsible for the receipt and disbursement of all District moneys, internal controls over the Treasurer's office should ensure, among other things, that critical financial duties are segregated, and that the Treasurer's signature disk is properly safeguarded. Unless such controls are properly designed and implemented, District moneys are at risk of loss or misuse.

Segregation of Duties – An effective system of internal control requires the separation of duties so that no single individual controls most or all phases of a transaction. Proper division of responsibility should provide that the work of one employee is independently checked in the course of another employee's regular duties. Concentrating key duties (i.e., receiving cash, depositing cash, signing checks and preparing the bank reconciliations) with one individual weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected and uncorrected.

The District does not have adequate segregation of duties in the Treasurer's office to ensure that no single individual controls most or all phases of a transaction. We found the Treasurer's duties include collecting, recording and depositing cash receipts, signing District checks, reconciling the bank accounts and preparing monthly financial reports to the Board. When one individual performs all these duties, that individual could make unauthorized payments that would not be detected.

Treasurer's Signature Disk – Effective control over the disbursement of cash is vital to prevent unauthorized payments and the misuse of District funds. As the District official responsible for signing checks, the Treasurer plays a critical role in the cash disbursement process. The Treasurer uses a facsimile signature disk to affix her signature to

District checks. It is therefore essential that the Treasurer's facsimile signature disk be under the Treasurer's direct supervision at all times. The Treasurer must ensure that his/her signature is not used to make payments that have not been approved.

We found that the Treasurer's facsimile signature was stored on a computer disk, which was not password protected. We also found that it was used by other District officials and employees in the absence of the Treasurer. While the former Assistant Superintendent of Business was an authorized signer on District accounts, he did not have his own signature disk. Instead, his office had a copy of the Treasurer's signature disk. We observed that the District Clerk used the Treasurer's signature disk to sign the payroll checks when the Treasurer was on vacation.

Recommendations

6. The Board should establish dollar limitation on budgetary transfers that the Superintendent can approve.
7. The Board should amend its budget transfer policy to eliminate authorizing the Superintendent to appropriate fund balance or expend revenue in excess of budgeted amounts.
8. Budget transfers should be made between line item accounts with an available appropriation.
9. District officials should review the duties within the Treasurer's office and institute controls to ensure proper segregation of duties.
10. The Treasurer should maintain control of her signature disk, and should directly oversee the printing of checks. The signature disk should be password protected, and the Treasurer should not share her disk or password.
11. If the Board authorizes another check signer, that individual should have his/her own signature disk.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

GREAT NECK PUBLIC SCHOOLS

345 Lakeville Road
Great Neck, New York 11020
Telephone 516.773.1405
Fax 516.773.6685

Ronald L. Friedman
Superintendent of Schools

Barbara Berkowitz
President, Board of Education

December 7, 2007

██████████
██████████ Local Government and School Accountability
Division of Local Government Services and Economic Development
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear ██████████:

This letter comprises our school district's response to the draft Audit Report of our district, more formally entitled "Great Neck Union Free School District, Procurement and Financial Operations, Report of Examination, Period Covered: July 1, 2005 – June 30, 2006," which we received from you on November 9, 2007. Much, but by no means all of the information we provide below, was discussed at length in the exit interview held in our district offices on November 28, 2007. As requested, this letter addresses the Draft Audit Report section by section, beginning with the Executive Summary.

OUR COMMENTS REGARDING YOUR EXECUTIVE SUMMARY

Scope and Objective – The stated purpose of the audit was "to examine the internal controls over purchasing and certain financial operations for the period July 1, 2005 through June 30, 2006 to determine if they were adequately designed and operating efficiently." The audit process began over a year and a half ago. When we received the draft audit report we learned that the auditors "tested payments totaling \$788,308 made to 12 vendors . . ." Further, the auditors found that the district "entered into public works contracts totaling at least \$605,231 with four vendors without advertising for bids."

The auditors looked at 12 vendors with whom the district did business during the 2005-06 school year. During that year, the district did business with vendors as follows:

Type of Purchase	# of vendors	Total Dollar Amount
In house bid	31	7,404,761
BOCES bid	130	472,307
Cooperative bid	32	547,574
County Blanket order	136	650,277
State contract	176	3,357,119
Sole Source vendors	579	1,269,452
Other vendors	949	30,542,309
TOTALS	2033	44,243,799

Thus, the district did business with over 2,000 vendors in the time frame covered by the audit. The district made over 5,800 purchases from those vendors in that time. We understand that the auditors looked at 12 purchases made that year, and found fault with 4 of them totaling \$605,231. We did seek competitive quotes for those four purchases. We do agree with your findings that the four purchases involved should have been, but were not, formally bid. We have made internal changes already to insure that, regardless of what we may consider valid reasons as to why those four purchases were not bid, such an occurrence will not again happen. We will provide more of an explanation of the details as to why they were not bid, in the commentary on the body of the audit report, below.

See
Note 1
Page 22

Continuing with the Executive Summary, we understand your advice that we periodically seek RFP's for professional and technical services. We accept your findings about making technical changes in our budget transfer policy, and will move to do so forthwith. We accept your recommendations regarding the treasurer's signature disk and the appropriate changes have already been made.

OUR COMMENTS REGARDING THE MAIN BODY OF THE DRAFT AUDIT REPORT

Pages 6 and 7, entitled "Introduction" -- this section of the report constitutes general language. Our only comment is in regard to the initial sentence under "Scope and Methodology," which reads: "During this audit we examined the District's internal controls over purchasing and certain financial operations for the period July 1, 2005 to June 30, 2006." Again, we emphasize in the same time period we made over 5,800 purchases from over 2,000 other vendors, and in those instances we believe our internal controls were quite effectively operating. When our concern in that regard was expressed at the exit interview, we were advised that the scope of the audit did not include those 5,800 purchases, but only the 12 public works contracts tested. We believe that the four problem contracts are greatly counterpoised by the 5,800 other carefully-controlled purchases made in the same time period.

OUR COMMENTS REGARDING THE SECTION ENTITLED "PROCUREMENT"

Introductory two paragraphs – As the audit report does explicitly state, there is no express legal requirement under General Municipal Law section 104(b) that school districts must conduct an annual RFP for legal services. There is no legal precedent requiring annual or periodic RFPs for any professional service contracts (indeed, the recently enacted requirement for periodic RFPs for external auditor services is a testament to the fact that the law is silent about such a requirement for professional services in general).

With respect to professional service contracts that were initially awarded through an RFP or RFQ procedure, it was and continues to be the customary and general practice throughout the State to award annual extensions of such contracts without conducting an RFP each time.

In this case, the Board Policy in effect at all times relevant to this matter expressly exempted certain professional services (such as legal services) from the RFP/RFQ requirement. Therefore,

the District's properly procured legal services in accordance with both existing law and its procurement policies and procedures.

In light of the foregoing, there is no question that the Board has been in full compliance with both law and policy at all times, and moreover, has clearly been vigilant in protecting the best interests of the District.

See Note 2 Page 22

Subsection entitled "Competitive Bidding" – We agree that the findings relative to the district not seeking competitive bids are accurate. It should be noted that in each case, quotes were obtained from multiple vendors for the services ultimately awarded. Competition was a part of the process. Yet the law specifically requires a public bid, pursuant to advertisements, not just the seeking of quotes. We will certainly comply with all such legal requirements in the future. From now on, we most certainly will insure that all public works contracts involving sums of money over the specified policy and law dollar amounts will be bid. If we believe a low-bid vendor is not a responsible vendor, we will seek redress to use the services of another vendor, since avenues for such redress are available, albeit sometimes cumbersome.

Subsection entitled "Recommendations" – We accept all recommendations with the exception of recommendation 4, as previously stated.

OUR COMMENTS REGARDING THE SECTION ENTITLED "FINANCIAL OPERATIONS"

Subsection entitled "Budget Transfers" – Recommendations were made to modify the Board's policy covering budget transfers to establish a specific dollar limit on transfers the superintendent can authorize, and to remove language that would allow transfer from fund balance. The Board will modify its policy accordingly. Note that no transfers were ever made from fund balance. Note also that the Board does review each and every budget transfer.

See Note 3 Page 22

Subsection entitled "Treasurer's Office" – Changes in duties to provide for better segregation of tasks and responsibilities are being made now. Better control over the signature disk has been handled already.

CONCLUSION

This state audit process took about 18 months from its start until our receipt of a draft audit report. Only at the very end of the process did we learn that the scope of the audit was extremely limited, and was specifically targeted to a small part of our operation, with no consideration given to the very large number of vendors (over 2,000), purchases (over 5,800) and dollar volume of purchases made beyond the tested twelve contracts. We take most seriously the findings that discovered weaknesses in our operation, and have moved already to make needed changes.

Your agency, the office of the Comptroller of the State of New York, has been auditing school districts across the state, with the aim of auditing all districts by 2010. We believe your mission is to improve school districts' financial operations by providing constructive criticism and professional recommendations. However, one cannot ignore the intense media spotlight on audit reports, fed by the frenzy of the media to take words out of context to find fault and lay blame,

rather than to shed light on “government helping government.” This creates a “we win, you lose” scenario, which is not a good example of government at work. Yours is a weighty responsibility, one that, if handled carefully, will not compromise in the least the work to be done; will help local governments to improve; and will lend credibility to your offices, your staff, and local governments across New York. We thank you for your responsiveness in changing language in the draft report that was misleading. We also thank you for the constructive portions of the work you performed in Great Neck.

Sincerely,



Ronald L. Friedman
Superintendent of Schools



Barbara Berkowitz
President, Great Neck Board of Education

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The schedule prepared by the District includes payments to vendors for purposes other than the purchase of goods and services normally subject to competition (i.e., purchase contracts, public works contracts, professional services contracts, etc.). Our review determined that fewer than 80 vendors were involved in purchases of a type and dollar amount that would require the solicitation of competitive bids.

Note 2

We agree, and the report states that the District did not violate the legal requirements or Board policy by not using RFPs for professional services. However, we recommend the preparation and use of RFPs as an improvement opportunity for District operations.

Note 3

While the Board does subsequently review all budget transfers, we found that this review can occur well after the fact, and therefore, does not operate as an effective control. For example, budgetary transfers between appropriation accounts made during the fiscal year ended June 30, 2005 were not reviewed and approved by the Board until September 19, 2005.

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 purchasing and certain financial operations for further audit testing.

Our examination included the following:

- We reviewed the formal policy for purchasing and determined if it adequately addressed the procurement of goods and services.
- We verified that purchases were made, that goods were received and claims were processed as authorized.
- We examined paid claims to contractual agreements to confirm rates and services.
- We examined bid, quote and RFP documentation to determine if the lowest responsible vendor was selected.
- We examined purchase agreements and contracts for evidence of authorized signatures and proper dates.
- We also verified that the proper segregation of duties existed for approving transactions, recording those transactions and having custody of (access to) the resultant assets for each scope area.

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 objective. 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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