



Sagaponack Common School District Financial Condition and Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2005 — December 31, 2006

2007M-244



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2008

Dear School District Officials:

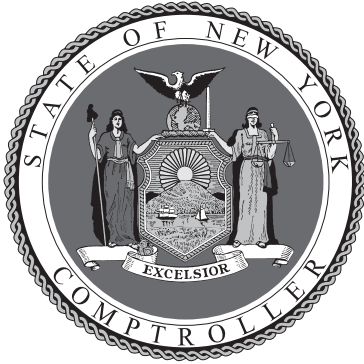
A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide,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

Following is a report of our audit of the Sagaponack Common School District, entitled Financial Condition and Internal Controls Over Selected Financial Activities. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Sagaponack Common School District (District) is located in the Town of Southampton in Suffolk County. The District is governed by the Board of Education (Board) which comprises three elected Trustees. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Responsibilities relating to the District's finances, accounting records and reports are largely those of the Treasurer.

Scope and Objective

The objective of our audit was to examine the District's financial condition and internal controls over conflicts of interest, claims processing, cash receipts and disbursements, and payroll for the period July 1, 2005 to December 31, 2006. In addition, we reviewed the District's financial condition from the 2003-04 fiscal year through the first half of the 2006-07 fiscal year. Our audit addressed the following related questions:

- Is the District taking appropriate action to reduce excessive unreserved and unappropriated fund balance?
- Has the District lost significant revenue because of its practice of not charging tuition to non-resident students?
- Are internal controls over conflicts of interest, claims processing, cash receipts and disbursements, and payroll appropriately designed and operating effectively to adequately safeguard District assets?

Audit Results

The District had a general fund unreserved and unappropriated surplus of over \$314,000 as of June 30, 2006, which was equal to 25 percent of the 2006-07 budget and therefore exceeded the limit under Real Property Tax Law. This was caused, in part, by the Board's failure to properly budget and monitor appropriations, revenues and fund balance, due to a lack of financial information provided by the former Treasurer. District officials have begun appropriating funds to reduce the surplus. The unreserved and unappropriated fund balance has been reduced from \$585,722 as of June 30, 2005 to \$314,411 as of June 30, 2006. In addition, the 2007-08 budget includes an appropriation of another \$200,000 in fund balance.

We also found the District has lost up to \$342,500 because it did not charge tuition for non-resident students in 2006-07. Although the District is charging tuition for non-residents students in 2007-08, it is charging at a rate well below what is allowed by the State Education Department.

Two Board members had prohibited conflicts of interest. The wife of a Board member was paid \$14,061 for custodial and landscaping services, and \$2,593 was paid to the employer of another Board member, who, as an employee of the company, constructed a porch and steps for the school house and painted the school's basement.

Board members did not meet their responsibility to audit claims or appoint a claims auditor for this purpose. Board members only reviewed listings of paid claims one or two months after corresponding checks were disbursed. As a result, there was an increased risk of paying inappropriate expenses.

Cash receipts and disbursements duties, including payroll are not properly segregated. The Treasurer has key duties such as authorization, recordkeeping and custody with little or no oversight, increasing the risk that errors or irregularities could occur and go undetected and uncorrected.

There is no written Board authorization for the salaries or benefits received by District employees, including the Superintendent, and a lack of attendance and leave time records, in general. As a result, there is an increased risk that employees will receive salaries and benefits to which they are not entitled.

Comments of District Officials

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

Introduction

Background

The Sagaponack Common School District (District) is located in the Town of Southampton in Suffolk County. The District is governed by the Board of Education (Board) which comprises three elected Trustees. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Responsibilities relating to the District's finances, accounting records and reports are largely those of the Treasurer.

There was one school in operation within the District during the 2006-07 fiscal year, with ten students attending Grades 1-4 and eight employees. An additional 24 students in Grades 5-11 attended school at another school district. Five of the ten students attending the District school lived outside the District. The District's budgeted expenditures for the 2006-07 fiscal year were \$1,241,295, which were funded primarily with real property taxes.

Objective

The objective of our audit was to examine the District's financial condition and internal controls over conflicts of interest, claims processing, cash receipts and disbursements, and payroll. Our audit addressed the following related questions:

- Is the District taking appropriate action to reduce excessive unreserved and unappropriated fund balance?
- Has the District lost significant revenue because of its practice of not charging tuition to non-resident students?
- Are internal controls over conflicts of interest, claims processing, cash receipts and disbursements, and payroll appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

We examined the financial condition, non-resident tuition, and internal controls over claims processing and procurement, and payroll processing of the District for the period July 1, 2005 to December 31, 2006. In addition, we reviewed the District's financial condition from the 2003-04 fiscal year through the first half of the 2006-07 fiscal year.

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

**Comments of District
Officials and Corrective
Action**

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Financial Condition

A school district's financial condition impacts its ability to provide educational services to its students. The Board and the Superintendent are responsible for the effective financial planning and management of the District. The Board and Superintendent are also responsible for ensuring that budgets are prepared, adopted and amended, based upon reasonable and accurate assessments of resources; and for ensuring that policies, procedures and competent personnel are in place to correctly record financial information on a timely basis. The Treasurer also plays a role by reporting financial information to the Board. The proposed budget is prepared by the Superintendent, Treasurer and head teacher and presented to the Board by the Superintendent for review and approval.

There are two types of fund balance, reserved (set aside for a specific purpose) and unreserved. Unreserved fund balance can be appropriated to help finance the next year's budget and reduce property taxes. Unappropriated fund balance can be used for cash flow purposes or unanticipated expenditures. Real Property Tax Law limits unappropriated fund balance to no more than two percent¹ of the next year's budget. The tax levy is the difference between estimated appropriations and non-tax revenues.

As of June 30, 2006, the unreserved and unappropriated general fund balance² was \$314,411. This was equal to 25 percent of the 2006-07 budget of \$1,241,295 and therefore exceeded the two percent limitation of \$24,826 allowed by law. The excessive fund balance occurred, in part, by the Board's failure to properly budget and monitor appropriations and revenues. The Board's ability to do so was severely limited by the lack of financial information provided by the former Treasurer (replaced in August 2006). The former Treasurer did not provide periodic trial balances showing current financial condition, or monthly appropriation and revenue status reports showing the original and modified budget, fiscal activity to date, and available balances. The former Treasurer also did not provide copies of the annual financial reports (ST3s) filed with the Department of Education, to the Board.

¹ In July 2007, legislation was enacted to change the Real Property Tax Law statutory limit of unappropriated fund balance to 3 percent of the 2007-08 fiscal year's budget and 4 percent of the 2008-09 fiscal year's budget.

² Surplus after applying \$200,000 of available fund balance toward 2006-07 appropriations.

Board members stated they were unaware of the size of the fund balance because they did not receive the ST3s. The current Treasurer, Superintendent and Board members are aware of the fund balance and working to reduce it. The 2005-06 and 2006-07 budgets included unreserved general fund balance as a revenue source. As a result, the surplus has been reduced from \$585,722, as of June 30, 2005, to \$314,411 as of June 30, 2006. The 2007-08 budget contains another \$200,000 appropriation of fund balance.

Recommendations

1. The Board should establish procedures to ensure it receives all necessary financial documentation to provide fiscal oversight.
2. The Board should establish policies to ensure that the unreserved fund balance does not exceed the statutory limit under the Real Property Tax Law.
3. The Board should continue to monitor the unreserved and unappropriated general fund balance and reduce it to the level required by law.

Non-Resident Tuition

Education Law allows districts to accept non-resident students upon consent of and on terms prescribed by the Board, including the payment of tuition in accordance with a formula set forth in the regulations of the Commissioner of Education. A district may adopt a policy to allow non-resident students to be admitted without the payment of tuition if their admission is in the best interests of the district. The 2006-07 non-resident tuition³ rate was approximately \$68,500, per student, as calculated by the Treasurer.

District officials told us they opened enrollment to non-resident students for 2006-07 due to a sharp decline in resident student enrollment from 14 to five students between the 2005-06 and 2006-07 fiscal years.⁴ The Superintendent stated this was the first year that this was necessary. Although the Board had the option of charging non-resident tuition of up to \$68,500 per student, in May 2006, the Board adopted a tuition rate of \$2,500 per year, and rescinded that rate one month later.

Ultimately, five non-resident students were enrolled for the 2006-07 school year and no tuition was paid on their behalf. The Board did not discuss these admissions at a public meeting and did not adopt a formal resolution specifying why a tuition waiver was in the best interest of the District.

In March 2007, the Board adopted non-resident tuition rates of \$2,000 per year for the first student from a family, and \$1000 for each additional student from the same family. However, these rates are only a fraction of those permitted by the Commissioner, and are not based on the cost of educating additional students. The head teacher informed us that five resident students and four non-resident students would be attending the Sagaponack School for the 2007-08 school year.

Had the Board charged non-resident students at the State Education Department approved tuition rate of \$68,500 in 2006-07, District revenue could have been increased by \$342,500. The failure to charge

³The State Education Department electronically calculates non-resident tuition using information provided by each district on their annual School District Annual Financial Report, or ST-3.

⁴ The Sagaponack School educates students in the first through fourth grade.

tuition for non-resident students at the State Education Department approved rate in 2007-08 continues to put an unfair burden on District taxpayers.

Recommendation

4. The Board should adopt a policy to ensure real property taxes from District residents are not used to subsidize the cost of educating non-resident students.

Interest in Contracts

District officials should adopt a code of ethics to minimize perceptions of impropriety and breach of public trust, and to decrease the risk of prohibited transactions. General Municipal Law expressly prohibits an officer or employee from having “an interest⁵ in any contract with the municipality of which he is an officer or employee, when such officer or employee, individually or as a member of a Board, has the power or duty to (a) negotiate, prepare, authorize or approve the contract or authorize or approve payment thereunder (b) audit bills or claims under the contract or authorize or approve payment thereunder, or (c) appoint an officer or employee who has any of the powers or duties set forth above.” District officials should also solicit competition for services, require proper documentation for services rendered and withhold payment until services are rendered to provide assurance that goods and services of desired quality are acquired at the lowest possible price and the risk of financial loss in the event of default is limited.

The Board has not adopted a code of ethics, including standards for disclosure of activities which conflict with official duties. As a result of this serious control weakness, prohibited transactions have occurred. We identified three transactions totaling \$16,654 that were prohibited due to conflicts of interest, and have additional concerns with those transactions regarding the solicitation of competitive proposals, documentation and payment in advance of services rendered.

On January 1, 2006, the District paid \$14,061 to the spouse of a Trustee for two claims. Since the Trustee had an interest in the contracts of his spouse, he had prohibited conflicts of interest in these contracts. The first claim totaling \$5,187, was for external maintenance services during the 2005 calendar year. The claim was supported by an invoice, indicating that services performed included lawn mowing,

⁵ General Municipal Law defines “interest” as a direct or indirect monetary or material benefit accruing to a municipal officer or employee from a contract with the municipality that the officer or employee serves. The law further provides that a municipal officer or employee is deemed to have an interest in the contracts of: his or her spouse (except an employment contract with the municipality); a firm, partnership or association of which the officer or employee is a member or employee. Even if an interest in a contract is not prohibited General Municipal Law generally requires District officers and employees who have, will have or later acquire an “interest” in an actual or proposed contract with the District to publicly disclose, in writing the nature and extent of such interest. The disclosure must be made as soon as the officer or employee has knowledge of the actual or prospective interest. The disclosure must be made to the governing body of the District, which must include the disclosure in the official record of its proceedings.

tree trimming and snow plowing. The first name on the stationary was obscured and the spouse's name was printed in its place. The Trustee told us that the work was not performed by his spouse and that all work was performed by employees of his company.

A second claim paid to the same Trustee's spouse, totaling \$8,874, was for custodial services. The invoice was on an undated piece of plain white paper that included the spouse's name and indicated the payment was for maintenance of the interior of school for the 2005-06 year. The Treasurer indicated that \$8,874 was the budgeted amount for custodial services for the 2005-06 fiscal year and that the Trustee's spouse was paid on January 1st (the mid point of the fiscal year) for her services, as has been the practice for the past 30 years. Since the spouse was paid in full on January 1, 2006, she was paid for services totaling approximately \$4,400 that she had not yet provided. The District did not solicit competition prior to awarding these contracts.

On September 6, 2005, the District also paid \$2,593 to a construction company that employed another Trustee. The claim was for constructing and painting a porch and steps, and painting basement walls. The Trustee, as an employee of the company, performed the construction and painting. We also found there was no documentation to indicate quotes or competitive proposals were solicited from other construction firms for this contract.

When a School District does not adopt a code of ethics and enters into contracts with related parties, it can raise questions as to the propriety of the transactions, particularly when payments are made in advance of services rendered and supporting documentation is not properly itemized. Further, because the District failed to solicit competition for these contracts, there was no assurance that the services were obtained at the best possible price.

Recommendations

5. The Board should adopt a comprehensive code of ethics, and provide a copy to each officer and employee.
6. Board members should review General Municipal Law and take appropriate steps to identify and avoid transactions that may constitute prohibited conflicts of interest.
7. The Board and District officials should take steps to ensure that significant public works contracts are awarded after the solicitation of competitive proposals.
8. The District should not make payments to contractors prior to receiving goods and services.

Claims Processing

The processing of claims for audit, approval and payment are key elements of the District's internal controls to ensure the prudent and economical use of public moneys. An effective claims processing system should ensure that the amounts represent actual and necessary District expenses, every claim contains enough supporting documentation to determine that it complies with statutory requirements and District policies, vendors are not overpaid, payment is only made for goods and services received, and that goods and services are secured in the right quantity, at the right time and for the right price.

The Board is responsible for auditing claims before they are paid. Each Trustee must conduct a deliberate and thorough review to determine whether proposed payments are proper and valid charges incurred by authorized officials, and that the District actually received the goods or services by viewing detailed receipts or written statements from District officials to that effect. If the Board chooses, it may appoint a claims auditor, by resolution, to assume its powers and duties with respect to auditing claims. In essence, the Board is responsible for ensuring that all claims are legitimate before they are paid.

The claims processing function was not well designed or functioning properly because Board members did not audit any claims, nor did they appoint a claims auditor to audit claims on their behalf. The Board's review was limited to a review of warrants, without supporting documentation; one to two months after checks were disbursed. The only individual who reviewed claims prior to payment was the Treasurer, who also prepared the claims and signed the checks to pay the claims.

Due to the control weaknesses, we tested ten claims totaling \$23,600. We found three claims for transactions totaling \$16,654 that were prohibited due to conflicts of interest, and additional concerns with those claims regarding the solicitation of competitive proposals, documentation and payment in advance of services rendered. See related comment entitled "Interest in Contracts."

The lack of an independent claims audit increases the risk of paying for inappropriate expenses, and has raised questions as to the propriety of transactions and whether services have been obtained at the best possible price.

Recommendations

9. The Board should immediately assume its statutory responsibility to audit claims or properly appoint a claims auditor.
10. If the Board elects to appoint a claims auditor, it should establish comprehensive written guidance for the claims auditor to ensure that claims are properly documented, itemized and are for appropriate District purposes before they are approved for payment. The Board should also periodically monitor the claims auditor's activities to ensure that he or she complies with Board guidance and expectations.
11. The Board should develop procedures to ensure that the Treasurer does not pay claims until the Board or claims auditor has approved them.

Segregation of Duties

The concentration of key duties (authorization, recordkeeping and custody) with one individual with little or no management oversight significantly weakens internal control. A strong system of internal control provides for an adequate segregation of duties through the separation of incompatible job functions to reduce the risk that errors or irregularities could occur and go undetected and uncorrected. Written policies and procedures including specific job descriptions also help to ensure that transactions are processed consistently and accurately, and provide a framework for employees to understand the Board's objectives and each employee's role in the process. Written policies are particularly important when a separation of duties is necessary to provide for an adequate level of control.

District officials have not established policies and procedures to ensure there is an adequate segregation of duties for the handling and recording of cash receipts and cash disbursements, including payroll. As a result, there is an increased risk that errors and/or irregularities might occur and go undetected and uncorrected.

Cash Receipts and Cash Disbursements — The District Treasurer receives cash and checks, records receipts, makes all bank deposits, is the sole signatory for checks less than \$5,000 (checks over \$5,000 require a second signature), makes bank transfers, reconciles bank accounts and prepares journal entries.

At a minimum, the duties of receiving and recording cash, signing checks, and preparing journal entries should be segregated from preparing and reviewing bank reconciliations. Giving one person control over cash and the responsibility of reconciling cash records could result in the inappropriate use of cash going undetected. Due to the small size of the District, it may not be practicable to properly segregate duties, and mitigating controls such as an independent review bank reconciliations may be necessary. During our audit period, the District did not have any mitigating controls in place.

Payroll Processing — The Treasurer also performs all duties relating to payroll processing. She calculates pay rates and hours for employees, adds and deletes employees in the computer system, updates salary information, processes payroll checks, pays payroll taxes, files payroll reports, distributes payroll checks, and reconciles the payroll bank statement; no other District official or employee reviews her work.

Functions such as authorization of transactions, recordkeeping and custody of payroll checks should be distributed so that no one employee controls all aspects of the process. Giving one person the ability to add and delete employees in the computer system, update salary information, and the ability to process and distribute payroll checks could allow for inappropriate payroll transactions to be initiated and not detected. Mitigating controls in this instance could include requiring that a different District official approve time worked by employees and having the Superintendent certify biweekly payrolls. During our audit period, the District did not have any mitigating controls in place.

Due to these control weaknesses, we tested cash receipts and cash disbursements including payroll. Although our testing did not disclose any material discrepancies in the recording of receipts or disbursements or identify and improper payroll distributions, the failure to properly segregate duties increases the risk that errors and/or irregularities might occur and go undetected and uncorrected.

Recommendation

12. District officials should adopt policies and procedures to ensure that another District officer or employee reviews the work of the Treasurer.

Payroll

Salaries and fringe benefits make up 30 percent of the District's 2006-07 budget. It is therefore important that payroll functions be clearly defined through policy and procedures, and closely supervised to guard against fraud, errors and irregularities. District officials are responsible for establishing effective internal controls to prevent and detect errors and irregularities.

We reviewed key controls over the payroll process to determine if they were appropriately designed and operating effectively. Our audit disclosed internal control weaknesses including a lack of Board authorization for employment contracts for salaries, hourly rates and benefits; and a lack of attendance and leave time records. As a result, there is an increased risk that payments will be made or benefits will be granted contrary to the Board's intentions.

Authorization and Processing

Board authorization for salaries and wages should be documented by resolution, employee contract or collective bargaining agreement to communicate the Board's intent and provide a framework for compensation that is clearly understood. Compensation should be paid through the payroll process to reduce the risk that payments will be made in excess of the amounts intended by the Board.

The Board did not authorize employee contracts or ensure that all salaries and wages were paid through the payroll process. We reviewed employee payroll for the period September 16, 2005 to September 30, 2005 to verify that pay rates matched contractual agreements and that the Board had approved the salaries paid. This payroll totaled \$10,880 and included seven employees (three full-time teachers, a part-time nurse, a part-time speech therapist, a part-time art teacher and a part-time secretary). The pay rates and salaries for all seven employees were based on agreements, signed by the Superintendent. However, there was no documentation to indicate the Board had authorized the agreements, or separately authorized the pay rates and salaries paid.

We also reviewed payments to the Superintendent who worked part time and was paid \$14,553 for the 2005-06 fiscal year. Education Law provides the Superintendent is under the direction of the Board and shall be paid a salary fixed by the Board. Such contract is to be for a minimum of three years and a maximum of five years. Although Board meeting minutes stated the Board hired the Superintendent on November 4, 2003, he did not have an employment contract with the District and the minutes did not include details regarding his term

of employment, salary, hours to be worked or responsibilities. He also received his pay through bi-monthly claim vouchers rather than through the payroll process.

The failure of the Board to formally authorize employment contracts and pay salaries or wages through the payroll process can result in payments in excess of the amounts intended by the Board.

Records and Leave Time

A good system of internal controls requires that policies and procedures be adopted to require officials to maintain accurate and complete records of hours worked and leave time and that officials monitor the use of leave time to ensure that employees do not use more time than they have available. The amount of leave earned and used should agree with Board-authorized contracts or policies.

Records — Employees should maintain daily records of hours worked and/or absences to help supervisors and those who process payroll determine regular and overtime hours (if applicable) and update accumulated leave time balances. Attendance records should account for an employee's entire workday, including starting and ending times, leave charges, and meal times, and be approved by the individual that directly supervises the employee to certify that the services were actually performed.

The District did not adopt policies or procedures for attendance and leave time records. Although part-time employees used sign in sheets, showing starting and ending times each day, their sign in sheets were not reviewed and certified by the head teacher or other District official as to accuracy of hours and to authorize payment. We also found the three full-time teachers did not use attendance records.

The failure to maintain properly certified attendance and leave time records hinders the District's ability to account for the use of leave time and may lead to the District paying for services that were not actually performed.

Leave Accruals — Leave accruals represent time off earned by employees. The accumulation of leave time is driven by labor contracts and/or Board approved policies. Generally, employees earn a fixed number of days each year for vacation, illness, and personal use, and may be entitled to cash payments for all or a portion of accrued leave time when they leave service. Policies and procedures should be adopted to ensure that there is adequate supervisory oversight and that accurate leave time records are maintained to ensure that the use of leave time and any termination payments made are properly authorized and approved.

The District did not adopt policies and procedures, nor did the Board approve employment contracts to provide for leave time benefits. However, three teachers were allowed to take time off, with pay, provided they notified the Superintendent when they were going to be absent. Further, the Superintendent told us he did not keep records of the leave time taken by the teachers.

Due to the lack of policies, procedures, Board approved contracts and records, employees have no clear guidance as to their entitlement to paid leave for vacation, illness, and personal use; and there is an increased risk that employees will receive benefits to which they are not entitled.

Recommendations

13. The Board should authorize salary schedules for employees by resolution, employee contract, or collective bargaining agreement.
14. The Board should enter into a contract with the Superintendent for a fixed salary. Furthermore, the District should pay the Superintendent's salary through payroll instead of claim vouchers.
15. The Board should authorize employee benefits for employees including leave accruals.
16. The Board should ensure that compensation for time worked can be adequately substantiated by certified attendance records.
17. District officials should maintain leave time records and reconcile usage to amounts authorized annually.
18. The Board should adopt written policies and procedures to provide guidance for processing payroll and maintaining leave records.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Sagaponack Common School

P. O. Box 1500
Sagaponack, N.Y. 11962

January 8, 2008

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

Dear ██████████

This letter serves as our response and also our corrective action plan for the Sagaponack Common School audit process.

Below are the responsibilities of the Sagaponack Common School listed in order from the draft of the audit.

Excess Unreserved Fund Balance:

Along with the appropriation of \$200,000 to reduce the amount to be raised by taxes, the voters of the District authorized the establishment of a Capital Reserve fund in May of 2007, thus reducing the Unreserved Fund Balance to \$57,391 as of June 30, 2007.

We are aware that this amount is still in excess of the 3% allowed, but feel because of the size of our District it is an appropriate balance for unforeseen expenditures. (After the completion of our 2007-2008 budget, we were notified by our Bus Contractor, that a shared bus for Private school transportation with a neighboring District was not available and had to go out to bid on a bus of our own. This was a \$40,000 expenditure not included in our budget.)

Internal Controls-Cash Receipts & Disbursements:

The Secretary/District Clerk is now maintaining a log of all incoming checks received. She compares this log to the Monthly Treasurer reports submitted by the Treasurer.

All invoices are opened by the Secretary/District Clerk.

The Monthly Treasurer Reports includes detail of all receipts and disbursements for the month. It is submitted to the Board of Education at its monthly Board of Education Meetings. A detailed check listing is attached. Each member of the Board of Education approves every check prior to release. (The Board of Education did authorize the

payment of utilities, health insurance, payroll and other dated items prior to their approval. These bills are also included for their review at the monthly meeting.)

Tuition Billing:

The Board of Education due to an unexpected decrease in enrollment for the 2006-2007 school year opened enrollment to non-resident students in grades 1-4. Accepting tuition paying students is not necessarily part of the long range plan of the District. It is a temporary solution to maintaining the program at the Sagaponack School. The Board of Education initially adopted a tuition cost of \$2,500.00. Of the newly enrolled students several had a substantial financial need. The Board of Education rescinded the tuition cost for these students and to be fair rescinded the cost for all the new students. Due to the lateness of the registration and the fact that the budget for the 2006-2007 school year had already been established and that the new students would not increase staff or increase costs more than \$1,500.00, the Board of Education felt justified in not charging tuition.

For the school year of 2007-2008, the Board of Education again dealt with the tuition issue for non-resident students. While the Board of Education understood that they could apply the Seneca Falls Formula for tuition, they were aware that no surrounding district was using the formula for non-resident students. The sole intention of the Board of Education was to bring in new students. Using the formula would not suit the needs of the District. Therefore, the Board of Education established a tuition rate of \$2,000.00 for the first student in the family and a rate of \$1,000.00 per additional family member enrolled in the District. This policy would ensure real property taxes from Sagaponack District residents which are not used to subsidize cost of educating non-resident students. This policy ensures that the real property taxes collected from the Sagaponack residents, is not used to subsidize the cost of educating non-resident students.

The tuition was discussed at both a regular Board of Education Meeting and at a Site-Base Meeting.

The voters of the District supported the measures taken by the Board of Education and gave unanimous approval to the 2006-2007 and 2007-2008 budgets. It is the intent of the Board of Education to monitor the need for non-resident students, the cost for adding such students and the rate of tuition on a year-to-year basis.

Conflicts of Interest:

Custodial/Landscaping Services:

As of July 2007, the wife of a current Board member is now being paid as an employee of the District.

The District will be requesting proposal for Landscaping services in the spring of 2008.

Payroll:

Teacher Contract- District is in the process of drafting its own contract with the teachers of the District. It was past practice to utilize the East Hampton Union Free School District Contract.

Attendance- the District is now maintaining formal attendance records for its employees.

Salaries/Contracts- All salaries are approved by the Board of Education. They will be formally documented in the Board Minutes.

Timesheets- Approved by either the head teacher or secretary/district clerk.

Superintendents Contract- A formal three year contract will be drafted by June 30, 2008.

Board Policies:

The District has contracted with the New York State School Boards Association to prepare a formal Policy Manual for the District. This should be completed by the 2008-2009 school year.

General comment:

Due to the extremely small size of our District, it would be fiscally unfeasible to hire staff to provide proper segregation of every duty of the Treasurer and Secretary. The Board of Education and Head Teacher are very involved in the day to day operations of the District.

If you have any questions or require further information, please do not hesitate to contact me at 631-537-0651.

Sincerely,



Charles Barbour
Board of Education President

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected financial condition, non-resident tuition, internal controls over conflicts of interest, claims processing, cash receipts and disbursements, and payroll for further audit testing. During our examination, we:

- Examined recent annual financial reports (ST3) prepared by the Treasurer.
- Analyzed changes in fund balance.
- Reviewed and verified the surplus balance in the general fund.
- Reviewed budget preparation procedures.
- Interviewed District officials regarding procedures and policies for the budget process, non-resident students.
- Reviewed minutes of the Board meetings and requested the Board policy manual.
- Reviewed and analyzed enrollment and non-resident tuition rate information from District officials.
- Interviewed officials and employees regarding policies and procedures for purchasing and reviewed the formal policy for purchasing to determine if it adequately addressed the procurement of goods and services.

- Reviewed receiving documentation verifying the receipt of selected purchase items and looked for evidence that services were rendered.
- Examined paid claims for evidence of duplicated invoices, sufficient itemization, and agreement with authorized rates.
- Examined claims for evidence of audit and approval, including post audit of claims paid prior to audit.
- Looked for bid, quote and RFP documentation to determine that several sources were sought. We looked for evidence of purchases under state or county contract, from correctional institutions or from qualified, non-profit charitable agencies.
- Interviewed officials to obtain an understanding of the claims auditing process.
- Examined paid claims to contractual agreements to confirm rates and services.
- Verified that purchases were made, that goods were received and claims were processed as authorized.
- Examined claims, abstracts, vendor files, etc. for evidence of payments to municipal officers, employees (or relatives). We determined the nature of the payments and whether they were prohibited or required disclosure.
- Obtained conflict of interest forms from District officials and employees involved in purchasing and procurement.
- Reviewed cash receipt and cash disbursement procedures.
- Interviewed District officials and employees regarding policies and procedures for payroll processing.
- Reviewed Board minutes for contract and pay rate authorizations.
- Reviewed timecards, payroll journals, leave time records, and collective bargaining agreements for selected employees.
- Recalculated wage and salary payments, and compared them with accounting record listings and summary reports.
- Determined whether payments were made only for actual services rendered, and were properly recorded in payroll registers.
- Determined whether leave records were being properly maintained to account for leave time earned, used, and balances.
- Determined whether policies have been established to ensure the accurate recording of pay rates, daily attendance records, and leave accruals.

- Verified that pay rates and leave accrual entitlements have been properly authorized for all classes of employees.

We conducted our 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 C

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Steven J. Hancox, Deputy Comptroller
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