



Island Trees Union Free School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2005 — June 30, 2007

2008M-18



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 Island Trees Union Free School District, entitled *Internal Controls Over Selected Financial Operations*. 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 Island Trees Union Free School District (District) is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

Scope and Objective

The objective of our audit was to examine the District's internal controls over selected financial operations for the period July 1, 2005 to June 30, 2007. Our audit addressed the following related questions:

- Did the District adequately segregate duties over its fiscal operations to reduce the risk of errors, fraud, and professional misconduct?
- Are internal controls over claims processing appropriately designed and operating effectively?
- Did the District solicit requests for proposals (RFPs) when procuring professional services?

Audit Results

We found instances where the Board has either not established critical controls, or controls that had been established were not implemented or operating effectively. As a result the District is vulnerable to the possibility of errors and/or improprieties occurring and not being detected.

The District did not adequately segregate duties over its fiscal operations. The District had given virtually all control over its fiscal activities to the Assistant Superintendent for Finance and Administration (Assistant Superintendent) without providing appropriate supervision for his work. The Assistant Superintendent oversees the Business Office and serves as the Deputy Treasurer (performing most of the duties of the Treasurer) and as the District's purchasing agent. As a result, he could make improper cash transfers, cash disbursements, and purchases without these activities being readily detected. We examined 20 wire transfers, 38 receipts and deposit slips, and 20 claims to determine if there were any inconsistencies and found no exceptions.

The District's claims auditing process is not well designed or functioning properly. No documentation existed to verify that 613 claims, paid by the District, were certified for payment

by the claims auditor. We also reviewed 40 claims totaling \$157,560 and found that the Treasurer paid 28 of the claims totaling \$133,211 before they were audited and approved by the claims auditor. In addition, we reviewed 20 travel reimbursement claims totaling \$8,918 and found that 19 of the claims totaling \$8,599 did not have adequate approval documentation attached to the claims, as required by Board-adopted policies. Consequently, the District may have paid for travel and conference expenditures that were not approved or were not District-related expenses.

The District's procurement policy did not require the use of an RFP process to procure professional services. As a result, District officials rarely used RFPs to obtain competitive proposals for professional services and continued to use the same professionals year after year without any competition. We reviewed payments made to six professional service providers totaling \$854,000 for the two fiscal years 2005-06 and 2006-07 and found that the District did not solicit RFPs when hiring four of the six providers for services totaling \$449,497. Also, two of the four providers did not have a written contract or agreement with the District. These weaknesses increase the risk that the District is not paying the most reasonable cost for these services and that the amounts paid were not correct or for properly authorized services.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated that they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

Introduction

Background

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

There are four schools in operation within the District, with approximately 2,728 students and 254 full- and part-time employees during the 2006-07 fiscal year. The District's expenditures for the 2006-07 fiscal year were \$51 million, which were funded primarily with State aid, real property taxes, and grants.

The District's Assistant Superintendent for Finance and Administration is responsible for authorizing purchases and receiving, disbursing, and investing District moneys. The Board appointed an independent public accounting (IPA) firm as the District's claims auditor to assume the Board's powers and duties with regard to denying and approving District claims.

Objective

The objective of our audit was to examine the District's internal controls over selected financial operations. Our audit addressed the following related questions:

- Did the District adequately segregate duties over its fiscal operations to reduce the risk of errors, fraud, and professional misconduct?
- Are internal controls over claims processing appropriately designed and operating effectively?
- Did the District solicit requests for proposals (RFPs) when procuring professional services?

Scope and Methodology

We examined internal controls relating to the District's segregation of duties over its fiscal operations, claims auditing process, travel and conference expenses, and RFP process for the period July 1, 2005 to June 30, 2007.

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

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated that they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

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*.

Business Office

A strong system of internal controls includes adequate segregation of duties through organizational restrictions and control over the financial management system. Proper segregation of duties is a key internal control that reduces the risk of errors, fraud, and professional misconduct. Concentrating key duties with one individual with little or no oversight weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected. A major weakness in internal control exists when the same individual maintains the accounting records, has cash custody, and performs cash reconciliations. To limit risks associated with inadequate segregation of duties, management can ensure that the individuals who perform bank reconciliations, cash transfers, cash disbursements, and purchases are independent of the accounting function. Education Law establishes the Treasurer as the custodian of all District moneys, who is responsible for depositing such moneys in designated banks and disbursing them only upon receipt of a signed warrant or certified payroll. The Board may designate a Deputy Treasurer to sign checks when the Treasurer is unable to do so.

The assignment of job duties in the District's Business Office does not provide for adequate segregation of duties over financial transactions to prevent or detect improper cash transactions. The District has given virtually all control over fiscal operations to one individual, the Assistant Superintendent for Finance and Administration (Assistant Superintendent), without establishing appropriate checks and balances on his work. He supervises and controls all financial transaction processes and recordkeeping functions, including accounts payable, journal entries, and bank reconciliations. The Assistant Superintendent also served as the District's purchasing agent and Deputy Treasurer.¹

As the Assistant Superintendent, he is responsible for all Business Office operations, such as preparing deposit slips for checks that come in the mail, recording transactions in the accounting system, preparing journal entries and directing a clerk in his office to enter them in the accounting system, making cash adjustments, and reviewing monthly bank reconciliations prepared by a clerk in his office. As the Deputy Treasurer, the Assistant Superintendent has assumed the duties of making transfers between bank accounts and funds and making external wire transfers, investing District

¹ The Board appointed him as the District's Deputy Treasurer for the 2006-07 fiscal year.

funds, and signing checks in the absence of the District Treasurer (Treasurer). Having the ability to transfer funds and sign checks, while also being responsible for maintaining the accounting records, could allow him to make improper transfers and payments and then to conceal these activities by creating misleading or fraudulent accounting entries.

As the District's purchasing agent, the Assistant Superintendent also is responsible for authorizing all purchases by approving purchase orders. Giving the Assistant Superintendent the authority to initiate purchases in his capacity as the purchasing agent further weakens internal controls. Under this arrangement, the Assistant Superintendent could make and pay for improper purchases and then conceal these activities by creating misleading or fraudulent accounting entries.

Because the Assistant Superintendent performs so many incompatible duties, it is important for District officials to provide an adequate review of his work to help mitigate the internal control risks involved. Although the Treasurer told us that he reviews the bank reconciliations that are approved by the Assistant Superintendent, we found no evidence that the Treasurer reviewed the reconciliations. The lack of the Treasurer's signature on the bank reconciliations calls into question whether he truly reviewed the reconciliations or whether he performed an adequate review of the reconciliations. In addition, while the Treasurer told us that he compared printed checks to approved warrants and payroll, he did not sign and date the warrants and payroll to indicate that he reviewed them. Without a signed and dated notation on the warrants and payroll, District officials have no assurance that the Treasurer reviewed the checks before they were disbursed.

As a result of these lack of segregation of duties, we analyzed 20 wire transfers to determine if the transfers were properly recorded and authorized, we reviewed 38 receipts and deposit slips to determine if moneys received were deposited intact and in a timely manner, and we tested 20 claims to determine if there were any inconsistencies between warrants, vouchers, and cancelled checks. We found no exceptions.

Because all these conflicting functions are performed by one person, and because District officials do not provide adequate review and oversight of his work, improper use of District funds could go undetected and uncorrected. The lack of segregation of duties in the Business Office puts the District at risk of fraud, abuse of taxpayer's funds, professional misconduct, and errors that may go undetected.

Recommendation

1. District officials should review the duties within the Business Office and institute internal controls to ensure proper segregation of duties. Where incompatible duties cannot be appropriately segregated, District officials should establish supervisory review procedures and other compensating controls to mitigate specific risks.

Claims Processing

A main component of the District's internal controls over purchasing relates to policies and procedures governing the claims processing functions. In general, the objectives of claims processing is to ensure that every claim contains enough supporting documentation to determine whether it complies with District policies, that the amounts claimed represent actual and necessary District expenses, and that the Board (or a representative of the Board) audits each claims voucher before authorizing payment.

The District's claims auditing process is not well designed or functioning properly. No documentation existed to verify that 613 claims, paid by the District, were certified for payment by the claims auditor. We also reviewed 40 claims and found that the Treasurer paid 28 of the claims totaling \$133,211 before they were audited and approved by the claims auditor. In addition, we examined 20 travel reimbursement claims and found that 19 of the claims did not have adequate approval documentation. Consequently, the District may have paid for travel and conference expenditures that were not approved or were not District-related expenses.

Claims Auditing Process

Conducting a proper audit of claims before the District pays them is an integral part of any internal control system. Education Law requires the Board to audit each claim voucher before authorizing payment. Education Law further authorizes the Board to adopt a resolution to appoint a claims auditor to perform this important function. The claims auditor assumes the Board's powers and duties for approving and disapproving claims against the District. If the Board chooses to appoint a claims auditor, it must provide the claims auditor with a job description and other guidance to communicate the claims auditor's responsibilities and the Board's specific expectations of the claims audit function. For example, it is important for the claims audit policy to include a description of what constitutes a proper audit of claims and how the claims auditor must indicate that each claim has been audited. In addition, after the claims auditor has audited claims against the District, it is essential that District personnel retain on file the documentation that shows the claims have been audited. With limited exceptions, the Treasurer may not pay claims unless the claims auditor has reviewed and certified the claims.

The Board hired a public accounting firm to audit and approve claims against the District. Twice per month, an employee from the firm (not necessarily the same person each time) audits and approves claims

against the District. According to its engagement letter with the District (dated June 2006), the accounting firm agreed to provide bi-monthly audit services ensuring that proposed payments are in agreement with Board policy, meet certain statutory requirements, and are properly authorized and mathematically accurate. The claims auditor documents his or her approval of claims by certifying (reviewing and signing) a warrant (a list of claims) that authorizes and directs the Treasurer to pay the claims listed.

We reviewed five warrants prepared between September 2006 and March 2007 and found that the claims auditor certified only 657 of the 1,270 claims listed on the warrants. We did not find any documentation to indicate that the other 613 claims were certified for payment at another date. For example, the warrant for December 2006 included 303 claims totaling \$1.2 million. The claims auditor attached a certification form (dated January 29, 2007) to the warrant stating that he was certifying for payment 101 claims² totaling \$317,329. However, the Treasurer paid all 303 claims.

We also found that the District mailed checks to vendors before the claims auditor certified the warrants. We examined 40 claims totaling \$157,560 along with the cancelled checks, paid during the period July 1, 2005 to June 30, 2007, and found that 28 of the cancelled checks totaling \$133,211 were deposited by the payee between one day and 40 days before the claims auditor had certified the warrants. For example, a \$9,603 check made payable to an occupational and physical therapy services provider was dated December 8, 2006, and the provider deposited the check into his bank account on December 22, 2006. However, the claims auditor signed and dated the warrant on which the check was listed on January 29, 2007, which was 38 days after the provider deposited the check.

While the accounts payable clerk told us that warrants are certified by more than one claims auditor twice per month, we did not find any evidence to support this statement. The clerk also told us that she retains only one certification form for each warrant, and we found that warrants were accompanied only by one certification form. Also, the certification forms and the warrants do not show which claims were certified by each claims auditor. Because the clerk does not retain certain certification forms, and because the certification forms and the warrants do not identify which claims were certified by which claims auditor, the certification forms and the warrants do not provide an effective means of documenting the claims audit process.

² Neither the certification form nor the warrant indicated which specific claims (101 claims out of the 303) had been certified by the claims auditor.

In addition, we found that during the claims auditor's review, he or she initialed District claims. However, the Board's policy and its contract with the public accounting firm did not identify what the claims auditor's initials were supposed to indicate. Also, the claims auditor did not indicate the date that he or she initialed the claims. Because the meaning of the claims auditor's initials was not defined and because the claims auditor did not date the initialed claims, the Board has no assurance that these claims had been audited, or if they had been reviewed but not audited and approved.

When the Treasurer pays claims before they have been audited, the District has an increased risk of spending District funds on improper expenditures.

Travel and Conference Expenses

The Board adopted policies related to travel and conference expenses. These policies state that District employees, officials and members of the Board will be reimbursed for reasonable, actual and necessary expenses that are authorized and incurred while traveling for school-related activities. The Board, by majority vote, is authorized to determine and approve which conferences may be attended by the Superintendent and Board members. District employees are required to obtain prior written approval to attend a conference by submitting request forms to the Superintendent. The policies also require that an approved conference attendance request form be attached to the claim before any reimbursements can be made to the claimant. It is important for the claims auditor to ensure that approved conference attendance request forms are attached to travel reimbursement claims before approving these claims for payment.

We found that District officials did not enforce compliance with the District's travel and conference expense policies. District employees did not attach an approved conference attendance request form to their travel reimbursement claims as required by the Board-adopted policy. Also, the claims auditor did not ensure that the approved conference attendance forms were attached to travel reimbursement claims. As a result, the District reimbursed employees and officials for travel expenses even though the claims did not have adequate documentation to provide evidence that they were appropriate District expenditures. We reviewed 20 claims totaling \$8,918 for travel and conference expenses and found that 19 claims totaling \$8,599 were not approved according to the District's policy. Of the 19 claims, 17 claims did not have the approved conference attendance request forms attached to them. The two remaining claims were for conferences attended by Board members, and the Board had not authorized the Board members to attend the conferences.

When we brought these 17 claims to the attention of the Superintendent, he told us that he had approved these 17 employees' attendance at the conferences on "Short-Term Leave Request" forms. District officials and personnel use these leave request forms for requesting and approving leave time, which includes vacation, conference, and jury duty absences, and they are maintained by a clerk in the Personnel Office. However, the 17 leave request forms that provided evidence of the Superintendent's approval were not attached to the reimbursement claims packages, as required by the Board-adopted policy.

The District's failure to enforce compliance with its travel and conference expense policies increases the risk that it will reimburse costs that may not be authorized or appropriate.

Recommendations

2. The Board should ensure that the claims auditor audits all of the District's claims.
3. The Treasurer should ensure that all claims are audited and certified before initiating payment for claims.
4. District officials should ensure that the accounts payable clerk retains all certification forms.
5. The Board should ensure that its claims auditing policy and the contract with the public accounting firm adequately define what constitutes a proper audit of claims and identify how the claims auditor must indicate that he or she has audited claims.
6. The Board and District officials should monitor and enforce compliance with District policies and regulations governing travel and conference expenses.
7. The claims auditor should ensure that approved conference attendance request forms are attached to travel reimbursement claims prior to approving them for payment.

Professional Service Providers

A main component of the District's professional services internal controls system relates to policies and procedures governing procurement. An effective procurement process helps the District obtain services, materials, supplies and equipment of the right quality, in the right quantity, from the right source, at the right price, in compliance with all applicable Board and legal requirements. General Municipal Law and the District do not require competitive bidding for the procurement of professional services which involve specialized skill, training and expertise, use of professional judgment or discretion, and/or a high degree of creativity. General Municipal Law requires that the District adopt internal policies and procedures governing the procurement of goods and services when competitive bidding is not required. While the District is not legally required to issue RFPs for professional services, doing so would help ensure that the District was obtaining needed services at a reasonable price.

A written agreement for professional services provides the District and the individual or firm furnishing services with a clearly defined and mutually agreed-upon basis for determining entitlement to payments. Therefore, it is important for the Board and professional service providers to enter into contracts prior to any services being performed. These contracts are used by the claims auditor to verify that the fees charged by the professional service providers are in accordance with Board resolutions. It is necessary that the contracts indicate the contract period, the services to be provided, and the basis for compensation for those services. Additionally, all payments made must be in agreement with the respective contract or Board resolution. These practices help to ensure that taxpayer dollars are expended in the most efficient manner.

The District's procurement policy in effect during our audit period did not address the procurement of professional services and did not require that RFPs be used to solicit these services. As a result, District officials rarely used RFPs to obtain competitive proposals for professional services and continued to use the same professionals year after year without any competition. We reviewed payments made to six professional service providers totaling \$449,497 during the 2005-06 fiscal year and \$404,531 during the 2006-07 fiscal year. We found that four professionals³ were hired without the benefit of competition and two of the four providers did not have a written contract or

³ A law firm, a tutoring services provider, an occupational and physical therapy services provider, and an architectural services provider

agreement with the District. The other two providers⁴ did have contracts with the District, and the District's expenditures for those services that we examined were reasonable. Our examination disclosed the following:

- The District paid a law firm \$99,825 for providing legal services to the District from July 1, 2005 to June 30, 2007. District officials did not solicit RFPs prior to securing the services of this firm. We found that the firm had been with the District for more than 25 years, and was appointed by Board resolution during both of the two fiscal years that we audited. However, the District did not have a contract with the law firm. Each Board resolution only specified the amount to be paid to the firm as a retainer fee (\$26,000 each fiscal year); however, no amount or rate was indicated for any additional services. Because the law firm did not have a contract with the District that described additional services that it would perform for the District, and because the firm did not submit itemized invoices to support its claims for payment, District officials cannot determine if the \$47,825 in additional payments made to this firm were reasonable and appropriate District expenditures. In June 2007, District officials solicited RFPs for legal services for the 2007-08 fiscal year and selected another firm.
- The District paid an architectural services provider \$35,570 during the 2005-06 and 2006-07 fiscal years. District officials did not solicit RFPs prior to securing the services of this vendor, and the District did not enter into a written agreement with the vendor. Because the vendor did not have a contract with the District that described services that it would perform for the District, and because the vendor did not submit itemized invoices to support its claims for payment, District officials were unable to determine if the payments made to this vendor were reasonable and appropriate District expenditures. In November 2006, District officials solicited RFPs for architectural services for the 2007-08 fiscal year and selected another service provider.

By opting not to issue RFPs for professional services, District officials increase the risk that the District is not paying the most reasonable cost for those services. In addition, without a written contract or Board resolutions approving and documenting the services to be provided and fees to be paid, the claims auditor cannot

⁴ The tutoring services provider and the occupational and physical therapy services provider

properly audit the claims and determine if the fees charged were correct and were for properly authorized services. As a result of this weakness in its controls, the District is at risk of expending taxpayer moneys unnecessarily.

Recommendations

8. The Board should revise the District's procurement policy to require that the District award professional services contracts only after soliciting RFPs.

9. The Board should enter into written contracts with all professional service providers that clearly describe the services to be provided and the basis for compensation and ensure that all payments are made according to each individual contract.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



ISLAND TREES PUBLIC SCHOOLS

Board of Education
516-520-2100

Superintendent
James Parla

ADMINISTRATIVE OFFICES, 74 FARMEDGE ROAD, LEVITTOWN, NEW YORK 11756-5202

April 3, 2008

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

To Whom It May Concern:

On behalf of the Board of Education and administration, we are most appreciative of the State Auditors' assessments and recommendations included in the New York State Audit for Island Trees Union Free School District for the period July 1, 2005 through June 30, 2007.

It is noted that your overall goal was to assess the adequacy of the internal controls put in place to safeguard district assets. To that end, your initial assessment of internal controls included a review of financial oversight, cash receipts and disbursements, purchasing, payroll, personnel services and asset inventory. Based on your initial assessment you determined that adequate controls and limited risk existed in most financial areas reviewed. Moreover, it is important to note that the report showed *no* fraud or financial wrongdoing. You did focus on four areas that are in need of improvement: claims auditing process, segregation of duties in the business office, travel and conference expenses and the Request for Proposal process.

We offer the following specific responses to the findings and recommendations to be included in your final audit report.

1. Claims Auditing Process: The Island Trees Board of Education contracted with an outside auditing firm to perform the claims audit function for the District. The firm audited and approved the claims twice a month both mid-month and at the

Excellence and Success for All Students

end of the month. However the mid-month certifications were not retained on file by the District. This procedure has subsequently been changed and both certifications for the month are now retained by the District. In addition to certifying the warrants twice a month, the firm approved the individual claims twice a month and issued a monthly report to the Board of Education.

The District will continue to monitor that the mid-month warrant certification is maintained on file.

2. Segregation of Duties in the Business Office: The size of our school district gives us a relatively limited number of employees working in the business office. The assistant superintendent did indeed have a number of key duties including purchasing, investing district funds and wire transfers, while also being responsible for maintaining accounting records. We are extremely pleased that the auditors' review of wire transfers, cash receipts and deposit slips showed that all moneys were indeed deposited intact in a timely manner and that no inconsistencies between warrants, vouchers and cancelled checks existed.

The district is in the process of hiring an employee to serve as purchasing agent to improve segregation of duties. The treasurer does review the bank reconciliations, warrant reports and payroll reports. He signs the treasurer's report each month which is presented to the Board of Education. The treasurer will ensure that he signs and dates all bank reconciliations, warrant and payroll reports. The treasurer's role will also be modified to improve financial controls.

3. Travel and Conference Expenses: It was acknowledged and agreed to by the state auditors that all employee requests for travel and conferences were duly approved by the superintendent as required by district policy. However, the conference approval/attendance forms were not attached to the claim forms in the business office. These forms were maintained in a separate file in the personnel office. The claims were paid on the strength of the principals' signatures. During the audit, this process was changed so that the approval/attendance forms are attached to the claim forms in the business office.

See
Note 1
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4. Professional Service Providers: There is no legal requirement to issue a Request for Proposal (RFP) for legal or architectural services and the Board of Education elected to retain the same architect and the same attorney for over twenty years. This past year the Board of Education decided to change its legal service provider and did issue an RFP. The Board of Education also decided to change architectural firms and issued an RFP for architectural services in November 2006. Contracts for both service providers have been approved by the Board of Education and are currently in effect.

See
Note 2
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Regarding special education service providers, federal and state regulations require school districts to provide appropriate services within specified time periods to students who are classified by the Committee on Special Education.


Some of these services must be provided by outside agencies to meet the individual needs of specific students. Taking into account all of the variables essential to matching the specific needs of individual students with a generic RFP may be difficult to accomplish and in fact, not in the best interest of the children involved. Nevertheless, the district will now issue RFPs for special education service providers prior to the start of the school year.

Again, on behalf of the Board of Education and Administration, we wish to express our appreciation for the recommendations provided by the state auditors. We look forward to working with the Comptroller's Office in the future and will utilize its services to obtain advice regarding financial matters when needed.

Respectfully submitted,



James Parla
Superintendent of Schools



Kenneth Rochon
President, Board of Education

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We did not review all employees' requests for travel and conference attendance. As stated in the report, we reviewed 20 claims and found that 17 claims did not have an approved conference attendance request form attached to the travel reimbursement claim as required by the Board-adopted policy. We found approved leave request forms in the Personnel Office for eight of the 17 claims. After we completed our fieldwork, District officials told us that the remaining nine leave request forms (paid during the 2005-06 fiscal year) were stored in the District's basement. However, we did not observe those forms.

Note 2

All the details of good management practices are not mandated by statute. While the District is not legally required to solicit RFPs for professional services, General Municipal Law mandates that the District adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required. The District's procurement policy did not address the procurement of professional services and did not require that RFPs be used to solicit these services. We believe that an RFP process is a good management practice that should be followed to help ensure that the District obtains needed services at a reasonable price.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected the claims auditing process, travel and conference expenses, the RFP process, and segregation of duties in the Business Office for further audit testing.

We reviewed Business Office procedures for receiving, recording, and depositing cash and processing payroll cash disbursements. To determine the effectiveness of internal controls and to evaluate the effect of any associated deficiencies in those controls, we performed the following audit steps:

- We interviewed appropriate District officials to obtain an understanding of the organization, the District's accounting system, and to identify key personnel.
- We reviewed the District's financial records and reports to ensure that transactions were properly recorded.
- We reviewed the District's policies and procedures and evaluated their adequacy.
- We interviewed appropriate District officials to learn about procedures used for processing cash receipts and disbursements.
- We examined bank account reconciliations and the propriety of bank statement activity for the month of April 2007 for all District bank accounts.

- We examined and compared receipts with deposit slips and bank statements to track bank activities and to determine if monies received were deposited intact and in a timely manner.
- We examined several cancelled checks and verified that the cancelled checks matched the information on vouchers and approved warrants for September 2006, December 2006, January 2007, February 2007, and March 2007 and reviewed the check sequence.
- We observed operations and examined records to verify that receipts, disbursements, investments and cash transfers were made by authorized personnel.

Within the claims audit process, travel and conference expenses, and the RFP process areas, we focused our attention on the approval of purchases and approval of payment for various types of goods and services acquired, including claims for reimbursement of expenses for officials and employees. We also focused on adherence to District policies and procedures and pertinent laws and regulations related to purchasing. To determine the effectiveness of internal controls pertaining to the claims processing function and to identify any associated effect of deficiencies found in those controls, we examined the following records:

- Vendor payment history reports
- Claims
- Purchase orders
- Multiple account transaction reports
- Lists of Board members and administrators
- District policy manual
- Minutes of the proceedings of the Board
- We reviewed the warrants for September 2006, December 2006, January 2007, and February 2007 to obtain an understanding of the claims auditing process.
- We examined claims for evidence of audit and approval.

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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