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January 14, 2010

Ms. Patricia Sullivan-Kriss, Superintendent
Members of the Board of Education
Hauppauge Union Free School District
495 Hoffman Lane
Hauppauge, NY 11788

Report Number: 2007M-143-F

Dear Superintendent Sullivan-Kriss and Members of the Board of Education:

One of the Office of the State Comptroller's primary objectives is to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their district's assets. In accordance with these objectives, we conducted an audit of the Hauppauge Union Free School District (District) to assess the financial operations of the District. As a result of our audit, we issued a report, dated November 2007, identifying certain conditions and opportunities for District management's review and consideration.

To further our policy of providing assistance to local governments, we revisited the Hauppauge Union Free School District in June 2009 to review the District's progress in implementing our recommendations. Our follow-up review was limited to interviews with District personnel and inspection of certain documents related to the issues identified in our report. Based on our limited procedures, it appears that the District has implemented all 16 of the audit recommendations.

Recommendation 1: Financial Condition

The Board should establish criteria to ensure that those responsible for the District's financial operations, specifically the Assistant Superintendent for Business and District Treasurer, possess the business knowledge and expertise to adequately perform their duties.

Status of Corrective Action: Fully Implemented

Observations/Findings: The District developed job descriptions with required qualifications for the positions of Assistant Superintendent for Business and District Treasurer, and hired qualified individuals to hold these positions. In March 2005, the Board appointed a Certified Public

Accountant (CPA) as District Treasurer. Prior to his appointment, this individual had experience as treasurer at other school districts. The Treasurer must also meet minimum qualifications to maintain his CPA license. In June 2006, the Board appointed an Interim Assistant Superintendent for Business who had over 26 years of prior school business administration experience. The Interim Assistant Superintendent for Business trained and mentored the current Assistant Superintendent for Business from June 2006 to June 2009 to ensure that he was properly trained to take over the position. The Assistant Superintendent for Business must also meet minimum qualifications to be certified in New York State to hold this title.

Recommendation 2: Financial Condition

The Board should require the Assistant Superintendent for Business and the District Treasurer to provide them with periodic reports that provide accurate and timely financial information needed to properly monitor revenues and expenditures and to help ensure that excessive surpluses do not recur.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Assistant Superintendent for Business and the District Treasurer provide the Board with budget status reports, including revenue and appropriation status reports, each month. The Board also receives fund balance projections beginning in February and a report of purchase orders generated after April 1 of each fiscal year. The District Clerk maintains a log listing all of the reports the Board received.

Recommendation 3: Financial Condition

The Board and the Superintendent should take steps to ensure that the year-end unreserved fund balance projection represents a realistic estimate of surplus funds available for appropriation to the ensuing year's budget.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Assistant Superintendent for Business prepares fund balance projections each year in February using actual and projected revenues and expenditures. Each month, he updates these projections to include actual revenues and expenditures to date, resulting in a more accurate projection of fund balance at the end of the fiscal year. He presents these fund balance projections to the Board each month, which enables the Board to monitor the amount of surplus funds that will be available at year end for appropriation to the ensuing year's budget. We reviewed the District's revenue and expenditure estimates and fund balance projections for the 2008-09 fiscal year and found them to be reasonable.

Recommendation 4: Financial Condition

The Board should limit the establishment of encumbrances to include only orders placed in the current year.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Board limits the establishment of encumbrances to include only orders placed in the current year. At June 30, 2008, the District reported a reserve for encumbrances of \$150,197. We reviewed purchases totaling \$132,272 associated with these encumbrances and found that all of the purchases reviewed were supported by orders placed during the 2007-08 fiscal year.

Recommendation 5: Financial Condition

The Board should ensure that District officials discontinue the practice of improperly encumbering unused balances remaining in budget lines at the end of a fiscal year in order to improperly reserve fund balance.

Status of Corrective Action: Fully Implemented

Observations/Findings: District officials discontinued the practice of improperly encumbering unused balances remaining in budget lines at the end of a fiscal year in order to improperly reserve fund balance. The Board now receives a monthly report of purchase orders generated after April 1. This enables them to monitor purchase orders established towards the end of the fiscal year and confirm that the year-end reserve for encumbrances only reserves fund balance for orders placed in the current year.

Recommendation 6: Financial Condition

The Board should establish legal reserves if they plan to use a portion of their unreserved fund balance to pay current and future years' expenditures.

Status of Corrective Action: Fully Implemented

Observations/Findings: During the 2005-06 fiscal year, the Board established legal reserves to pay current and future expenditures related to workers' compensation, general insurance, unemployment, repairs, retirement contributions, and employee benefit accrued liabilities.

Recommendation 7: Board Oversight

The Board should adopt written policies that establish control and direction over payroll, personnel, and cash receipts and disbursements. District officials are responsible for the development and implementation of procedures that support these policies. Such procedures should clearly define roles and responsibilities to guide District employees in the performance of their day-to-day duties and establish appropriate lines of communication.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Board adopted, and District officials implemented, written procedures over payroll, personnel, cash receipts, and disbursements in May 2008. These

procedures clearly define roles and responsibilities to guide District employees in the performance of their day-to-day duties and establish appropriate lines of communication.

Recommendation 8: Board Oversight

The Board should follow up on all recommendations made by their independent auditors and ensure that corrective action is initiated.

Status of Corrective Action: Fully Implemented

Observations/Findings: During the audit of the 2007-08 financial statements, the District's independent auditors made seven recommendations and followed up on the status of 25 prior-year recommendations. We reviewed the status of these recommendations and found that the Board has either implemented, or is in the process of implementing, corrective action on all current and prior-year recommendations made by their independent auditors.

Recommendation 9: Board Oversight

The District should continue to engage different firms or individuals to perform the duties of the claims auditor and the internal auditor to ensure independence.

Status of Corrective Action: Fully Implemented

Observations/Findings: As of July 1, 2006, the Board appointed different firms to perform the duties of the claims auditor and the internal auditor. They continue to engage different firms to perform these duties to ensure independence.

Recommendation 10: Segregation of Duties

The District should assign duties involving payroll, purchasing, and cash receipts and disbursements so that incompatible duties are segregated.

Status of Corrective Action: Fully Implemented

Observations/Findings: District officials reassigned the duties of some Business Office employees to segregate incompatible payroll, personnel, purchasing, cash receipts and cash disbursements duties. In addition, the Board adopted detailed written procedures for these Business Office functions. We interviewed Business Office employees and confirmed that their duties were segregated and that they were following written procedures.

Recommendation 11: Professional Service Contracts

District officials should verify that charges per invoices are cross-referenced with contracts and supporting documentation to guarantee that all invoices are accurate prior to any payments being made.

Status of Corrective Action: Fully Implemented

Observations/Findings: Two accounts payable clerks and the claims auditor cross-reference invoices with contracts and supporting documentation to ensure that payments are accurate before they are made. We reviewed five claims totaling \$62,881 paid to professional service providers (internal audit, independent audit, tutoring, and therapy services) during the 2008-09 fiscal year and confirmed that all of the invoices were cross-referenced with contracts and supporting documentation and accurate prior to payment.

Recommendation 12: Information Technology

The Board should adopt policies and procedures to review computer system user permissions to ensure that they match job functions on an ongoing basis. District officials should implement these policies and remove users who are no longer employed, deactivate user accounts when persons are on extended leave, and adjust permissions as employees' job descriptions change.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Board adopted policies and procedures to review computer system user permissions to ensure that they match job functions on an ongoing basis. The Assistant Superintendent for Business periodically reviews active users in the District's financial software to ensure that permissions are appropriately assigned and only active District employees have access. We reviewed the list of assigned users of the financial software and verified that the users were all current employees. We also compared the user permissions associated with these employees to their job descriptions and found that the user permissions were appropriately assigned.

Recommendation 13: Information Technology

The District should amend the procedures currently in place for adding new vendors to the financial software. These procedures should include verification that vendor information is accurate, complete, and not duplicated.

Status of Corrective Action: Fully Implemented

Observations/Findings: The District requires all vendors to provide the District with a W-9 form (request for taxpayer identification number and certification). The District's two accounts payable clerks fill out a form for each new vendor that needs to be added to the vendor master file. The Assistant Superintendent for Business verifies that the vendor information is accurate and complete by comparing the vendor information on the form to the information on the W-9. The vendor's federal tax identification numbers are then entered into the financial software. The financial software generates a warning if the vendor tax identification number already exists on the vendor master file to prevent a vendor from being duplicated.

Recommendation 14: Information Technology

District officials should require periodic reviews of the vendor master file to ensure that vendors that are no longer used by the District are deactivated and that vendor information is consistent and appropriate.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Assistant Superintendent for Business periodically reviews the vendor master file and inactivates any vendors that have had no activity with the District within two years. We reviewed the vendor master file and confirmed that there were a number of inactive vendors and no apparent duplicate vendors.

Recommendation 15: Information Technology

The Board should ensure that the internal auditor periodically reviews the audit logs generated by the financial software and reports the results of the review to the Board in a timely manner.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Board requires the District's internal auditors to periodically review the audit logs generated by the financial software. The District's information technology office sends the audit logs to the internal auditors each month. The internal auditors have prepared a draft report based on their review of the audit logs and the Board accepted this report on April 21, 2009.

Recommendation 16: Information Technology

The Board and District officials should develop and adopt a comprehensive IT policy relating to data backup and disaster recovery. District officials should also verify that backup data is periodically tested and restored to ensure that it is complete, accurate, and usable.

Status of Corrective Action: Fully Implemented

Observations/Findings: The Board adopted a comprehensive IT policy relating to data backup and disaster recovery on August 5, 2008. The Board adopted the related regulation on June 2, 2009. The financial software data is backed up at the District and is also backed up and tested at another location to ensure that the data is complete, accurate and usable.

We discussed the detailed results of our follow-up work with District management during the conduct of this follow-up review.

During our review, we discussed the basis for our recommendations and the operational considerations relating to these issues. We commend the District's efforts in implementing our recommended improvements in your fiscal management.

I trust that our follow-up review was of assistance to you. If you have any further questions, please contact Jeffrey P. Leonard, Chief Examiner at the Hauppauge Regional Office, at (631) 952-6534.

Sincerely,

Steven J. Hancox
Deputy Comptroller
Office of the State Comptroller
Division of Local Government
and School Accountability

cc: Mr. James Stucchio, Assistant Superintendent for Business
Mrs. Linda Ryczak, District Clerk