



Greece Central School District Internal Controls Over Selected Financial Transactions

Report of Examination

Period Covered:

July 1, 2005 — August 14, 2007

2007M-256



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government And School Accountability

April 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, in part, 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 Greece Central School District, entitled Internal Controls Over Selected Financial Transactions. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in 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 Greece Central School District (District) is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools¹ (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 2000, the District began a Capital Improvement Project (CIP) that involved repairs, renovations, and additions to 20 schools at a maximum budgeted cost of \$119.5 million. The project was started in October 2000 and was projected to be complete by December 2004. However the project has not been completed as of the date of this report.

School districts can obtain partial reimbursement for many special education services they provide to Medicaid-eligible students by submitting claim forms documenting the services provided. The District's employees are entitled to compensation based on individual employment agreements or the terms of a union contract. The District makes extensive use of information technology assets to process financial and student data.

Scope and Objective

The objective of our audit was to determine if internal controls over selected financial transactions were appropriately designed and operating effectively. Our audit addressed the following related questions:

- Did the Board and District officials establish and implement appropriate management controls and adequately monitor capital projects?
- Is the District claiming the Medicaid reimbursement to which they are entitled for services provided to eligible special education students?
- Are internal controls over personal services payments effective to adequately safeguard District assets from waste, fraud and abuse?

¹ There were five Superintendents in place during our examination period: Steven Walts through July 8, 2005; Margaret Keller-Cogan from July 9, 2005 through September 26, 2005; Lisa Buckshaw from September 26, 2005 through October 12, 2005; Josephine Kehoe from October 12, 2005 through October 31, 2006; and the current Superintendent, Steven Achramovitch, who started November 1, 2006.

- Are internal controls over information technology appropriately designed and operating effectively to adequately safeguard district assets?

Audit Results

The Board did not protect the District's financial interests from waste and abuse. The Board's failure to develop sound policies to manage District resources, its unwillingness to monitor District finances, and its deference to the individuals holding the Superintendent's position resulted in a poor control environment in the District. When the tone at the top is poor, the internal control structure, which exists to protect District resources from misuse, can be weak or easily circumvented. Ultimately, taxpayers pay the cost.

The CIP has exceeded authorized funding by approximately \$2.5 million to date. The additional expenses were paid from the general fund, and included a pay increase of about \$1 million for the construction manager that was not approved by the Board. The Board acknowledges that, in the CIP's first three years, it gave a "blank check" to the Superintendent, who was able to use his discretion in authorizing purchases, including assets totaling \$267,000 that are currently idle. A Clerk of the Works, hired by the Board to monitor CIP progress on the Board's behalf, quit his position in August 2004, in part because he was not given the authority and information needed to properly oversee the project. We also found that the claims auditor approved payments to contractors without ensuring the work billed for was performed; 30 of the 70 claims we tested, worth a total of \$1.7 million, were paid without the architect's certification that services billed were performed.

District officials did not claim all the Medicaid reimbursements they are entitled to. A review of a sample of claims showed the District failed to bill at least \$110,000 of Medicaid services, which could produce at least an additional \$27,500 in Medicaid reimbursement. If the same rate of error occurred throughout all the District's Medicaid-eligible claims, we estimate the District failed to bill at least \$2,200,000 in Medicaid eligible services - costing the District about \$560,000 in lost revenue.

Nineteen employees who left District employment received a total of \$175,000 for vacation benefit payments they may not have been entitled to. Further, a number of administrators were paid a total of \$127,000 in additional compensation or benefits without Board authorization based on supplemental agreements to contracts. Thus, District officials were paid over \$300,000 in extra compensation at taxpayers' expense because the Board did not ensure contracts clearly identified benefits.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as stated in Appendix A, District officials generally agreed with our findings and recommendations, and indicated they will take, or have taken, corrective action. Appendix B contains OSC's comments on issues raised in the District's response.

Introduction

Background

The Greece Central School District (District) is located in the Town of Greece, Monroe County. The District is governed by the Board of Education (Board), which comprises nine 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 20 schools in operation within the District, with approximately 13,500 students and 3,300 employees. The District's budgeted expenditures for the 2007-08 fiscal year are \$188 million, which were funded primarily with State aid, sales tax, real property taxes, and grants.

In 2000, the District began a substantial Capital Improvement Project (CIP) that involved repairs, renovations, and additions to 20 schools at a maximum budgeted cost of \$119.5 million. The CIP resulted in the construction of new facilities in the District, including the Athena Performing Arts Center, a state-of-the-art audio-visual studio, all-weather tracks at various schools, additional classrooms, and renovated gymnasiums and playgrounds. The CIP, which began in October 2000, was projected to be completed by December 2004. However, some features of the CIP were still unfinished as of the date of the completion of field work.

The District, like other school districts statewide, is able to obtain partial Federal reimbursement for many special education services provided to Medicaid-eligible students by submitting periodic claims documenting the services provided to the New York State Department of Health. Claims must be supported by documentation of the services delivered to students, and submitted within two years of the date services were provided. School districts receive Federal reimbursements of approximately 50 percent of the approved claim amounts, with 25 percent of the reimbursement being deducted from future state aid and 25 percent of the reimbursement going directly to the District.

Employees are entitled to wages and benefits that are denoted in various employment agreements executed by the District and the employee. For those employees not covered by employment contracts or collective bargaining agreements, the Board may choose to establish District-wide policies or pass resolutions concerning the compensation and benefits to be provided to these individuals.

The Board appointed a claims auditor to assume the powers and duties of the Board for approving or denying claims against the District. The District makes extensive use of information technology assets to process financial and student data.

Objective

The objective of our audit was to determine if internal controls over selected financial transactions were appropriately designed and operating effectively. Our audit addressed the following related questions:

- Did the Board and District officials establish and implement appropriate management controls and adequately monitor capital projects?
- Is the District claiming the Medicaid reimbursement to which they are entitled for services provided to eligible special education students?
- Are internal controls over personal services payments effective to adequately safeguard District assets from waste, fraud and abuse?
- Are internal controls over information technology appropriately designed to adequately safeguard district assets?

Scope and Methodology

We examined the District's control environment and internal controls over selected financial transactions for the period July 1, 2005 to August 14, 2007. For the CIP, we extended our scope to cover the period July 1, 2000 to August 14, 2007; for payroll, we extended our scope to cover the period July 1, 2004 to August 14, 2007.

Our audit disclosed areas in need of improvement concerning information technology controls. Because of the sensitivity of this information, certain specific vulnerabilities are not discussed in this report but have been communicated to District officials separately so they could take corrective action.

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

Comments of District Officials and Corrective Action

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

and recommendations, and indicated they will take, or have taken, corrective action. Appendix B contains OSC's 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*.

Control Environment

The board of education represents the interests of District residents in ensuring the District provides for the education of local students and protects District's resources from waste and abuse. The Board assumes a serious fiduciary responsibility in governing the District. To carry out this responsibility, the board must develop policies that direct how decisions will be made and how monies can be spent, and then regularly monitor the extent to which the Superintendent and other district officials have implemented those policies. Board policies, properly implemented by District officials, provide for a system of internal controls that helps account for District resources. Board members must also be able to demonstrate that they have received value for District expenditures.

We found, however, that the Board did not protect the District's financial interests from waste and abuse. The following problems illustrate the lack of Board oversight and involvement which permitted management to override existing Board policies and District procedures or substitute their own interpretation where contracts and policies were vague:

- The CIP is currently over budget by approximately \$2.5 million. Since the project is still unfinished, additional overages could add significantly to the final price tag.
- A District administrator authorized an almost \$1 million contract increase for additional work provided by the CIP construction manager without any evidence of Board approval.
- Some expensive CIP purchases are not being used; for example, six special-order wheelchair lifts, costing a total of \$150,000, were not installed and sit in storage, at a cost of \$2,640 per year.
- Board members instructed the claims auditor, who audits claims against the District on the Board's behalf, to report to the business office.
- District managers did not submit an estimated \$2.2 million in Medicaid reimbursement claims, resulting in lost revenue to the District of approximately \$560,000.

- District managers authorized retirement incentives and other employment benefits without Board involvement or approval.
- The Board did not correct some serious internal control weaknesses identified by the District’s external auditor in a management letter dated August 17, 2006.
- The Board did not correct weaknesses in the District’s information technology system identified by a consultant in November 2006; the consultant gave the District poor or failing grades in 10 of 14 areas of risk.

The above examples of the abuse and waste of District funds and the failure to correct problems that jeopardize District resources are the result of a systemic problem: a poor control environment in the District. Control environment, which is the foundation of an entity’s internal control structure, sums up management’s attitude about internal controls and creates a “tone at the top.” It includes the integrity, ethical values and competence of the organization’s people, and management’s philosophy and operating style. When the control environment is strong, there is an expectation that everyone, including top management, will conform to established controls and avoid violating the public trust. At the District, however, the Board assumed a passive role in District governance, yielding much of its rightful decision-making duties and authority to the Superintendent and District officials. The Board’s lack of involvement, in some cases, and lack of information and power in other cases, allowed District officials to monopolize management of the CIP, overpay benefits to themselves and various employees, and circumvent the controls that did exist to run the District as they saw fit. As a result, the Board and District officials have overspent or wasted District resources.

Recommendations

1. The Board should establish a strong control environment in the District as the foundation of an effective system of internal controls. Board members should assume an active role in directing and monitoring District operations.
2. The Board should ensure corrective action is taken to address control weaknesses identified in independent audits, and information technology system weaknesses identified in the outside consultant’s report.

Capital Improvement Project

In June 2000, voters authorized the issuance of bonds to finance the CIP, which included repairs, renovations, and additions to 20 schools, including construction of new facilities, at a maximum cost of \$119.5 million and a completion date of December 2004. However, the \$119.5 million approved for the CIP has been exceeded by approximately \$2.5 million to date, and the work is still not complete. The additional expenses were paid from the general fund, and included an unsupported pay increase of about \$1 million for the construction manager. Monitoring of CIP costs was poor overall. Former Board members acknowledged that, in the CIP's first three years, it gave a "blank check" to the Superintendent in managing the CIP. The Superintendent was able to use his discretion in authorizing purchases, including the purchase of assets that are currently idle. The District is paying to store these assets, which cost a total of \$267,000. A Clerk of the Works, hired by the Board to monitor CIP progress on the Board's behalf, quit his position in August 2004. The Clerk of the Works stated that, while he was the only District employee fully devoted to the CIP, he was not given the authority and information needed to properly oversee the project. We also found that the District's claims auditor paid contractors without ensuring the work billed for was performed; 30 of the 70 claims we tested, worth a total of \$1.7 million, were paid without the architect's certification that services billed were performed.

As of the end of our fieldwork in August 2007, the project was still not complete with 39 open contracts, even though CIP funds are depleted. The CIP's progress may have been delayed by a total of 2,400 change orders, attributable in part to inadequate planning and poor communication between District officials and contractors. The District is now engaged in numerous legal actions with contractors regarding incomplete or unsatisfactory project components.

As a result of inadequate planning for and poor control over the CIP, completion of the CIP is three years overdue, and the cost of the entire project will almost certainly exceed the current cost of approximately \$122 million.

CIP Expenditures in Excess of Authorization

Local Finance Law generally states that after voters have approved a maximum amount to be spent on construction of a CIP project, the Board cannot exceed that threshold. However, the actual and planned expenditures by the District for the CIP exceeded the voter authorized amount by almost \$2.5 million. District officials intentionally

shifted these additional CIP expenses to the general fund to give the appearance that the CIP was within the authorized budget.

According to District officials,² the District decided not to capitalize certain “professional services” or incidental expenses, including construction management fees. The District recorded these costs as expenditures from the general fund instead of recording them as CIP costs. Such costs are clearly project-related; CIP cash flow reports from the construction manager indicate that professional service or incidental charges were supposed to account for \$17.2 million of the original \$119.5 million capital budget. The shifting of expenses began in January 2005 and continued through our audit period. Prior to January 2005, these types of services were paid out of the capital fund.

A breakdown of costs as of the end of fieldwork is as follows:

Capital Project Fund	
Construction Costs to Date	\$118,461,105
Construction Encumbrances Remaining	<u>\$1,038,895</u>
	\$119,500,000
General Fund	
Costs to Date	\$2,293,983
General Fund Encumbrances Remaining	<u>\$203,504</u>
	\$2,497,487
Grand Total	\$121,997,487

The need to shift expenses to the general fund came about for several reasons. Chief among them was poor planning of the project. One of the biggest considerations taken into account with the CIP was maximizing State aid. New York State was providing additional aid for capital projects that were approved prior to June 30, 2000. According to District documents, aid would have provided for almost 80 percent of the cost of the project, with the remaining 20 percent coming from local taxpayers. If the CIP were approved after that date, the cost to local taxpayers would increase by almost 50 percent. Given the expiration deadline for the enhanced State aid, District officials worked very quickly – “scrambled,” as one former Board member recalled – to present the CIP referendum to voters before June 30.

The size and complexity of the CIP, combined with the limited window for planning, almost certainly contributed to the numerous

² The officials in this instance are the former Director of Finance and Support Services and later the Assistant Superintendent of Finance and Support Services.

change orders, delays and subsequent cost overruns in implementing the project. When District officials determined they were going to exceed the project's threshold, they chose to incorrectly reclassify selected CIP expenses as operating costs rather than CIP costs. The fact that District officials made a deliberate effort to "complete as much business in person as possible"³ to avoid public scrutiny of project activities makes this reclassification highly questionable, and raises ethical concerns about the actions of the Board and District officials. Using operating funds to pay for project-related expenses conceals the extent to which a project goes over budget, and inhibits accountability for CIP spending.

Change Orders

If problems arise during the construction process for any reason, or if District officials change their mind about what they want done, a change order form must be completed to define the addition or deletion in the scope of work and any change in contract price. Positive change orders increase the contract's cost and negative or credit change orders decrease the contract's cost. With any construction undertaking, a certain number of change orders is to be expected because all the variables are not known going into the project. However, the CIP's 95 bid contracts have undergone 2,400 change orders; 36 of the 95 bid contracts involved a contract cost change of more than 10 percent of the contract's bid amount. According to the District's former Director of Finance and Support Services, the normal construction industry percentage reserved for change orders is between 2 and 5 percent of the base bid on a contract. Two additional change orders increased the construction manager's compensation by almost \$1 million; other change orders were not approved by the Board, as its policy required, or were intentionally split to avoid Board review. Significant levels of poorly controlled change order activity greatly increase the risk of both cost overruns and schedule delays.

Change Orders Are Not Approved by the Board – The District has a limited change order policy that requires Board approval for all change orders exceeding \$20,000⁴ on construction contracts. The policy states that this approval should occur, whenever possible, before the work is done. According to a change order summary provided by the construction manager, 144 of the 2,400 change orders were for amounts more than \$20,000. Only six of these change orders were approved by the Board.⁵ We found no evidence that the

³ Meeting minutes of September 14, 2001 meeting of District officials and CIP architect

⁴ Before the current change order policy was approved in February 2002, change orders exceeding \$12,000 required Board approval. Because the majority of the CIP project occurred after February 2002, we used \$20,000 as the threshold for testing purposes.

⁵ Of the six approved change orders, one was a negative change order for \$24,000 and five were positive change orders totaling \$233,818.

Board approved the remaining 138 change orders, as follows:

- 98 change orders were never presented to or approved by the Board; of this number, 94 were for negative change orders totaling \$4,834,716 and four were positive change orders totaling \$134,570.
- 40 change orders totaling \$2,577,457 were included on “Board of Education Reports” distributed to the Board in advance of Board meetings; however, there was no documentation or notation in the minutes to show that the Board approved any of these change orders. These 40 change orders included one negative change order for \$68,251 and 39 positive change orders totaling \$2,509,206.

As a result, positive change orders that increased contracts’ cost by a total of \$2,643,776 were not approved by the Board at all – before or after the work was done. Therefore, the Board did not approve or even know about these contract changes that increased the CIP’s overall cost. In addition, negative change orders that decreased contracts’ total costs by \$4,902,967 were not reviewed and approved by the Board. On its face, lack of Board approval for change orders that reduce a contract’s cost may not seem problematic, since the result is a cost savings. However, when design elements included on the approved drawings are cut out of a contract – particularly when those elements total more than \$4.9 million – the Board should approve the elements that are omitted and know about and approve the impact of these changes on the final project.

Additional Payment to the Construction Manager – A contract was awarded on November 6, 2000 in the amount of \$3,995,000 for construction management services for the CIP project. On May 19, 2004 the construction manager received an additional \$968,000 in compensation resulting from two change orders on May 19, 2004. These change orders, which were signed by the former Director of Finance and Support Services, did not provide details on the specific purpose of the change.

This former District official told us he believed the additional compensation was called for in the District’s contract with the construction manager because the original timeframe for construction management services had been exceeded. In reviewing the construction manager’s contract, we found that it contained ambiguous language about additional compensation. One section states the construction manager must provide services through contract completion and would receive a guaranteed maximum amount of compensation; another section calls for additional compensation

if certain criteria are met (e.g., cardinal change in project scope), without stating how to determine when these criteria are met.

The former Director of Finance and Support Services also stated that a specific written contract addendum supported this additional compensation. We made numerous requests throughout our audit fieldwork for this agreement. On February 14, 2008, we were finally provided with a copy of this amendment (dated May 3, 2004) along with correspondence from the District's attorney and the construction manager. This supplemental information by the attorney noted that the contract language allowed for various interpretations and recommended a negotiated settlement was the "most fiscally responsible course." This supplemental information showed that the construction manager initially sought \$1,623,000. They reduced this amount to \$1,174,000 by reducing the projected staffing hours from 15,900 to 11,800. The final amount appears to be the result of negotiations between the District and the construction manager.

The copy of the amendment that we were provided was not signed by anyone on behalf of the District so we cannot be sure that the contract addendum was properly executed or what level of review it was given by District officials. Of greater significance, there was nothing in the Board minutes indicating that the Board knew of and approved the contract amendment or change orders.

Vague contract terms that are subject to interpretation can result in the District's paying contractors more than the Board intended for services provided. In addition, if the Board had determined to pay this professional services provider almost \$1 million in additional compensation, this decision should have been clearly documented in the minutes of the proceedings of the Board and supporting documentation should be readily available to support the decision made.

Change Orders Split to Avoid Board Review – Best practices dictate that similar change orders for the same contractor that occur within a few days of each other should be aggregated. We found several instances of where change orders appear to have been split to keep the dollar amount below \$20,000, the threshold for Board review. From the change order log provided by the construction manager, we judgmentally selected 28 change orders dated within several days of one another and found that all 28 change orders, each for less than \$20,000, should have been aggregated with other change orders from the same contractor. For example, one contractor's six consecutive change orders, all under \$20,000, were all processed on the same day for a total value of \$59,772.⁶ Another contractor had three change

⁶ The change orders that comprised this amount included \$18,482, \$17,131, \$11,708, \$8,831, \$1,810, and \$1,810.

orders processed in a five-day period for the same issue (the stated work on each change order was removal of a plaster ceiling) and same dollar amount. The value of these three change orders was \$58,821; each change order was for \$19,607.

Several documents obtained from current or former District officials indicated that splitting change orders was the result of a conscious effort to keep the dollar value under \$20,000. For example, according to the minutes of a meeting between District officials and the District's architect, the District, the construction manager and the architect "agreed to group together change order items, on a per building basis, that won't exceed \$20,000." We consider this planned circumvention of District policy to be consistent with other District administration efforts to bypass Board involvement in CIP decision-making and to prevent the Board from performing its oversight duties. This internal control weakness was also pointed out to District officials by their external auditor in a Management Letter dated August 17, 2006.

Change Orders Were Not Timely Approved – Change orders should be reviewed as promptly as possible to ensure the change order is approved before work is performed and the work is completed according to contract requirements. For testing purposes, we consider timely review of change orders to be one month or less. We found that 18 of 25 judgmentally selected change orders were not timely reviewed and approved, as follows: six of the 18 exceptions were approved more than three months after the change order date, another six were approved more than two months after the change order date, and the final six change orders were approved after more than one month had elapsed. When change order work is done before the change order is reviewed and approved, there is a risk that the resulting work will not meet the owner's cost or design expectations. The risks associated with delayed change order approvals were also pointed out to District officials by their external auditor in the August 17, 2006 Management Letter.

Unused or Underused Asset Purchases

To avoid wasting District resources, District officials should plan and coordinate asset purchases to ensure the asset is necessary, appropriate and reasonably priced. However, we found that, because of poor planning and lack of communication between District officials and various contractors, some assets purchased during the CIP are not in use, and certain building modifications were still not fully functional as of our last day of fieldwork. The cost of these idle or nonfunctioning assets is \$267,000.

Part of this cost is for six wheelchair lifts, purchased in March of 2002 for six different schools at a cost of \$22,900 each. As of June

30, 2007, the wheelchair lifts have cost the District over \$150,000. Keeping these unused lifts in private storage costs \$2,640 a year.

According to former and current District officials, the Superintendent objected to the location of the lifts during their installation. An alternate location could not be found, however, because of the number and complexity of the changes that would need to occur. Since the lifts were custom-built, they could not be returned to the vendor, so they were put into off-site storage where they sit idle.

Another example of a purchased, but unused asset is musical risers for the orchestra rehearsal room, which cost about \$61,200. The risers are currently being kept in storage on District property. According to the District's former Director of the Arts, the risers were purchased for both the chorus and orchestra rehearsal rooms even after she stated explicitly that she did not want the risers during a District meeting held to solicit input from the music department about CIP purchases. Because District officials did not incorporate this feedback into planning for the project, the risers were purchased anyway, resulting in a waste of District resources.

Monitoring Project Costs and Implementation

Boards of education rely on school district officials to manage the day-to-day operations of the district. However, boards of education can appoint certain individuals who are specifically charged with reporting directly to the board. A Clerk of the Works is appointed by the board to monitor the progress of a district's construction project and report any problems directly to the board for resolution. This individual, who is accountable to the board rather than to district officials involved in payment or project transactions, provides the board with an independent source of information and helps protect the financial interests of taxpayers. At the District, however, Board members did not receive input from the Clerk of the Works whom they had hired to monitor the CIP.

The District hired the Clerk of the Works in August 2000 to help manage the CIP's implementation, including coordinating and overseeing construction activities and monitoring related payments. Typically, the Clerk of the Works reports to the Board on the project's progress and serves to protect the Board's interests in making sure the project is completed as planned, on time and within budget. The Clerk of the Works left the position in August 2004. He stated that coordinating the CIP was very difficult because there was no clear definition of the project's goal: the Superintendent, the Board and administration all had a different vision of what the project should be. The Clerk of the Works said that the many levels of bureaucracy in the District made it impossible for him to report directly to the Board or to the Superintendent – whom he regarded as the ultimate

decision-maker for the CIP – on project activities. Ultimately, he was not allowed to attend meetings where the Superintendent, Board members and others discussed the project. District management’s lack of a unified vision for the project, and the Board’s failure to consult with the Clerk of the Works, increased the likelihood of delays and cost overruns and resulted in lost opportunities to better control and coordinate the direction of the CIP.

Claims Audit

A claims auditor appointed by the board of education is responsible for ensuring that claims against the district are actual and necessary district expenses before approving them for payment. The claims auditor assumes the board’s powers and duties with respect to auditing and authorizing claims for payments. According to Education Law, the claims auditor should not be involved in any other district business or accounting functions, and should report directly to the board of education⁷ and not to any other district staff or management. The Law also requires that the board of education develop guidelines for the claims audit function to ensure the claims auditor has a clear understanding of his or her responsibilities and the board’s expectations.

In the District, the claims auditor did not consistently ensure that CIP claims were legitimate expenses before approving them for payment. We found that the District’s claims auditor failed to verify that the architect certified applications for payment submitted by the construction manager and various contractors. When contractors submit these applications for payment, it is the architect’s responsibility to ensure that the work has progressed to the point indicated by the contractors, and that the quality of the work is in accordance with contract documents. From our sample of 70 applications for payment submitted between July 2001 and August 2006, we determined that 30 applications, totaling \$1,716,085, were never certified by the architect. For example, a \$209,130 payment to the construction manager in October 2001 was made without the architect’s certification. Without the required certification, the claims auditor should not have approved the applications for payment. As a result, District officials had no assurance that the construction services paid for were performed in accordance with contract documents and that amounts claimed were actually due.

We attribute the weaknesses in the District’s claims audit function to the Board’s failure to comply with Education Law and its own policy regarding the audit of claims, as follows:

⁷ The Law did not explicitly require the claims auditor to report directly to the board of education until 2005. Prior to 2005, good governance practices would have required board members to obtain information about district expenses, and to oversee the work of the individual approving claims on their behalf.

- The claims auditor is not eligible to serve in this position because she is the account clerk for the District's CIP.
- Contrary to Board policy, which states the claims auditor should report to the Board and the Audit Committee, the claims auditor actually reports to the District business office. The claims auditor said she was told by Board members to bring any questionable claims or concerns about her duties to the business office. The District Business Official also completes the claims auditor's performance evaluation. The claims auditor's lack of independence was also pointed out to District officials by their external auditor in a Management Letter dated August 17, 2006.
- The claims auditor told us she has no written guidelines to consult in determining what constitutes suitable documentation, how expense reimbursements should be processed, and how to verify conformance with District procurement policies.

Due to the significant weaknesses in the claims audit process, we also reviewed 50 general fund claim vouchers from June 2007. We found no material discrepancies in these sampled claims. However, until the Board provides adequate direction for its claims auditor, and implements its own guidelines to provide oversight of the claims audit function's effectiveness, the District will remain at increased risk of paying for unnecessary or unauthorized expenses.

Recommendations

3. The Board should review the development process for future capital projects to ensure that enough time is available to provide for proper planning.
4. District officials should monitor project expenses to ensure they remain within the limits of the project's authorization.
5. The Board should institute control procedures to ensure District officials comply with policies that require Board review and approval of all project change orders greater than \$20,000. These control procedures should be designed to document Board approval actions, to prevent the practice of splitting change orders to avoid Board review, and to require that change orders be reviewed promptly.
6. The Board should actively oversee change orders associated with a capital project, and periodically request a listing of all change orders submitted for the project so they can assess the impact of change orders on project cost and design.

7. District officials should maintain complete and accurate records involving capital project activities including all associated bid documents, contracts, change orders and authorizations.
8. District officials should either install and use the idle assets purchased during the CIP project or sell them and recoup some of the cost.
9. The Board should regularly consult with individuals hired to provide the Board with objective information about District operations and project progress to become knowledgeable enough to oversee the District's use of resources.
10. The Board should appoint an individual as claims auditor who is independent of other District business functions and require the claims auditor to report to the Board, and not to the business office.
11. District officials should develop procedures that would ensure the claims auditor is carrying out the objectives of the Board within the guidelines of the State Education Department's regulations.
12. The claims auditor should ensure that the architectural firm certifies the applications for payment, and that the certificates for payment are included with the claims vouchers, before the District pays for capital construction projects.

Medicaid Reimbursement

The Medicare Catastrophic Act of 1988 made it possible for school districts to obtain partial Medicaid reimbursement for many special education services that they provide to Medicaid-eligible students. The New York State Education Department (SED) and the Department of Health (Health) jointly established the School Supportive Health Services Program (Program) to help school districts obtain Medicaid reimbursement for diagnostic and health support services⁸ provided to eligible students with Individual Education Plans (IEPs) and for case management review, which includes coordinating medical and non-medical procedures for students.

To administer the Program, Health has developed a monthly fee schedule for reimbursable services. Using the fee schedule, districts can submit claims to Medicaid for the gross amounts eligible for reimbursement. Districts must ensure claims are supported by documentation of the provider services delivered to students, and submit the claims within two years of the date services were provided. The districts receive Federal reimbursements of approximately 50 percent of the approved claim amounts. Because the State is due one-half of the Medicaid reimbursements (25 percent of the approved claim) sent to the districts, the State withholds its share from the districts' future State aid. To ensure all services were reimbursed, district officials should reconcile their submitted claims to reimbursement received, and review disallowed amounts to identify claims that can be resubmitted.

We found that the District did not claim all the Medicaid reimbursements it was entitled to. In reviewing our sampled claims, we found the District failed to bill at least \$110,000 of Medicaid services, which could produce at least an additional \$27,500 in Medicaid reimbursement. If the same rate of error occurred throughout all the District's Medicaid-eligible claims, we estimate the District failed to bill at least \$2,200,000 in Medicaid eligible services - costing the District about \$560,000 in lost revenue.⁹

⁸ Reimbursable services include physical and occupational therapy, speech pathology, psychological counseling, skilled nursing services, basic and comprehensive psychological evaluations, medical evaluations, medical specialist evaluations, audiological evaluations and transportation.

⁹ We present this projection to illustrate the potential District's dollar impact of the unclaimed reimbursements. We do not present this as an exact estimate of lost revenue.

Claims Processed by an Outside Vendor

From July 1, 2005 through June 30, 2006, the District had a contract with an outside vendor to process and to reconcile their Medicaid claims related to services provided to Medicaid-eligible special education students. District officials stated that they relied on the billing contractor to maximize the Medicaid reimbursements. However, we found that the District received only a portion of the reimbursement revenue it was due during this period.

We reviewed the case records of 22 (approximately 5 percent) of 426 Medicaid-eligible students with IEPs and found that the vendor billed Medicaid about \$3,000 for services that the District did not provide, and failed to bill about \$70,500 for services that were provided – for a net under-billed amount of about \$67,500. For the cases we reviewed, the District could have been reimbursed about an additional \$16,900 from Medicaid. If the vendor processed the claims for services to the other 404 students in a similar manner, we estimate that the vendor failed to submit reimbursement claims that would have produced revenues totaling more than \$335,000 for the District.

Contracts for services should clearly identify contract deliverables. District officials must oversee a contractor's performance to ensure the vendor's performance conforms to the contract's terms. We found that the contract failed to address the vendor's responsibilities in processing and reconciling the District's Medicaid claims, as well as a detailed description of services that the vendor would provide under the contract. Further, we found no indication in the Board minutes that this contract was ever reviewed or approved by the Board.

Claims Processed In-House

In October 2006, in an effort to increase control over the Medicaid claims processing, the District brought the process in-house using a vendor-assisted program. However, the Board and District officials had still not developed and implemented policies and procedures to direct and control the claims submission process, including procedures for properly documenting claims, submitting them in a timely manner, and reconciling submitted and paid claims.

We reviewed the case records of 10 (approximately 2.5 percent) of the District's 426 Medicaid-eligible students for the period October 1, 2006 to December 31, 2006 and found that the District failed to submit a majority of its Medicaid reimbursable claims in a timely manner. For this period, we found that various reimbursement claims had not been submitted for reimbursement by May 31, 2007. For example, claims for six of nine students for speech services (\$432 per month each), claims for four of five students for counseling (\$233 per month each) and claims for one

of four students for Occupational Therapy services (\$422 per month each) were not submitted for reimbursement by May 31, 2007.

As of May 31, 2007, we estimate that the District failed to submit timely reimbursement for claims that would have produced revenues totaling more than \$225,000 for the District.

Recommendations

13. The Board should ensure contracts detail the responsibilities and services to be provided by the vendor.
14. The Board should establish comprehensive written policies and procedures to ensure that all Medicaid claims are in compliance with Medicaid regulations, are properly documented and are submitted in a timely manner.
15. District officials should reconcile the amounts claimed for Medicaid reimbursement with the amounts received, and review any rejections or disallowances to determine whether the items may be resubmitted with additional documentation or explanation.

Compensation

The primary objective for internal controls over payroll is to ensure that employees are paid wages or salaries and provided benefits to which they are duly entitled. To ensure employees are paid the compensation and benefits they are entitled to, such payments must be clearly defined and authorized by the Board. We found that 19 employees who left District employment received a total of \$175,000 for a year's worth of vacation benefit payments rather than prorated benefits. In some cases, full benefits were paid even though the union contract required proration; in other cases, benefits were paid because vague contract language allowed it. Further, a number of administrators were paid a total of \$127,000 in additional compensation or benefits without Board authorization based on supplemental agreements to contracts. These extra payments were approved by the Superintendent and his staff instead. District officials were paid over \$300,000 in extra compensation at taxpayers' expense because the Board did not ensure contracts clearly identified benefits, develop the policies and procedures necessary to verify payments conformed to contract terms, or monitor the propriety of supplemental agreements used to boost administrators' benefits.

Vacation Leave Upon Separation

Depending upon an individual's employment classification, a collective bargaining agreement (CBA), an employment agreement, separation agreement or Board policy governs compensation issues, such as the payment of unused vacation, when an individual's employment ends with the District. To ensure that District staff is treated fairly and that District resources are expended only for required costs, the Board should ensure that the governing agreements clearly describe how this benefit is to be paid upon separation. Vague agreements and lack of Board oversight can allow District officials to interpret contract provisions as they see fit, resulting in inequitable treatment of staff and excessive costs. If additional compensation is received by an employee of the District, it should be voted on by the Board in open session to document and authorize the additional compensation prior to payment.

The District's accounting for leave accruals corresponds with the July 1 – June 30 fiscal year. Employees are credited with a full year of vacation accruals on July 1st of each year. Although Board policy states that employees who separate from the District make every effort to terminate employment at the end of a school year, the actual agreements governing the payment of unused vacation leave vary on the issue of prorating accruals if the individual leaves before the end of the fiscal year. Because the District did not follow agreements

or because the agreements failed to address proration of vacation accruals, the District paid up to \$175,000 in excess of what may have been required.

During our audit period, 100 administrative employees retired, resigned or were terminated. We tested payouts for 38 of these employees and found that 23 employees received vacation payouts without proration calculations. When we examined the basis for these vacation payouts, we found that four payouts were not prorated, which was in accordance with the employment or severance agreement. However, of the remaining 19 payouts:

- 11 payouts, totaling \$81,000, should have been prorated according to the CBA for these employees;
- Eight payouts, totaling \$94,000, were paid because employment agreements were silent regarding proration.

For example, the Superintendent resigned from the District to accept a position in a school district out of state. Pursuant to his employment agreement, he would be considered retired for the purpose of Board policies. He was credited with 32 days of vacation leave on July 1, 2005 and left employment on July 8, 2005. His employment contract did not address the issue of prorating vacation accruals, so District officials paid the former Superintendent a total of \$53,000 for vacation accruals, including almost \$25,000 for these additional vacation days. Two senior administrative staff, who resigned from the District on the same day to join the former Superintendent at the out-of-state district, also had contracts that were silent regarding proration of benefits. Together, these staff received a total payout of \$56,000 for their vacation accruals, including approximately \$23,000 for their additional vacation days.

District officials informed us that it has been District practice not to prorate leave accruals upon retirement. Agreements that are silent on the issue of prorated vacation benefits are not fiscally prudent, because District employees could receive a substantial benefit that is not commensurate with the length of time they were actually employed. Furthermore, District officials also provided these additional benefit payments to persons who resigned, and even to departing employees whose CBA explicitly required proration of vacation benefits. Since almost all the above administrative employees (23 of 38) resigned in July, many departing employees took advantage of the District's termination policy so they could be paid for an entire year of annual leave benefits.

Authorization of Employment-Related Agreements

Departing employees received these extra benefits because the Board did not have adequate controls to ensure payments were made in accordance with union agreements that required benefits to be prorated and because the vagueness of the contracts allows District officials to interpret provisions in the best interest of staff rather than in the best interests of the taxpayer.

To ensure accountability and transparency to the public, all compensation and benefits provided to District employees should be limited to amounts authorized by the Board or an appropriate official designated by the Board. The Board cannot vote to appropriate public monies in executive session. Board policy also states that, with the exception of disciplinary procedures and penalties, action should take place by a formal vote in an open meeting and be properly recorded in the minutes of the meeting.

The District paid its employees based on CBAs or individual employment agreements. The District commonly used supplemental agreements, such as Memorandums of Agreement (MOA), Memorandums of Understanding (MOU) and separation/settlement agreements to clarify, modify or supplement the original agreements on a case by case basis.

We reviewed 12 of 92 such agreements that were executed during our audit period.¹⁰ Of the 12 written agreements, only four were approved by the Board. Two of those four agreements - an addendum to a Superintendent's contract and an employment letter used to hire an interim Superintendent - were properly approved at the open Board meeting and recorded in Board minutes. The other two agreements were not properly approved, since they were reportedly agreed upon in executive session but were not voted on in the open Board meeting. The remaining eight supplemental agreements were authorized by the Superintendent and his staff without formal Board approval. Although District staff stated that some of these agreements were reviewed and agreed upon by the Board in an executive session, Board minutes showed no formal vote was taken to approve the agreements when the open meeting reconvened.

The Board Clerk told us that, based on past practice, MOAs and MOUs were not required to be approved by the Board. There was no evidence of a Board policy or Board resolution that delegated this approval authority to other District officials. Furthermore, District officials had not established procedures governing how to

¹⁰ The human resources office employee who provided them said the agreements were filed when they came to her attention and there was no assurance that these were the only such agreements executed.

handle such agreements, and could not document that they had ever considered what benefit, if any, the District received from executing the MOAs and MOUs.

Even when Board members did approve terminations, they often lacked information needed to understand the financial implications of their decisions. We found that separation agreements were presented to the Board at the discretion of management based upon the dollar value of the agreement. District officials could not say what that specific dollar value was. Terminations either for retirement, resignation or other reasons were apparently presented to the Board without accompanying agreements or documentation. A Board member stated that, when approving retirements and resignations, Board members were provided information about the financial impact of terminations only if they requested the information, or if a line item caught their eye. Other Board members stated they did not really want to be involved with the daily personnel matters of the District.

None of the six supplemental agreements listed below had evidence of proper authorization and approval by the Board. There was also no evidence that a determination was made that showed that these agreements, which totaled \$127,000, were in the best interests of the District.

- An MOU signed by the Superintendent, the association president and a retiring member of the Superintendent's staff in March 2007 allowed the retiring official to receive a \$20,000 lump-sum retirement incentive. The agreement notes that the official was not eligible for the Board-approved \$25,000 retirement incentive currently available. A District official informed us that the Board reviewed and approved this agreement in executive session. The Board minutes only indicate the approval of this employee retiring, not an accompanying agreement or that a substantial incentive was being paid to the individual. Formal action on the described matter would be required in an open meeting.
- An administrator was granted an additional 51 days of sick leave costing the District \$25,000. The Board approved the following resolution: "that the Board approve the severance package for an unnamed employee." Neither the resolution nor the minutes were specific on what was approved or the cost to the District.
- In a letter dated April 6, 2005, the Superintendent authorized the Assistant Superintendent of Finance and Support Services to receive all of the benefits of the Superintendent's staff,

including being eligible for the \$25,000 retirement incentive. The incentive requires the employees to submit an application to the District by February 1 and retire from the District after July 15. The employee submitted a letter to the District on May 30, 2005 requesting the incentive and indicating that he would retire on October 1, 2005. However, since the incentive deviated from the retirement incentive established by the Board, the Superintendent could not authorize this agreement without the Board's approval.

- Two employees received a total of \$51,000 in severance compensation based on letters prepared by the employees, in which they reiterated the oral understanding between themselves and the District's attorneys in a resignation letter. Both employees were provided with 60 days of severance pay at a cost of \$17,000 and \$21,000, respectively. One of the employees was also exempted from paying back tuition reimbursements of approximately \$13,000, as required by District policy. The Board minutes simply indicated the approval of the resignations for personal reasons. There was no indication that the Board approved the granting of the severance packages, or why these employees were given more than \$50,000 of taxpayers' money.
- The Superintendent executed an MOA with an association president in January 2005 allowing certain listed association members a "lunch fund" for buying lunch at District cafeterias and for more portable health insurance benefits. The agreement provided up to \$316 annually for 174 employees to be spent at District cafeterias, essentially providing free lunch to those employees. Although the actual cost to the District was approximately \$6,000 per year, the potential liability associated with this benefit is about \$55,000. We could not determine a dollar value for the health insurance portability. There was no indication the Board authorized or approved this MOA.

The Board's lack of interest and involvement in the District's payment of significant extra benefits to District officials demonstrates an irresponsible approach to the business of governing a school district. Further, the manner in which these agreements were handled – in executive session of the Board or by unilateral action of the Superintendent or his staff - discouraged public knowledge of how taxpayer funds were expended.

Recommendations

16. The Board should develop policies to ensure that all future employment contracts for District employees clearly describe

how employee benefits will be paid upon separation. District officials should develop procedures to ensure the payments are in conformance with Board policies and applicable contracts.

17. The District should ensure that changes to employment agreements and union contracts have some benefit to the District before they are entered into.
18. The District's payroll and human relations departments should review and ensure that any additional compensation is supported by properly authorized agreements.
19. The Board should formally approve all employment agreements that expend District funds in open Board meetings, and ensure the result of the vote is recorded in the meeting minutes. The Board should review all agreements that accompany terminations from District employment before voting to approve the termination actions.

Information Technology

The District's information technology (IT) system includes desktop and laptop computers, servers, internal networks, and external connections to the internet. An effective system of internal controls over the District's IT resources includes policies and procedures adopted by the Board to minimize the loss or corruption of essential data as a result of unauthorized access to data, errors, and unauthorized changes to data in master files. The Board has not established control policies and procedures that are effective in safeguarding the District's IT resources. As a result, the District's IT systems and data, including financial and confidential information, are more susceptible to unauthorized access, loss or misuse.

User Rights – User access to computer operations should be restricted to only those functions that are required by the individual employee's job description and/or official duties. Access should also be granted in a manner that provides for proper segregation of duties, so that individuals do not have the ability to enter/change data, approve payments and make payments. We found that the District has over 20 users, called Navigators, who have administrative rights within the financial accounting system, enabling them to access areas of the accounting system that are outside their job descriptions. The Deputy Treasurer - the former claims auditor - still has access needed solely by the claims auditor even though he has not performed claims audit duties for over a year. As a result, the Deputy Treasurer would be in a position to both approve and pay an inappropriate claim.

Electronic Signature – All District checks require the Treasurer's actual signature or a facsimile affixed by the Treasurer or under the Treasurer's direct supervision. However, we found that District checks were computer-generated with the Treasurer's signature imprinted on them when the District's disbursement records were processed by the payroll and accounts payable departments. The electronic signature is not password-protected, so any person with access to certain menus in the financial accounting system could print signed checks without the Treasurer's knowledge. Because the Treasurer did not directly supervise the signature process, District officials did not have complete assurance that signed checks were being produced for legitimate District purposes.

Audit Logs – A computerized financial system should provide a means of determining, on a constant basis, the identity of individuals accessing the system and what transactions were processed. Audit logs can perform this function by providing information such as the

identity of each user, the time and date of the access, what activity occurred and the time and date of logoff. Management or a designee independent of the system should review this audit log to monitor the activity of system users, to reconstruct events and to monitor for problems. The District's system is capable of producing an audit log for all users. However, the audit log was being produced only for the Navigators, and those logs are reviewed by the system administrator, and not by someone independent of the process. Because management's ability to detect and properly address unauthorized activities is limited, errors or irregularities could occur and not be detected in a timely manner.

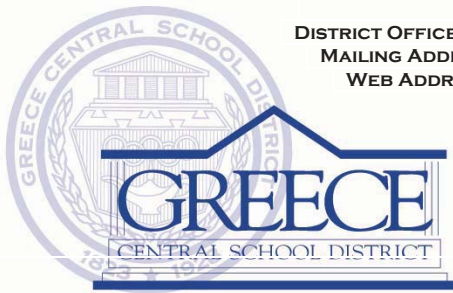
Recommendations

20. District officials should ensure that system users, including Navigators, have only the access rights needed to perform their duties, and that access is granted in a manner that provides for adequate segregation of duties.
21. The Treasurer should control when his signature is affixed to District checks.
22. Audit logs should be turned on for all users of the FMS. District officials independent of the administration of the FMS should review users' activities using audit logs.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



DISTRICT OFFICES: 750 Maiden Lane, Rochester, NY 14615
MAILING ADDRESS: P.O. Box 300, N. Greece, NY 14515-0300
WEB ADDRESS: www.greece.k12.ny.us
585.621.1000

STEVEN A. ACHRAMOVITCH
Superintendent of Schools

February 28, 2008

Office of the State Comptroller
Division of Local Government and School Accountability
16 West Main Street – Suite 522
Rochester, New York 14614

Gentlemen:

The District would like to thank the Office of the State Comptroller's staff for conducting a thorough review of the District's finances. While we take the findings cited in the Report very seriously, we are encouraged by the fact that a comprehensive corrective action plan can and will prevent similar instances from occurring in the future. In fact, the District believes that under the direction of the current Board of Education and Administration, the District has made vast improvements in the control environment. This was acknowledged by the field auditors and relayed to the Board of Education in our formal exit conference. In fact, the District, on March 13, 2006, requested that the Comptroller make Greece a priority in its audit schedule.

While we cannot reverse the actions and decisions that the District is cited for, nor will we attempt to justify these actions, the current Administration and Board of Education's approach to responding to the Report of Examination (the Report) is to provide additional background on why some actions may have been taken, offer some additional information to supplement the Comptroller's comments, and document a comprehensive corrective action plan to improve the control environment.

The District's Board of Education and Administration is committed to ensuring that the District's financial operations are conducted with the highest level of integrity and that the interests of the Greece Central School District taxpayers are properly protected. We believe our corrective action plan addresses the findings and will assist to rebuild the trust and confidence of the community.

STUDENT LEARNING IS THE GOAL

Control Environment

Through this audit process, the Board of Education has learned that even though internal controls over financial reporting and accountability may appear to be well-designed and operating effectively, controls that are otherwise effective can be overridden by management in every entity. It is a risk that certainly expands beyond Greece Central.

Given the inherent risk, the Greece Central Board of Education will outline a plan to reduce the risk of misstatement or misuse of taxpayer funds. This will be accomplished by addressing the risk of management override of internal controls as part of our oversight of the financial reporting process. The Board has referenced the American Institute of Certified Public Accountant's (AICPA) document entitled *Management Override of Internal Controls: the Achilles' Heel of Fraud Prevention* to assist in the outline of the plan.

The Board of Education and the audit committee are responsible for overseeing the actions of District Administration. We as a Board can no longer argue that we acted diligently in carrying out our responsibilities if we fail to design a strong audit committee charter and timely perform all the functions specified therein. The audit committee must evaluate whether the oversight mechanisms are in place and functioning in a manner that will prevent, deter, or detect management override of internal controls (AICPA, 2005). We will take all necessary actions to address the risk of management override of internal controls.

This section of the District's response will outline the recommendations made by the AICPA and the Board's plan to implement those recommendations.

Maintaining Skepticism

An appropriate level of skepticism by Board of Education members is essential to our assessment of the risk of management override of controls. This requires alertness to potential fraud risk factors and a willingness to ask sometimes difficult and perhaps even embarrassing questions. It also requires an environment that encourages open and candid discussion among Board members and sufficient time to think and consider "what if" scenarios or to respond to the rumors of a financial concern that circulate in a District our size. Lastly, maintaining an appropriate level of skepticism does not mean that there is distrust of the Administration. Rather it is remaining cognizant of all the risk factors that exist (AICPA, 2005).

Maintaining an appropriate level of skepticism, however, is predicated on the fact that the Board of Education must understand the risk factors associated with the activities of the District. For instance, if the Board of Education had required a monthly financial report of the Capital Improvement Project expenditures and listing of change orders from the District's construction management firm, it would have clearly seen that expenditures were starting to exceed the voter authorized limit. It would have also seen suspicious change orders processed on the same day for similar amounts. This information from a third party would have kept the Board better informed and mitigated the opportunity to transfer costs and manipulate change orders (AICPA, 2005).

STUDENT LEARNING IS THE GOAL

Strengthening Board Understanding of the District Business

Our Board of Education needs a solid knowledge of school district finance and business to form the foundation for effective oversight. Because financial reporting to all stakeholders should reflect the economic activity of the District, knowledge and understanding is critical for determining whether the District's financial reporting is sufficient. Enhancing the Board's knowledge and understanding will help us identify the financial risks that may threaten the Administration's ability to accomplish its objectives and strategies (AICPA, 2005).

To become more effective in our oversight of the District's finances, we as a Board and the audit committee will develop a broad information and feedback network. This network will include our internal auditors, the independent auditors, key employees, and the internal claims auditor. With more frequent meetings that include brainstorming sessions of the risk factors, the Board can enhance our understanding of the incentives, pressures, and/or opportunities for fraud (AICPA, 2005). According to the AICPA document, the brainstorming session's effectiveness is increased if conducted, at least partially, in closed or executive session without management present (AICPA, 2005). While we pride ourselves on openness, having these meeting closed will allow all parties to speak openly and honestly about the risks.

Using the Code of Conduct to Assess Financial Reporting Culture

Our District has an extensive code of conduct. However, the mere existence of a code is not sufficient to reduce the likelihood of management override of controls. The Board of Education and its audit committee will use the code of conduct as a benchmark for assessing whether the culture or "tone at the top" and management's actions are those required to maintain the highest level of integrity under pressure and opportunity to commit fraud. The Board will implement practices that routinely survey employees and external parties regarding Administration's behavior and conduct. This will help the Board of Education assess culture and "tone at the top" (AICPA, 2005).

Cultivating a Vigorous Whistleblower Program

A key defense against management override of controls is a whistleblower process. On February 12, 2008 the Board of Education introduced a Whistleblower policy. Since that time, the Board has been working to build on that policy to ensure it is comprehensive and effective.

While not final, it is the Board's objective to encourage the development of a culture in which employees view whistleblowing as a valuable contribution to an attractive workplace of integrity and their own futures (AICPA, 2005).

STUDENT LEARNING IS THE GOAL

Following Up on Audit Reports

As recommended by the Comptroller, the Board of Education will ensure corrective action is taken on all independent and internal audits. The District's audit committee will be responsible for holding management accountable for implementing the corrective action plans.

As outlined in this section of our response, the Board of Education is committed to improving our oversight capacity and effectiveness. We believe that these corrective action initiatives will improve the District's control environment and protect the taxpayers from waste and abuse.

Capital Improvement Project

Inadequate Planning and Poor Control

The State Comptroller's Office has identified a number of concerns about the manner in which the District's Capital Improvement Project ("CIP") was administered. Before addressing the specific points raised in the Comptroller's report, the District would like to point out certain factors that impeded the progress of the project since its inception.

As is noted in the Report, the CIP was approved by the voters in June 2000. Construction was scheduled to begin on the first schools (Barnard Elementary and Odyssey Middle/High) in October 2001. Prior to the commencement of actual construction however, the project schedule included a time period in which the Architect, Tetra Tech Engineers, Architects & Landscape Architects, P.C. *d/b/a* Thomas Associates Architects & Engineers *f/k/a* Thomas Associates, Architects & Engineers, P.C. ("Thomas") was to perform design services on the project. Thomas' design work for the 19 schools that were included in the project was scheduled to begin prior to and immediately following the successful referendum in June 2000 and continue through June 2002. After Thomas completed its design services, the plans were to be submitted to the New York State Department of Education for review. It was only after the State Education Department approved the plans that construction and/or renovation work could actually begin.

The schedule was first impacted by delays in design by Thomas. The District contends that as a result of the manner in which Thomas fulfilled, or more accurately did not fulfill its obligations on the CIP, the project was delayed and subjected to significant cost overruns. Specifically, the District contends that Thomas breached its obligations to the District on the CIP by:

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- A. Failing to prepare drawings and specifications for the CIP in a timely manner. This resulted in numerous phases of construction as opposed to the four phases originally contemplated. This delayed the project from the beginning, even prior to the opening of bids. The District contends that Thomas' unilateral decision with respect to the additional phasing was based on its inability to keep up with the design output on the project. The delay in design directly resulted in project delays and increased costs.
- B. Thomas identified early on that it could not keep up with schematic design on the project. Indeed, at one point, the District contends that Thomas outsourced a portion of the architectural design to a Thomas affiliate in Oregon. The District contends that the project design output was behind from the beginning of the project. Further, the District contends that Thomas did not meet a deadline for submission to SED for preliminary approval.
- C. Failing to adequately staff the project. The District contends that as a result of Thomas' inadequate project staffing, there were attendant delays and increased costs on the project. Through the course of the project, on many occasions, the architectural team repopulated with new faces. By the District's estimation, there were seven different "point persons" from Thomas that worked on the CIP. In the latter stages, Thomas assigned individuals to the position that were not licensed architects, but were clerks. Significantly, at the outset, the principal in charge of this project, in essence removed himself from any direct involvement with the CIP. As a result, another individual with far less experience managing a project of this magnitude was substituted. That individual was removed from the project at the District's request due to the failure to close out contracts. Many of these contracts could have been closed out within the time frame established in the contracts. This was in large part caused by Thomas' insistence that it was entitled to additional compensation which led to its abandonment of the project.
- D. Failure to approve project submittals in a timely manner. The District's own review of the manner in which Thomas addressed submittals revealed that many submittals were never approved at all. The District contends that Thomas' inattention to submittals further delayed the CIP and resulted in increased costs.
- E. Errors and omissions in project design. The District contends that there were an inordinate amount of design errors and omissions. Such deficiencies led to an equally inordinate number of Requests for Information ("RFIs") from contractors on the project. This in turn delayed the project. Further, the District contends that Thomas did not review change orders that were necessitated by its own deficient design in a timely manner which further delayed the project and resulted in increased costs.

STUDENT LEARNING IS THE GOAL

- F. Including an excessive number of allowances into the project. The District contends that the excessive number of allowances not only caused numerous changes which slowed the project, but also contributed to cost overruns and further exposed the District to liability in a lawsuit brought by one of the contractors. The District has been sued by Allied Builders, Inc. Allied's lawsuit alleges, among other things, that the District breached the general contract, violated New York State and Federal anti-trust laws, violated its due process and equal protection rights and violated New York's public bidding laws. The District disputes Allied's position and has asserted several affirmative defenses and a counterclaim in which it seeks to recover from Allied damages that the District incurred as a result of Allied's failure to complete its work in a workmanlike manner, including, among other things, defective exterior masonry work. The District is also pursuing a third-party claim against Thomas seeking indemnification from it for any damages that may be found to be owed by the District to Allied.
- G. The District contends that Thomas breached its contract in all of the following ways which led to project delays:
1. failing to perform contractually required architect site visits;
 2. failing to timely review applications for payment submitted by contractors;
 3. failing to timely certify applications for payment submitted by contractors;
 4. failing to reject work or order correction of defective work performed by contractors, thereby forcing the District to undertake this task itself;
 5. failing to timely review and sign change orders; and
 6. failing to inspect work performed by subcontractors and certify that work was substantially complete.

By letter dated June 28, 2006, Thomas advised the District of its position that it had "continued to provide exceptional services to the (District), well beyond the scope and timeframe established in its contract" and that it was entitled to additional compensation. Citing what it characterized as extensive arrears in its invoices and the District's continuing demand for services, Thomas gave the District notice that it would cease providing any further services to the District effective seven days from the date of the District's receipt of the letter. In fact however, Thomas had already effectively stopped providing services to the District before the letter was even sent.

STUDENT LEARNING IS THE GOAL

By letter dated August 22, 2006, the District, through counsel, responded to Thomas' letter. Citing the numerous instances in which Thomas had breached its obligations on the CIP, the District rejected Thomas' request for additional compensation, noting that the services Thomas claimed entitled it to additional compensation were in fact governed by the terms of the contract and therefore did not require the District to pay additional compensation. The District further advised Thomas that it was considering terminating Thomas' contract for nonperformance.

In July 2007, the District commenced an action against Thomas in the New York State Supreme Court, Monroe County seeking an award of damages resulting from Thomas' breach of its contract with the District. The District has also asserted a cause of action against Thomas seeking indemnification for any damages that are awarded against the District in favor of a contractor on the project, Allied Builders, Inc. The District's claims against Thomas are based upon: 1) the manner in which Thomas prepared the bid packages for the project, 2) its unilateral expansion of the project schedule from the four phases originally contemplated because of its inability to perform design and related services in a timely fashion, 3) its failure to adequately staff the project, 4) its failure to review submittals in a timely manner, 5) its incorporation of an excessive amount of allowances on the project, and 6) its failure to review change orders in a timely manner. That litigation is currently pending and is presently in the discovery stage.

The District must acknowledge that the Administration did make upgrades in certain areas, purchase more equipment than was originally budgeted and took advantage of the construction to extend the scope of work performed. We do not believe the Comptroller's report acknowledges all of the external factors that have significantly influenced this project.

Payments Made Without Ensuring Work Was Performed

The Comptroller's report suggests that the District's claims auditor authorized payments for contractors without ensuring that the work billed was performed. We do not believe this is a fair conclusion if the only supporting evidence is the lack of an architect's signature on the payment application. As is indicated above, the District has identified numerous issues with the manner in which Thomas performed or failed to perform its duties on the project. Given the difficulties the District was having with the architect, particularly with its responsiveness on the project, including, among other things, the manner in which it addressed applications for payment submitted by contractors on the project, it had to take steps to ensure that the contractors were paid. Any failure to do so could result in claims being brought against the District or further delays in the project.

The District does agree that it is in our best interest to ensure all signatures exist on the payment applications and that the District may have assumed some risk without the architect's certification. However, the absence of the architect's signature does not mean the work billed was not performed. In all instances, District officials relied on the review and certification of the construction management firm as well as certified architect/engineers on staff during the project to ensure payments were appropriate for the work completed.

See Note 1 Page 62

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Furthermore, the internal claims auditor is not qualified to attest to whether work being billed was actually performed. He or she must rely on the approvals of the architect, construction management firm and District officials. The absence of the architect's signature should not negate the approval of the construction management firm and District officials. Therefore, to make the claim that potentially \$1.7 million was paid for services not performed is misleading and inaccurate.

See
Note 2
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Purchase of Idle Assets

The Comptroller's Report notes that because of poor planning and lack of communication, "some assets purchased during the CIP are not in use, and certain building modifications were still not fully functional." Two examples cited are six wheelchair lifts purchased for six different schools and musical risers for the orchestra rehearsal room.

The wheelchair lifts were designed to be installed in front of the stages. This design was rejected by the Administration at the time. The District then evaluated an alternate design and installation of the lifts, but the cost ultimately proved to be too high.

The Report correctly notes that because the lifts were custom-built, they could not be returned to the manufacturer and are currently in storage. The District agrees with the recommendation that these lifts be installed or sold.

The musical risers for the orchestra rehearsal room were not used because no representative of the District, including the musical director wanted to use these items. The District will continue to look for other uses for these items or, if they cannot be used, seek to sell them.

CIP Expenditures in Excess of Authorization

The Comptroller's report notes that the maximum cost of the project, as initially approved by the voters of the District was \$119.5 million and that the cost has exceeded the approved maximum cost by approximately \$2.5 million. The Report attributes the cost overruns, as well as the numerous change orders and delays on "the size and complexity of the CIP, combined with the limited window for planning." In response the Report recommends that the District "review the development process for future capital projects to ensure that enough time is available to provide for proper planning."

The District acknowledges that more time could have been spent in the planning stage of the project and will ensure that all future capital projects are properly planned before being presented to the voters for approval. Furthermore, the District will make sure design documents are thorough and complete and importantly, timely prepared.

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The District recognizes that design delays which occur at the outset of the project can have a detrimental effect on the project schedule. This in turn necessarily causes project costs to increase. The District will also ensure that its five year facilities plan is up-to-date and the building conditions survey is reviewed with the Board of Education on an annual basis. In addition, the Board of Education will require periodic meetings with the architectural firm and construction management firm during the pre-construction phase of capital projects to ensure that the scope of the project is consistent with what has been approved by the voters and be aware in advance of potential cost overruns.

While the District does acknowledge its own degree of responsibility for the cost overruns on the project, the District also notes that many of the issues that contributed not only to the cost overruns, but also to the inordinate number of change orders and delays in the approval of change orders were caused in whole or in part, by the architect on the project. As is indicated above, the District is currently involved in litigation against the architects in which it seeks an award of damages resulting from the manner in which the architect negligently fulfilled its duties on the project and breached its contract with the District.

Shifting of CIP Expenses to the General Fund

In conjunction with finding that the expenditures associated with the CIP exceed the approved maximum cost, the Comptroller also notes that "District officials intentionally shifted additional CIP expenses to the general fund to give the appearance that the CIP was within the authorized budget." The expenses in question consist of certain professional services, equipment purchases and other incidental expenses, including construction management fees which the Report claims are "clearly project related."

The District acknowledges that it did reclassify certain professional services and equipment that are considered by the State to be incidental costs in order to stay within the voter approved limit. According to the State Education Department, certain expenditures for original furnishings, equipment, machinery or apparatus, or professional fees (design and legal) and other incidental costs (such as insurance during construction and general administration costs) can be capitalized and charged to the project. The incidental costs may represent up to 25% of the maximum cost allowance determined by the State Education Department. For the CIP, this dollar amount represents \$17.2 million.

Attachment A summarizes the expenditures shifted to the general fund in order to stay within the voter approved limit. As you will see, the expenditures shifted to the General Fund qualify as incidental expenses as defined by the State Education Department.

In addition, the District reviewed the outstanding encumbrances cited in the Comptroller's report totaling \$203,504. To date the outstanding encumbrances total \$126,166. The District noted the following significant balances:

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- \$62K outstanding for construction management fees – **this encumbrance will be closed as only reimbursable expenses are currently being paid by the General Fund**
- \$61K outstanding in architectural fees– **given the pending litigation, this encumbrance will be closed and accrued as a liability.**

The District would also like to note that at the end of the Comptroller's fieldwork, there was a \$23K encumbrance for MDH Consulting. This encumbrance was liquidated prior to the District finalizing our response.

As stated in the Comptroller's report, "Local Finance Law generally states that after voters approved a maximum amount to be spent on construction of a capital project, the Board cannot exceed that threshold". At the time, the Administration believed that management had discretion in charging incidental costs to a capital project. Due to the documented overruns in other areas of the project, the District decided to chargeback some of the incidental costs in the general operating budget in an effort to complete all of the construction work with the CIP funds. Because the District exceeded its incidental cost budget, due primarily to additional compensation required to the construction manager, the incidental costs charged to the general fund would most likely not be eligible for aid.

Conceptually, there is a wide range and variety of costs that can be considered "project related." At some decision point these costs have to become part of the operating budget. In reviewing the list of costs charged to the general fund, the District contends that some of the expenses, such as the CIP audit performed in 2006, the custodial overtime tracked in the general fund, some of the replacement equipment and office furniture purchased, as well as the ongoing storage rental fees may be "project related" but are valid general fund expenditures. Considering this argument, the District believes that approximately \$681K (\$555K in expenditures, plus \$126K in encumbrances to be liquidated- See Attachment A) of the amount over \$2.5 million cited by the Comptroller, are valid general fund expenditures.

The District has conferred with our external auditors and with our attorneys to seek additional guidance on the proper accounting for incidental costs. Both parties agree that there is very little guidance provided by the State Education Department on what incidental costs are required to be charged to the capital fund. In fact, based on their experiences, accounting for incidental costs in the general fund is a common practice across the state. The District is requesting that the Comptroller's Office provide additional guidance or regulations that support the finding. This will assist the District to ensure that all "project related" costs are clearly defined and are appropriately accounted for.

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In response to the findings, the Comptroller recommends that "District officials should monitor the project expenses to ensure they remain within the limits of the project's authorization." The District agrees with the recommendation that it monitor project expenses to ensure they remain within the limits of the project's recommendation and will take this step for the remainder of this and on all future capital projects. Specifically, the Board of Education will require periodic financial reports from both the construction management firm and the District's business office. These reports will consist of budget-to-actual costs for both incidentals and construction costs. In addition, the reports will provide an accurate up-to-date listing and description of all change orders and requests for information regardless of the dollar value. In fact, the District has purchased software specific to capital projects to better track all pertinent financial information. This software allows the District to monitor budgets, bid results, change orders, and all applicable State Education Department documents, such as project budgets and final cost reports.

Current Project Status

The Report states that "some features of the CIP were still unfinished as of the date of the completion of field work." The District maintains that all construction is complete and outstanding items are attributable to rejected or defective work that the District is evaluating, or missing or incomplete close-out documentation to be provided by the contractors.

Since the end of the Comptroller's fieldwork, the District has been meeting on a bi-weekly basis with the architects, construction management firm, and engineers to close-out the CIP. As of the date of this letter, a total of 20 contracts remain open with 6 contracts ready to be closed through the issuance of field-directed change orders. There are also 9 contracts under review by our attorneys.

Depletion of CIP Funds

The Report states that "the project was still not complete with 39 open contracts, even though CIP funds are depleted." The District would like to clarify that borrowed funds from the CIP are not depleted and were not depleted as of the date of the Report. As of 8/31/2007, the ending balance of borrowed funds was \$1.3 million. Based on current records, there remains enough borrowed funds to cover open contractual balances. The District does acknowledge that remaining available funds do not cover expenses charged to the General Fund. However, the Report leads the reader to believe that any and all remaining CIP contracts will be paid from the General Fund. This is not an accurate assumption.

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Additional Payments to the Construction Manager

The Comptroller's Report takes issue with a payment of \$968,000 to the construction manager – Christa Construction, by noting that the two change orders that provided for the payment “did not provide details on the specific purpose of the change” and because there was no reference in the Board minutes approving the additional payment. The District acknowledges that a change order of this magnitude should have been discussed and approved by the Board of Education. Further, the District agrees with the recommendation that it should maintain complete and accurate records involving capital project activities.

The following will provide additional information in regard to the change orders in question. When the construction manager, Christa, first requested the additional payment, it referenced ¶14.5 of the contract that stated that the project schedule is of “cardinal importance” and that if the construction manager is responsible for a delay in the schedule, it must remedy any such delay at its own expense. That paragraph further states, however, that the construction manager shall not be responsible for slippage in the progress schedule caused by individuals, entities or factors beyond its control.

The District initially opposed Christa's request for additional compensation. However, after consulting with its then-attorneys, it was determined that the contract language was vague and that if Christa did pursue the matter through litigation, the District faced the risk that Christa would have been awarded the additional compensation it sought. With that knowledge and faced with the possibility of legal fees in excess of \$100,000 were it to have continued to oppose Christa's request, the District negotiated a payment of \$968,000 in additional compensation to Christa which was approximately \$132,000 less than Christa was seeking. In a letter dated March 25, 2004, the District then-attorneys wrote to the Assistant Superintendent for Finance and Support Services advising him of the following:

“Presently, Christa is seeking \$1.1 million in additional compensation, which includes a 1.95 factor above direct costs. I think it is very reasonable to negotiate additional compensation for Christa that contemplates paying for its direct costs plus a reasonable profit, but without a factor.

In my opinion, an amiable resolution to Christa's request is the most fiscally responsible course to take. An agreement will eliminate the uncertainty that litigation would create if the parties insist on pressing their contract interpretation.”

It should also be noted that Christa continues to assist the District in attempting to bring the CIP project to its completion by attending bi-weekly meetings as discussed previously.

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Change Orders

The District had a policy that requires all change orders exceeding \$20,000 to be approved by the Board. The Comptroller's Report notes that notwithstanding that policy, a substantial number of change orders were executed without Board approval. The Report further states that a number of change orders "appear to have been split to keep the dollar amount below \$20,000, the threshold for Board review."

Initially, it should be noted that the Report states that there were 138 change orders exceeding \$20,000 that were not approved by the Board. This response does not attempt to explain why each of the 138 change orders referenced in the Report were not approved by the Board.

The District agrees with the Comptroller's recommendation that all change orders are reviewed by the Board and that it actively oversee change orders associated with a capital project in a manner that documents Board review and enables the Board to assess the impact of change orders on project cost and design. In addition, in January 2008, the Board voted to reduce the maximum amount of a change order that is subject to Board review from \$20,000 to \$10,000. The Board will further require the construction manager on future capital projects to attend Board meetings to confirm that financial information presented to the Board is complete and accurate. A standing agenda item will be added to the Board's monthly meetings to ensure that the Board reviews all change orders on a capital project.

Internal Claims Audit Function

The Comptroller's Report states that the Board members failed to properly instruct the claims auditor on how to monitor CIP costs. The Report attributes what it characterizes as the problems with District's claims audit function to its failure to comply with the provisions of §1709 of the New York State Education Law.

Initially, it should be noted that the cited provision of the Education Law did not go into effect until September 1, 2005 – well after the 2001 payment to the construction manager cited in the Report as an example of the failure of the District's audit function was made. The report also finds fault with the individual that serves as the District's Claims Auditor, claiming that she was ineligible to serve in the position.

See
Note 3
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The District agrees with the Comptroller in their assessment of the internal claims audit function for the District. §1709(20-a)(a) of the Education Law states that the Internal Claims auditor is prohibited from being involved directly in accounting or purchasing. In addition, the person is prohibited from any responsibility for business operations.

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After an evaluation of the additional duties currently being performed by the internal claims auditor, the Board of Education acknowledges that some of these functions may be in conflict with the law. Her additional duties include:

- a. Audits health insurance invoices to ensure the District is accurately billed for active and retired employees.
- b. Provides administrative support for processing donations. This includes setting up budget codes, monitoring balances, and drafting thank you letters. She is not responsible for approving any disbursements or requisitioning any goods or services.
- c. Performs random and periodic audits of the extraclassroom activity funds.
- d. Maintains an [REDACTED] spreadsheet for CIP costs. These duties are limited to recording payment applications to contract balances. Again, she has no authority to approve payments, nor does she have any requisitioning capabilities.

While we do not believe that any of the above tasks create a conflict of interest that may jeopardize the internal claims auditor's objectivity in reviewing all claims of the District, the Board will take a stricter interpretation of the law and adjust her duties accordingly. The Board will limit her additional duties to audit-type functions as she is doing with the health care invoices and extraclassroom activity funds.

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Medicaid Reimbursement

Claims Processed by an Outside Vendor

Prior to October 2006, the District contracted with an outside vendor to process Medicaid claims. This was done for two reasons. First, the District admittedly did not have the expertise in-house to effectively oversee the process. Second, the District wanted to ensure that we were capturing all costs to maximize aid. Because we did not have the expertise in-house, unfortunately we did not effectively monitor the activity of the outside contractor. Consequently, we have no basis to dispute the Comptroller's finding for the claims processed by the contractor.

Despite the lack of resources, the District became increasingly dissatisfied with the level of reporting and results produced by the contractor. The District identified the problems cited by the Comptroller's Office and realized the inefficiency of having a third party complete the Medicaid claims. During this period, it was difficult to follow up on outstanding claims, demographics were not completed timely and the sense of "ownership" was not there. In response, the District terminated the contract and began to develop an in-house system. Unfortunately, during this transition the data returned to the District was not useful in enabling the District to bill for services missed by the contractor.

Claims Processed In-House

The District acknowledges that there was a transition period to bring the Medicaid billing process in-house. This is a very complicated area that requires coordination between the health service providers, the Administration in the Office of Special Education, and the Business Office. Because of its complexity, it took several months to implement effective policies and procedures to direct and control the claims submission process, including procedures for properly documenting claims, submitting them in a timely manner, and reconciling submitted and paid claims. However, we believe the Comptroller's Report is inaccurate when it states that the District still had not developed these policies and procedures, or provided adequate training by the end of their fieldwork.

See
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Training Provided to Staff: Training was provided to all related service providers in-district in September 2006. In fact, for two additional months until the District terminated the contractor's services, providers were able to use the in-house systems (Medicaid Direct) parallel to the contractor's system. This ensured that all providers were trained and able to access Medicaid Direct. Furthermore, at the start of the 2007-08 school year, the District re-trained the providers and any newly hired staff on the Medicaid Direct Claims Reimbursement program. Training was and is also provided one-on-one for any new staff throughout the school year. It is the District's intention to continue to review Medicaid Reimbursement with the provider groups at the start of each school year and as needed.

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Documented Procedures: The District's claim process includes submitting the claim, reviewing reports returned from State system (MedWeb) that accepts/denies each claim, review and resubmit denied claims, and track providers to make sure that services for eligible students are being claimed.

The District Medicaid Billing Specialist and the Accounting Supervisor utilize the *Medicaid-in-Education Claiming and Billing Handbook* issued by the New York State School Supportive Health Services Program and the *Medicaid Direct User Manual* provided by Centris Group (supporters of the IEP/Medicaid Direct software). These documents serve as the policy and procedure manuals to ensure compliance with all State regulations and requirements.

Further, the District Operations Analysis created an in-house database that ties together IEP Direct, Medicaid Direct, and MedWeb systems to streamline the reconciliation process. The three systems use different student numbers to identify eligible students and this database has tables that pull the three systems together for reporting and claim reconciliation.

Since bringing this Medicaid submission process in-house it has been the District's practice to review the claims reports from MedWeb and verify that all claims submitted have been paid. If all claims are not paid timely, then the denial codes are reviewed and the District resubmits eligible claims. A reconciliation of claims submitted against claims paid is performed each billing cycle and reviewed by the Accounting Supervisor.

Status of Claims Not Submitted: For the claim period October 2006-May 2007 the Comptroller's report noted that more than \$225,000 in claims were not submitted. This is an accurate statement, however there is additional information that the report does not consider.

In February 2007 notice came from the State to "pend" all claims for Speech, Counseling (including evaluations), and Special Transportation until further guidelines and licensing requirements could be established. These claims represent the bulk of the unclaimed money the District is cited for in the Report. In fact, the District has correspondence from the State specifically stating that if these claims are submitted, they will be denied. Therefore, the District can certainly be cited for not timely submitting claims during the period from October 2006 until February 2007. However, given the two year window Districts are allowed to submit claims, we do not believe there is any financial impact to the District.

See
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In addition, even though the District did not submit the claims to the State (because it was instructed not to) it certainly accounted for them in our claims record-keeping system and in our audited financials statements. As of May 31, 2007, the District had an accounts receivable balance for Medicaid claims totaling \$667,010. This was partially offset by an allowance for doubtful accounts totaling \$166,753. We believe we exercised proper revenue recognition given that the claims were in a pended state at the end of the fiscal year. Until these claims are released by the State, the District will continue to track them and account for them so they can be processed timely upon release.

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Compensation

The Board of Education is deeply concerned with the Comptroller's findings in this area. We acknowledge that the minutes of the Board of Education have not been well documented to ensure decisions made in Executive Session were included in the Board minutes. Furthermore, we agree that vague contractual language allowed for interpretation by Administration which was not always in the best financial interest of District taxpayers. The following will outline a plan to ensure all employees are compensated for Board approved contractual benefits.

Vacation Leave Upon Separation

The Report cites two circumstances in which employees were credited and compensated for more vacation than they may have been entitled to under their employment contract. The first instance is where the Collective Bargaining Unit specifically addresses vacation. Below is an excerpt from the Greece Administrators Support Association (GASA) contract:

“Any remaining, unused vacation entitlement, up to the maximum entitlement granted to the unit member during the fiscal year, including any authorized carry over entitlement for that year, will be paid upon termination of employment.

Vacation payout will be prorated with the exception of accumulated days as of June 30th of the previous year.”

Despite this language, a directive was given to Payroll by the former Superintendent to exclude retirements from vacation prorating. Both the union and the Administration differentiated between “retirement” and “termination.” This mutual interpretation of the contract language established a precedent that has been followed since March 2004. The District will strictly adhere to the contract language from this point forward and prorate all vacation regardless of the reason for separation from the District.

The second circumstance in which employees were credited with unearned vacation accruals is when the Collective Bargaining Agreement or individual employment contract was silent regarding proration. In these instances, vacation entitlements were treated as though they were earned on the first day of the fiscal year. We agree with the Comptroller's opinion that it is not fiscally prudent to not prorate accruals upon termination or retirement. From this point forward, unless specifically enumerated in the contract, employee vacation accruals will be prorated.

As an improvement in internal control, the District's Human Resources Department will provide Payroll with a compensation summary verifying all benefits due upon termination or retirement. These summaries will remain on file in Payroll and be subject to review by the District's internal and external auditors.

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Authorization of Employment-Related Agreements

The District agrees with the findings of the Comptroller in this area. All Memorandums of Agreement with a financial impact to the District must be formally approved by the Board of Education and reflected in the minutes. In addition, any employment compensation agreements must be approved by the Board in public session and reflected in the minutes.

Information Technology

Due to security concerns, the corrective action plan for the information technology findings will be documented and presented to the District's Audit Committee.

Conclusion

The Report of Examination revealed a lack of essential controls within the Greece Central School District to monitor actions of the then-Superintendent and his Administration and various functions including those of the Business Office and the information technology systems. The audit has provided the District with the information necessary to address all areas of concern as quickly as practicable and to improve the overall control environment of the District. We will work closely with our internal and external auditors, our audit committee, and other professionals to maintain, create, and enhance our internal control systems.

While the Comptroller's report highlights serious management concerns, it does not reflect all the improvements that the District has made under the direction of the current Board of Education and administrative team. The current Board of Education is responsible for ensuring that all staffing changes are included in the minutes, costs for employment agreements are captured and disclosed, and improvements have been made to the financial reporting and forecasting.

This Board of Education and Administration is committed to providing the Greece community with sound fiscal management practices, professional and ethical conduct, an environment that prides itself on integrity, and is committed to ensuring that the students are always at the forefront of the decisions made.

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We thank the Comptroller's Office for its thorough work and appreciate the recommendations outlined in the report. We invite the Comptroller's staff to return and examine the improvements that we have and will continue to put in place. With that, we hope we can regain the trust and confidence of all members of the Greece community.

Respectfully submitted,



Steven A. Achramovitch
Superintendent of Schools



Roger Boily
President, Board of Education

Attachment

- c: Mrs. Julia VanOrman, *Vice President, Board of Education*
- Mrs. Carolyn Hauer, *Member, Board of Education*
- Mr. Charles Hubbard, *Member, Board of Education*
- Mr. Joseph Moscato, *Member, Board of Education*
- Mr. Frank Oberg, *Member, Board of Education*
- Mrs. Gale O'Toole, *Member, Board of Education*
- Mr. Jeffery Smith, *Member, Board of Education*
- Mr. Patrick Tydings, *Member, Board of Education*
- Mrs. Lynne Armstrong, *Board Clerk*

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References

American Institute of Certified Public Accountants, Inc., (2005). Management Override of Internal Controls: The Achilles' Heel of Fraud Prevention.

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**DISTRICT RESPONSE TO RECOMMENDATIONS
MADE IN THE REPORT OF EXAMINATION**

The Board of Education is committed to developing a comprehensive corrective action plan to address the issues cited in the Comptroller's Report of Examination. Subsequent to our response, the Board of Education will work diligently to develop this plan and be much more specific on the actions we will take. We wanted to take this opportunity to respond to the recommendations made in the Comptroller's Report. This should be considered an outline of the corrective action plan that the Board of Education will submit to the State in the timeframe specified in the Report.

1. *The Board should establish a strong internal control environment in the District as the foundation of an effective system of internal controls. Board members should assume an active role in directing and monitoring District operations.*

As outlined in our response labeled Control Environment, the Board of Education will strengthen its oversight effectiveness by:

- a) Requiring periodic financial reports that allow the Board to assess operations and make informed decisions.
 - b) Enhancing our understanding of the financial risks through collaboration with the audit committee, our external auditors, internal auditors, internal claims auditor, and managers.
 - c) Maintaining an appropriate level of skepticism and requiring adequate supporting documentation to evaluate the recommendations of the Administration.
 - d) Cultivating a vigorous whistleblower program to encourage development of a culture in which employees value the opportunity to be heard without fear of reprisal.
 - e) Following up on audit reports to ensure corrective actions plans are diligently executed.
2. *The Board should ensure corrective action is taken to address control weaknesses identified in independent audits, and information technology system weaknesses identified in outside consultant's report.*

The Board of Education and its audit committee are responsible for overseeing the actions of District Administration. The District's audit committee will be responsible for holding management accountable for implementing the corrective action plans.

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- 3. The Board should review the development process for future capital projects to ensure that enough time is available to for proper planning.*

The Board of Education will review the development process for future capital projects to ensure that enough time is available to provide for proper planning. This includes ensuring that our five year facilities plan is up-to-date and the building conditions survey is reviewed with the Board of Education on an annual basis. In addition, the Board of Education will require frequent meetings with the architectural firm and construction management firm during the pre-construction phase of capital projects to ensure that the scope of the project is in-line with the voter approved list and be aware in advance of potential cost overruns.

- 4. District officials should monitor project expenses to ensure that they remain within the limits of the project's authorization.*

To more effectively monitor project expenses, the Board of Education will require periodic financial reports from both the construction management firm and the District's business office. These reports will consist of budget-to-actual costs for both incidentals and construction costs. In addition, the reports will provide an accurate up-to-date listing and description of all change orders and requests for information regardless of the dollar value.

The District has already purchased software specific to capital project to better track all pertinent financial information. This software allows the District to monitor budgets, bid results, change orders, and all applicable State Education Department documents, such as project budgets and final cost reports.

- 5. The Board should institute control procedures to ensure District officials comply with policies that require Board review and approval of all project change orders greater than \$20,000. These control procedures should be designed to document Board approval actions, to prevent the practice of splitting change orders to avoid Board review, and to require that change orders be reviewed promptly.*

The Board of Education will require an accurate up-to-date listing and description of all change orders and requests for information regardless of the dollar value. In addition, at the January 2008 meeting the Board of Education resolved to reduce the change order threshold for approval from \$20,000 to \$10,000.

The District will also require that the construction management firm be on-site at Board meetings to attest to the fact that the financial information presented to the Board of Education is complete and accurate.

To show adequate evidence of Board review and approval of change orders, a standing agenda item will be added to the monthly business meetings. This agenda will record Board acceptance of the complete change order listing and written approval of change orders in excess of \$10,000.

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When change orders arise that require immediate attention and approval, the Board of Education will delegate approval of these instances to a Board officer or other appointee. In these instances, all change orders will be retro-actively approved by the entire Board. This should alleviate potential cost overruns due to construction delays.

6. *The Board should actively oversee change orders associated with a capital project, and periodically request a listing of all change orders submitted for the project so they can assess the impact of change orders on project costs and design.*

The District has purchased a capital project accounting software to improve the completeness and accuracy of records involving capital project activities. This software was designed by a former BOCES District Superintendent and helps to ensure that all SED forms are completed, bid results and budgets are monitored, and all change orders and requests for information are documented.

Coupled with this software to be utilized by the Business Office, the Board of Education will also require financial status reports from the construction manager. In fact, in evaluating construction management firms for the recently approved EXCEL project, the accounting software and presentation of financial results was a critical factor in our selection process.

7. *District officials should maintain complete and accurate records involving capital project activities including all associated bid documents, contracts, change orders, and authorizations.*

As previously discussed, the addition of the capital project software will assist the District in improving the maintenance of records and activities associated with future capital projects. In addition, the District, on a monthly basis, will reconcile financial our financial records to the records maintained by the construction manager.

8. *District officials should either install and use the idle assets purchased during the CIP project or sell them and recoup some of the cost.*

The District will continue to evaluate opportunities to utilize the idle assets cited in the Comptroller's report. Alternatively, the District will assess any practical disposal plans as to not incur any additional storage fees.

9. *The Board should appoint an individual as claims auditor who is independent of other District business functions and require the claims auditor to report to the Board, and not to the business office.*

The Board of Education will evaluate the additional duties that the internal claims auditor is currently performing. Her additional tasks will be limited to those with an audit function, such as auditing health insurance bills or extraclassroom activity funds.

STUDENT LEARNING IS THE GOAL

The Board of Education is committed to improving its communication with the internal claims auditor. To do so, the Board will require periodic meetings that will allow the claims auditor to present her findings, address any concerns that she has, and ask the Board for additional guidance. These meetings will also assist the Board of Education in assessing adequacy of policy and identifying high risk areas.

10. *District officials should develop procedures that would ensure the claims auditor is carrying out the objectives of the Board within the guidelines of the State Education Department's regulations.*

Through improved communication with the internal claims auditor, the District will ensure that the claims auditor is carrying out the objectives of the Board within State's guidelines.

11. *The claims auditor should ensure that the architectural firm certifies the applications for payment, and the certificates for payment are included with the claims vouchers, before the District pays for capital construction projects.*

The District understands the risk of not obtaining architectural firm certifications on all payment applications. Absent extenuating circumstances as was the case with the Capital Improvement Project, District officials and the internal claims auditor will not approve any application unless the architect has certified to the completeness and acceptance of the work performed.

12. *The Board should regularly consult with individuals hired to provide the Board with objective information about District operations and project progress to become knowledgeable enough to oversee the District's use of resources.*

The Board of Education will require regular meetings with the construction manager and the architects appointed to a capital project. The purpose of these meeting will be to keep the Board abreast of project status and all pertinent financial information.

13. *The Board should ensure contracts detail the responsibilities and services to be provided by the vendor.*

The Comptroller's highlights an issue that expands beyond the Medicaid submission process. It identifies a need for a policy that enables the Board to be aware of and monitor professional service contracts. While we do not believe it is practical or effective for the Board to oversee all contracts, it will establish a threshold for professional service contracts to be approved by the Board. At the time that those contracts are approved, the Board can discuss and evaluate what on-going documentation should be reviewed to enforce the contracts.

STUDENT LEARNING IS THE GOAL

14. *The Board should establish comprehensive written policies and procedures to ensure that all Medicaid claims are in compliance with Medicaid regulations, are properly documented and submitted in a timely manner.*

The Board of Education will establish a Board policy directing the Administration to develop comprehensive regulations and procedures to ensure that all claims are in compliance with Medicaid regulations and are submitted in a timely manner. To improve Board oversight in this area, the Board of Education will require a standard monthly report detailing, by service area, the number and amount of claims billed, paid, denied, and resubmitted.

15. *District officials should reconcile the amounts claimed for Medicaid reimbursement with the amounts received, and review any rejections or disallowances to determine whether the items may be resubmitted with additional documentation or explanation.*

The District performs a reconciliation of all claims for each billing cycle. These reconciliations compare, by service area, the amounts claimed versus amounts received. In addition, all rejections are reviewed by the Medicaid Claims Billing Specialist and appropriate follow-up is performed timely. All reconciliations are reviewed by the Accounting Supervisor. As a future improvement, the District will submit a summary of these reconciliations to the Board of Education for review.

16. *The Board should develop policies to ensure that all future employment contracts for District employees clearly describe how employee benefits will be paid upon separation. District officials should develop procedures to ensure the payments are in conformance with Board policies and applicable contracts.*

The District and the Board of Education have worked diligently to create a collective bargaining template that will address some of vague language included in the collective bargaining agreements and individual employment contracts. In particular, language surrounding vacation entitlements will be addressed and the District will strive for stricter language as to eliminate interpretations by the Administration and unions.

The Payroll Office will ensure that all payments made are in conformance with Board policies and applicable contracts. This will be accomplished by ensuring that all compensation directives from Human Resources can be vouched to union or employee contracts and further to the minutes of the Board of Education.

17. *The District should ensure that changes to employment agreements and union contracts have some benefit to the District before they are entered into.*

The District agrees with this recommendation. All changes to employment agreements and union contracts will be approved by the Board of Education.

STUDENT LEARNING IS THE GOAL

18. *The District's payroll and human relations departments should review and ensure that any additional compensation is supported by properly authorized agreements.*

Effective immediately, all Memorandums of Agreement and addendums to Collective Bargain Agreements and Individual Employment Agreements will be presented to the Board of Education. Any changes that have a financial impact will require Board approval and be reflected in the minutes of the Board. A Board policy will be added to address this corrective action. With increased review of these agreements, the Board can be assured that the actions proposed are in the best financial interest of the District and an appropriate expenditure of taxpayer funds.

To enforce this policy, the Payroll Office will be required to agree and reconcile any additional compensation to entitlements reflected in the minutes of the Board meetings. The District will update its internal control documents to reflect this change in procedure.

19. *The Board should formally approve all employment agreements that expend District funds in open meetings, and ensure the result of the vote is recorded in the meeting minutes. The Board should review all agreements that accompany terminations from District employment before voting to approve the termination actions.*

The District agrees with the recommendations and will ensure that all employment agreements that expend funds will be formally approved in an open meeting and reflected in the minutes. All agreements that accompany terminations will also be approved in an open meeting and reflected in the minutes. The District's Payroll Office will not be authorized to pay any additional compensation unless that directive is approved in the minutes of the Board.

The District will respond to the Comptroller's recommendations concerning Information Technology under separate cover to the State Education Department and the Office of the Comptroller.

Again, the District would like to thank the Office of the Comptroller for their recommendations to improve the financial operations of the District. The preceding responses are an outline of the corrective action plan that the District will certainly develop over the next several months. We encourage the Comptroller to provide additional feedback when the District does submit the final corrective action plan. This will ensure that we have developed a comprehensive corrective action plan to address the issues the District is cited for.

STUDENT LEARNING IS THE GOAL

GREECE CENTRAL SCHOOL DISTRICT
 MANAGEMENT REVIEW OF CIP EXPENDITURES CHARGED TO THE GENERAL FUND
 RESPONSE TO COMPTROLLER'S REPORT OF EXAMINATION
 FEBRUARY, 2008

Attachment A

Description	Classification	Remaining Encumbrance	Cumulative Expenditures	Expenditures by Year			
				2007-2008	2006-2007	2005-2006	2004-2005
Plaques for art center Total	Operating	-	6,676.00	-	-	4,450.00	2,226.00
Office Furniture Total	Operating	-	28,568.44	-	-	-	28,568.44
Installation of plaques Total	Operating	-	6,675.00	-	-	6,675.00	-
Moving and storage Total	Operating	-	7,980.00	-	-	-	7,980.00
Handicap platform rental Total	Operating	1,800.00	6,680.00	1,800.00	3,600.00	1,280.00	-
Workbench Total	Operating	(0.00)	1,525.20	-	-	-	1,525.20
Payroll Total	Operating	-	187,623.01	-	-	-	187,623.01
Classroom Furniture Total	Operating	-	22,256.74	-	-	-	22,256.74
Room/field rental Total	Operating	-	12,280.00	-	-	360.00	11,920.00
Consulting Total	Operating	-	121,410.00	-	121,410.00	-	-
Piano moving Total	Operating	-	150.00	-	-	-	150.00
Storage Total	Operating	-	943.77	-	-	-	943.77
Office Furniture Total	Operating	-	4,760.10	-	-	-	4,760.10
Phone service Total	Operating	-	2,793.90	-	-	2,793.90	-
Classroom Furniture Total	Operating	-	36,328.00	-	-	-	36,328.00
Stadium usage Total	Operating	-	1,000.00	-	-	-	1,000.00
Phone usage Total	Operating	-	367.26	-	-	-	367.26
Room/field rental Total	Operating	-	2,675.00	-	-	-	2,675.00
Cell phones Total	Operating	-	2,445.17	-	91.02	2,354.15	-
Student Chairs Total	Operating	-	3,210.60	-	-	-	3,210.60
Classroom Furniture Total	Operating	-	92,238.25	-	-	-	92,238.25
Maintenance Total	Operating	1,606.85	5,821.36	355.59	1,357.00	737.75	3,371.02
Total Expenditures Considered to be Operating in Nature		\$ 3,406.85	\$ 554,407.80	\$ 2,155.59	\$ 126,458.02	\$ 18,650.80	\$ 407,143.39

GREECE CENTRAL SCHOOL DISTRICT
 MANAGEMENT REVIEW OF CIP EXPENDITURES CHARGED TO THE GENERAL FUND
 RESPONSE TO COMPTROLLER'S REPORT OF EXAMINATION
 FEBRUARY, 2008

Attachment A

Description	Classification	Remaining Encumbrance	Cumulative Expenditures	Expenditures by Year			
				2007-2008	2006-2007	2005-2006	2004-2005
Furniture Total	Project	-	41,223.46	-	-	-	41,223.46
Signs Total	Project	-	11,534.50	-	-	11,534.50	-
Inspection and testing (structural) Total	Project	-	8,530.00	-	-	-	8,530.00
Construction management fees Total	Project	61,843.76	1,002,276.97	-	7,136.46	193,655.31	801,485.20
Concrete & soil testing Total	Project	(0.00)	20,815.56	-	-	4,942.37	15,873.19
Legal advertising Total	Project	-	-	-	-	-	-
Exterior Signage Total	Project	-	19,990.00	-	-	-	19,990.00
Geotechnical services Total	Project	-	1,365.96	-	-	1,365.96	-
Bond Issuance costs Total	Project	-	13,846.95	-	-	-	13,846.95
Professional Services Total	Project	(0.00)	102,916.65	-	-	53,041.00	49,875.65
Playground Total	Project	-	11,490.00	-	-	-	11,490.00
Bond Counsel Legal Fees Total	Project	-	14,746.95	-	-	-	14,746.95
Install piping Total	Project	-	2,686.00	-	-	-	2,686.00
Bond issuance costs Total	Project	-	5,750.00	-	-	-	5,750.00
Air Monitoring and testing Total	Project	-	92,064.25	-	-	33,494.00	58,570.25
Printing Services Total	Project	-	2,120.72	-	-	-	2,120.72
Relocating gas Total	Project	-	2,435.64	-	-	-	2,435.64
Rerouting gas service Total	Project	-	-	-	-	-	-
Electric connection Total	Project	-	4,758.84	-	-	-	4,758.84
Temporary electric service Total	Project	-	164.00	-	-	-	164.00
Interior Signage Total	Project	-	5,364.00	-	-	-	5,364.00
Monitor and testing Total	Project	-	9,727.50	-	-	-	9,727.50
Architectural fees Total	Project	60,915.44	367,035.49	-	-	17,148.00	349,887.49
Advertising Services Total	Project	-	1,000.00	-	-	-	1,000.00
Cable Installation Total	Project	(0.00)	1,759.34	-	-	1,759.34	-
Inspection and testing Total	Project	-	-	-	-	-	-
Total Project Related Expenditures Charged to Operations		\$ 122,759.20	\$ 1,743,602.78	\$ -	\$ 7,136.46	\$ 316,940.48	\$ 1,419,525.84
Total Expenditures related to CIP Charged to General Fund		\$ 126,166.05	\$ 2,298,010.58	\$ 2,155.59	\$ 133,594.48	\$ 335,591.28	\$ 1,826,669.23

Prepared by Greece Central Department of Finance

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APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The application for payment template developed by the American Institute of Architects requires the signatures of the both the construction manager and the architect. It provides a system of checks and balances that ensures payments to contractors are justified and appropriate. When one of these parties does not sign to approve the payment, the system of checks and balances does not work effectively. At the District, numerous payments to the construction manager were approved only by District officials.

Additionally, 16 of the 30 exceptions totaling more than \$1 million were not approved by the architect in the beginning phases of the project¹¹ - almost five years prior to the architect's open acknowledgement of problems.

While we recognize that the District had to "take steps to ensure that the contractors were paid" during the alleged "difficulties with the architect," there was no formal discussion of this situation nor was it brought before the Board. Compensating controls should have been put in place to ensure that payments to contractors were for legitimate and satisfactory work.

Note 2

We have changed the wording to reflect that the signatures of the construction manager and District officials gave some assurance that the expenditures paid were proper. However, with the lack of approval by the architect, and the ineffectiveness of the claims audit function in general, the District has only limited assurance that payments were for construction services that were in conformance with contracts.

Note 3

We have modified the report to clarify our position. Regardless of the date at which the Education Law made the claims auditor's direct consultation with the Board a requirement, the Board should have overseen the claims auditor's activities in some manner, since this individual approved claims on the Board's behalf.

We also reiterate our concern about how the claims audit process worked as a control function: first, the claims auditor, regardless of who she reported to, should not have approved claims lacking a material control feature like the architect's certification; and second, the claims auditor was not independent, and lacked Board guidance about how to perform her job.

¹¹ The time period of these payments was from July of 2000 to September of 2001.

Note 4

As a result of information supplied by the District, we have amended our report to remove the assertion that training was not provided.

Note 5

District officials also cite guidance they received from New York State in February 2007 telling them to “pend” certain claims. We did not include any claims that fell under the February 2007 guidance. The District failed to submit timely reimbursement of other Medicaid claims. The failure to submit timely reimbursement claims could result in the permanent loss of the revenues.

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 and information technology.

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 the Capital Improvement Project, Medicaid Reimbursement, Payroll, Audit of Claims and Information Technology for further audit testing.

To accomplish the objectives of this audit:

- We interviewed appropriate current and former District officials and employees, including a former Superintendent for the CIP, Medicaid reimbursement, payroll, audit of claims and information technology. These discussions allowed us to gain an understanding of the District's internal control environment.
- We reviewed audit reports prepared by outside third parties including the District's external auditors and an IT consulting firm.
- For the CIP, we reviewed pertinent documents available, including applications and certificates of payment, change orders, claims, contracts, and plan and bid specifications. We examined change orders to determine whether they were approved, signed and dated by the appropriate District officials, and paid accordingly.
- For Medicaid, we assessed the internal controls over the identification, monitoring, and preparation of Medicaid reimbursement claims. We also interviewed District personnel and the consultant involved in the Medicaid reimbursement process, and tested selected records and transactions. Based on these tests we estimated the dollar amount of reimbursements that were not claimed.

- For Payroll we obtained and reviewed; collective bargaining contracts; personal employee contracts; memorandums of agreement; memorandums of understanding; employee personnel files and District payroll policies and procedures.
- For the claims auditing process, we reviewed the duties and obligations of the claims auditor and applicable policies and procedures in place at the District. We examined various general and CIP claims for evidence of audit by the claims auditor and proper approval.
- For the IT function we interviewed District officials and reviewed District policies and procedures.

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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