



Hempstead Union Free School District Internal Controls

Report of Examination

Period Covered:

July 1, 2002 - September 30, 2004

2005M-62



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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

September 2005

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where local governments can improve their operations and provide guidance and services that will assist local officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery and to account for and protect their governments' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Hempstead Union Free School District — Internal Controls.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, §1 of the State Constitution and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by the School District Board of Education.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Hempstead Union Free School District (District), located in Nassau County, had an enrollment of more than 7,000 students in ten schools during the 2003-2004 school year. Class sizes were relatively large, averaging 25 students per class, and the graduation rate of 41 percent is significantly below the State average of 67 percent. More than 70 percent of the students were eligible for free or reduced price lunches during the 2002-2003 school year. During the 2003-2004 school year the District had approximately 1,100 employees and operating expenditures of approximately \$113 million.

In addition to high student needs and poor performance, the District has recently been dealing with other hurdles. Conflicts among the District Board of Education (Board) members at public meetings is widely known in the community and published in local newspapers. On a number of occasions, Board meetings had to be cancelled at the last minute due to the lack of a quorum. Two elementary schools were closed because of deteriorated physical conditions. Large numbers of students now attend classes in more than 50 portable classrooms most of which are leased by the District at a total cost of \$372,000 per year.

Scope and Objectives

The objectives of our audit were to examine the District's control environment as well as the internal controls over cash receipts and disbursements, payroll, purchasing, and capital assets and inventories for the fiscal years ended June 30, 2003 and June 30, 2004 to determine whether they were adequately designed and operating effectively. The scope of our audit related to the control environment and purchasing was limited to the extent that we did not receive a response from three members of the Board and a former Superintendent to our request for disclosure of interest in contracts with the District.

Our audit addressed the following questions:

- Did the Board provide a control environment conducive to ensuring that all employees follow District policies and procedures?
- Were internal controls over purchasing, capital assets and inventories, cash receipts and disbursements, and payrolls appropriately designed and operating effectively?

Audit Results

We found that controls do not exist over most of the District's operations and that any number of District employees can purchase supplies or services totaling thousands of dollars with no central oversight or approval. This random and uncontrolled use of the District's funds occurs at a time when District school buildings have closed or are in significant need of repair; classrooms are overcrowded; and many students are housed in inadequate, temporary classroom space. Examples of poor controls over District expenditures between July 1, 2002 and June 30, 2004 include:

- \$2.3 million paid for leasing, installing and relocating portable classrooms that are necessary because of the District's failure to maintain and provide adequate facilities for its students. Some of these portable classrooms have been in use for 40 years.
- \$1.1 million paid to three employment agencies for temporary employees. The District hired nurses, word processors, and stock clerk/laborers as temporary employees. We found no evidence that District officials had determined that hiring temporary employees was cost effective or that they had requested proposals from various providers of these services. These temporary employees were hired throughout the District without any evidence of pre-approval by the Board or the District's business office.
- \$900,000 paid on 18 professional service contracts that were awarded without benefit of competitive proposals. In addition, we found that certain professionals were paid more than the amounts specified in their contracts or Board resolutions, and certain contracts did not adequately delineate the services to be provided. For example, one consultant was paid a total of \$22,000 as a "consultant of community relations" at the rate of \$500 per day. There was no description of the services that would be provided in this capacity.
- \$400,000 in vendor contracts that were not advertised for bids in accordance with law and District policy. For example, the District paid two vendors over \$100,000 during the two years ended June 30, 2004, for bottled water for students and District employees without the benefit of competitive bidding. When the District finally competitively bid the contract for water in October 2004, the District cut its per bottle cost in half.
- \$117,145 paid to three Assistant Superintendents, a District Treasurer and a District Clerk for accrued and unused leave time upon termination of services with the District, even though there was no contract or Board resolution entitling them to such payment.
- \$73,000 in cell phone costs, much of it when users significantly exceeded the monthly plan minutes. For example, the cell phone bill for July 2003 was \$4,840. One Board member used her cell phone a total of 4,545 minutes (an average of 2.5 hours per day, including weekends) on 1,006 calls (an average of 36 calls per day). The cost associated with this Board member was \$1,184. There was no indication that the Board member was asked to account for the excessive usage or to reimburse the District for any personal use.

- \$45,000 in credit card charges that did not have itemized receipts or invoices. For example, a claim paid by the District for credit card charges totaling \$5,091 for expenses incurred by several District officials during November 2002, was not supported by any paid bills or receipts. The expenses were primarily for airfare, lodging and meals in Atlanta, Georgia.
- \$1,582 of personal expenses that were charged by several District officials to their school credit cards. The personal expenses included meals unrelated to District business, purchases of clothing, etc. We noted that one of the members of the Board eventually reimbursed the District \$1,485 for his expenses, but \$97 of personal expenses incurred by other officials was never repaid.

Further evidence of poor management control and oversight of District operations includes:

- The District did not maintain inventory records of capital assets that are valued at nearly \$30 million. As a result we could not locate nearly half of a sample of recently purchased equipment items that we tried to locate. These missing sampled items, valued at nearly \$27,000, included computers and other equipment.
- More than half of all purchase orders we tested were confirming orders. Confirming orders were issued after verbal orders had already been placed with vendors, usually by employees outside the purchasing function. For example on August 2, 2002, the District paid a vendor \$10,685 for clothing and various supplies. Purchase orders supporting this payment were dated July 26, 2002. However, invoices submitted by the vendor were dated between September 2001 and January 2002.
- There were numerous discrepancies between the amount of money recorded as received in the various cafeterias in the District and the amount of money actually deposited in the District's bank accounts. Cash register tapes for cafeteria sales did not agree with bank deposits for 43 of 46 days we tested. For example, on February 3, 2003, cash register tapes totaled \$2,036, but only \$1,484 was deposited to the school lunch fund bank account.
- Generally, payroll records only show full day absences and do not record when employees are absent part of the day.

The Board has not provided a control environment conducive to ensuring that all employees follow District policies and procedures. A combination of infighting and inaction has prevented the Board from resolving various problems that plagued the District. Board vacancies have not been filled and management turnover has been significant. The Board failed to approve the tentative budget for the 2005-2006 school year on time, and the budget they adopted was \$700,000 more than the budget submitted to State Education Department. During a three week period in 2005 the District was unable to pay its bills because the Board failed to timely replace the internal claims auditor.

Taxpayers and students of the District have suffered the consequences of the Board's failure to fulfill their obligations. During our audit period, two school buildings were forced to close due to their deteriorated condition. The Board failed to re-submit to the voters a previously defeated bond issue designed to resolve this problem because only two Board members (one short of a quorum) showed up for a meeting that was called to take the action necessary for the resubmission. As a result, the District's school buildings are overcrowded and students are housed in more than 50 portable classrooms that are costing the District significant amounts of money.

We have received various complaints alleging criminal misconduct in the District and our Division of Investigations is working on these matters with the Office of the Nassau County District Attorney. This report is also being referred to the District Attorney's Office for their review and consideration. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

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 Hempstead Union Free School District (District), located in Nassau County, covers an area of approximately 4 square miles. During the 2003-2004 school year, the District had an enrollment of more than 7,000 students in ten schools, including an early childhood center, a pre-kindergarten school, six elementary schools, a middle school and a high school. Class sizes were relatively large, averaging 25 students per class and the graduation rate of 41 percent is significantly below the State average of 67 percent. More than 70 percent of the students were eligible for free or reduced price lunches during the 2002-2003 school year. The Board of Education (Board) has overall responsibility for District operations. The Superintendent of Schools and other administrative staff have responsibility for overseeing and managing the District's daily operations. During 2003-2004 the District had approximately 1,100 employees and operating expenditures of approximately \$113 million. The major revenue sources for the District are real property taxes and State aid, and the major expenditures are employee salaries and related fringe benefits.

During December 2004, a State Education Department (SED) team conducted a multi-program site visit consistent with the Department's responsibility for the general management and supervision of all public schools. SED issued their report in April 2005 and identified a number of serious issues including: poor academic performance, problems with the physical plant, a dysfunctional Board of Education and food service deficiencies.

In addition to high student needs and poor performance, the District has recently been dealing with other hurdles. Conflicts among Board members at public meetings is widely known in the community and published in local newspapers. On a number of occasions, Board meetings had to be cancelled at the last minute due to the lack of a quorum. Two elementary schools were closed because of deteriorated physical conditions. Large numbers of students now attend classes in more than 50 portable classrooms most of which are leased by the District at a total cost of \$372,000 per year.

Objectives

The objectives of our audit were to examine the District's control environment as well as the internal controls over cash receipts and disbursements, payroll, purchasing, and capital assets and inventories to determine whether they were adequately designed and operating effectively. Our audit addressed the following related questions:

- Did the Board provide a control environment conducive to ensuring that all employees follow District policies and procedures?

- Were internal controls over purchasing, capital assets and inventories, cash receipts and disbursements, and payrolls appropriately designed and operating effectively?

**Scope and
Methodology**

During this audit we examined the control environment and the internal controls over cash receipts and disbursements, payrolls, purchasing, and capital assets and inventories of the District for the period July 1, 2002 to September 30, 2004. The scope of our audit related to the control environment and purchasing was limited to the extent that we did not receive a response from three members of the Board and a former Superintendent to our request for disclosure of interest in contracts with the District.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. 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, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing your plan of action, you may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District Clerk's office.

Internal Controls

An internal control system is the integration of the activities, plans, attitudes, policies and efforts of the people of an organization to provide reasonable assurance that the organization will achieve its objectives. The foundation of any internal control system is an effective control environment. Having a good control environment also helps ensure that all employees follow District policies and procedures. Our examination concluded that the Board did not provide a control environment conducive to ensuring that all officials and employees follow District policies and procedures.

The Board is responsible for establishing a good internal control system. Factors that determine the control environment or “tone at the top,” include: the Board’s philosophy and operating style, the extent of the Board’s involvement in District operations, and the competence and integrity of management. The Board needs to take timely and decisive action to maintain a positive “tone at the top” and all its members need to fulfill their responsibilities to avoid significant financial and educational costs to the District.

Residents, District officials and other parties complained to us prior to and during our audit regarding corruption, mismanagement, and even physical assault by Board members. In addition, Board members have publicly traded allegations among themselves. One Board member stated that the Board has lost all ability to function and govern. District officials, including at least one Board member, accused another Board member of misusing his District credit card, illegally accepting money from vendors, and stealing an ATM card from an elementary school principal. This Board member was convicted of stealing the ATM card and subsequently removed from office in June 2005. The former Board member alleges that one of his accusers is guilty of sexually harassing a female staffer. A Board member has been accused of neglecting to perform basic duties and he in turn has accused a former Board member of kicking him during a Board meeting.

During our audit period, Board meetings were characterized by divisive attitudes and poor Board members attendance. Board meetings often deteriorated into name-calling and finger pointing sessions. On several occasions, certain Board members threatened physical action against other Board members and/or members of the public. It is important for Board members to work together to achieve stability for the District. Because the Board has not acted responsibly to find solutions to the District’s problems, the taxpayers and students of the District have suffered the consequences of

the Board's failure to fulfill their obligations. Board vacancies have not been filled; District school buildings have closed or are in significant need of repair; classrooms are overcrowded; significant money is being spent on inadequate, temporary classrooms; and management turnover has been significant. All of this is largely attributable to the Board's irresponsible behavior.

Board Attendance - The Board has five members who are elected by District residents. Attendance at regular Board meetings dropped significantly during the two complete school years ended June 30, 2004, when compared to the prior school year. Between July 2002 and June 2004, attendance averaged only approximately 76 percent. Of the 54 Board meetings scheduled for that period, two had to be cancelled because there was no quorum (three Board members) and only three members were present at 15 meetings; therefore, the affirmative vote of all three members was necessary in order to pass any Board resolutions.

On August 8, 2003, the Board removed one of its members because of her misuse of a District credit card for personal expenses. Education Law, § 1709 (17) states that the Board has the duty to fill any vacancy which may occur by reason of the resignation or removal from office of any of its members. However, her replacement was not appointed by the Board until seven months later, on March 9, 2004. The Board's failure to timely replace this member contributed to the poor attendance at the Board's meetings.

Other examples of the Board's behavior that negatively impacted District operations include:

- At the April 20, 2005 meeting, the Board voted to remove the Board President and to replace him with a newly elected Board member. The Board's lawyer declared that the Board had not followed "due process" because Education Law requires the Board to submit written charges ten days in advance of such action, and a public hearing. However, just six days later, the Board ousted the President again and appointed another Board member as President. During May 2005, the Board submitted formal charges against the former Board. On May 25, 2005, the County Supreme Court granted a temporary injunction stopping the Board from proceeding with their formal action to remove the former President. The former Board President has filed notice of claim that he intends to sue the District for \$10 million for publishing false and defamatory statements about him.
- While Board members were busy attempting to replace the Board President, they failed to approve the tentative school budget for the 2005-2006 school year by April 25, 2005, as required by law. On

April 26, 2005, the Board finally approved a \$128.3 million proposed budget. However, this budget was approximately \$700,000 more than the \$127.6 million budget submitted to SED earlier in the day. There was no indication that the Board ever considered or voted on the smaller budget.

- On April 30, 2005, the employment contract with the District's internal auditor expired and was not renewed. A new internal auditor was not appointed until May 19, 2005. As a result, for almost three weeks the District did not pay any bills that required audit and approval prior to payment. The failure to pay bills timely can result in the imposition of late charges and the inability to obtain discounts for prompt payment. Late payments can cause the District to earn a poor reputation among vendors, and result in fewer vendors willing to do business with the District.

School Buildings - In the midst of the Board's difficulty in obtaining a quorum at Board meetings, an elementary school building was forced to close due to its severely deteriorated conditions and safety concerns. The closure was announced at an emergency Board meeting on September 8, 2003, the beginning of the school year. Students who were scheduled to attend that school were transferred at the last minute to other schools in the District, or were required to attend classes in one of the many portable classrooms leased by the District.

The Board adopted a bond resolution in July 2003 for \$177 million to finance the demolition and reconstruction of two school buildings and the expansion of eight others to meet the needs of a growing student population. The bond issue was voted down by a margin of two percent (783 no votes to 753 yes votes) on December 11, 2003. According to law, the District had 45 days in which to submit the bond issue for a re-vote. A Board meeting was scheduled for January 26, 2004 so the Board could act to resubmit the bond issue to voters. However, the meeting was cancelled due to the lack of a quorum. As a result, the Board was unable to take timely action to resubmit the bond issue to voters. As of May 27, 2005 the bond issue had not been resubmitted to voters, the two elementary school buildings remain closed and the Board has not taken the action necessary to either renovate or reconstruct the two elementary schools or expand the other school building.

In April 2004, the SED Office of Facilities Planning visited the District and determined that the District was not in compliance with the Commissioner's regulations for school building maintenance. The SED found that the District did not have a maintenance program or maintenance logs and criticized the District for the deteriorating conditions in various school buildings, fire hazards

and overcrowding. Even after the deterioration was observed, the Board did not take the necessary action to ensure that the structures were repaired.

Education Law, § 1708 requires the Board to annually evaluate and report on the condition of every school under its supervision. Although District officials informed us that evaluations were conducted annually, the District did not have documentation for annual evaluations during our audit period. If adequate evaluations had taken place each year, the Board should have been able to anticipate the need for repair and/or renovation of school buildings and thus preclude the need for last minute closures due to unsafe or unsanitary conditions. The Board should have been aware of the condition of the buildings that were closed in 2003 and 2004, rather than being caught off guard. If timely action had been taken to repair/renovate the buildings, there would not have been the need for last minute transfers of students to other building or the need to lease additional portable classrooms.

Some of the students who were attending the schools that were closed transferred to other elementary schools, resulting in overcrowded conditions such as those noted in the SED report. Other students were transferred to portable classrooms. Prior to the school closures, the District was using 44 portable classrooms, primarily for instructional purposes. The District purchased 12 of these classrooms between 1965 and 1987. The other 32 classrooms have been leased by the District, some for as long as 18 years. As a result of the school closures, the District needed to relocate eight existing portable classrooms and lease 14 new portable classrooms. The District now owns or leases 58 portable classrooms.

According to District records, during the summer of 2004 the District paid approximately \$1.9 million for relocation and installation of 22 portable classrooms. In addition, the District pays over \$370,000 a year to lease portable classrooms. The District officials indicated that certain of the older portable classrooms are “maintenance nightmares” due to their poor physical condition. The portable classrooms were intended as temporary facilities, but are being used beyond their normal useful life. There are problems with leaks, bug infestations, air conditioning, heating and lighting. We were unable to quantify the cost of maintaining these facilities because accounting records for repair and utility costs are not segregated by building.

Management Turnover – For the ten months ending May 2005, the District employed a total of five different Assistant Superintendents for Business. In August 2004 the Assistant Superintendent resigned her position. The Board appointed an interim official, who served in the position for approximately three months. Another interim was appointed in November 2004 and served

for approximately three months. Both interim appointees informed us that their resignations were prompted by the adverse conditions imposed by the Board. After six weeks without an Assistant Superintendent for Business, another Assistant Superintendent was appointed but served for only three days. The Board appointed the fifth full-time Assistant Superintendent in March 2005.

On October 21, 2004, the Board fired the District Superintendent and replaced him with the prior District personnel supervisor, who had recently been fired by the Superintendent. The Board's attorneys resigned the following day after they were shouted down at the Board's meeting by three members who refused to let the attorneys offer an opinion as to the legality of their action. Although the State Education Commissioner rescinded the Superintendent's firing, the Board subsequently suspended the Superintendent. In accordance with the provisions of his contract, the Superintendent was paid his regular salary of \$7,992 each bi-weekly pay period through March 2005, a total of \$74,347 during his suspension.

Recommendations

1. The Board should adopt proper governance policies to guide its own actions. These policies should include monitoring Board members attendance, taking actions to remove non-attending members, and promptly filling any vacancies that occur.
2. The Board should require thorough periodic evaluations of District buildings to facilitate timely planning for repairs and renovations.
3. The Board should take steps to address the lack of sufficient useable permanent classroom facilities to preclude the need for portable classrooms.
4. The Board should take appropriate action to retain administrative personnel to maintain consistency and provide stability to the District. Essential positions such as the internal auditor and the Assistant Superintendent for Business should not be permitted to remain unfilled for extended periods of time.
5. Tentative budgets should be approved timely, before they are submitted to SED.

Questionable Costs

The Board and other members of District management must establish the proper controls to ensure that District assets and resources are safeguarded and used properly and effectively. To achieve these goals the District must establish adequate policies and procedures. In addition, management has to ensure that all officials and employees comply with the policies and procedures.

We identified questionable expenses incurred by the District, Board members, officers and employees. In certain instances, the District did not have adequate policies or procedures concerning termination payments, meals and refreshments, credit cards, travel and cellular phones expenditures. Even when policies had been established, District officials did not necessarily comply with them.

Termination Payments

To ensure that administrative personnel receive the leave benefits the Board intends for them, individual employee contracts must state the employee's right to accrue, use or receive payment for leave time. In addition, payments for unused leave time to District officials and staff upon leaving District service should be made only if authorized by employee contracts, collective bargaining agreements or District policy. District-wide policies, collective bargaining agreements and/or individual employee contracts should stipulate entitlement to the accrual, use and payment of leave time by officials and employees. In order to prevent overpayments, District officials must comply with contractual provisions when calculating termination payments for officials and employees.

The District did not have policies and procedures to ensure that Board resolutions or employee contracts were in effect prior to approving termination payments. As a result, we found that three Assistant Superintendents, a District Treasurer and a District Clerk were paid a total of \$117,145 for accrued and unused leave time upon termination of services with the District, even though there was no contract or Board resolution entitling them to such payment.

Employees in the payroll department informed us that these five employees were granted leave time at the rate applicable to the administrative employees' collective bargaining agreement. However, we did not find any authorization to pay them for unused leave time upon termination and question whether they were entitled to receive such compensation. Following are some details about the payments made to the five individuals:

- The Assistant Superintendent for Business left the District on August 6, 2004. The Board resolution appointing her did not indicate that she would be entitled to earn leave time or be paid for accrued leave

upon termination. On July 28, 2004, the Assistant Superintendent sent a memo to the Superintendent asking that she be paid for 91 days of sick leave, 23 days of vacation leave and 6 days of personal leave at \$625 per day (her daily rate of pay). She was not entitled to payment for these 120 days. The Superintendent authorized the payment of \$75,000 for 120 days of leave time on July 28, 2004, by initialing the memo.

Even though there was no proper authorization for her to receive any compensation for accrued and unused leave time, if her employment had been covered by the administrative employees' collective bargaining agreement she would have been entitled to payment for the following: 75.5 days of sick leave at \$100 per day and 2 days of vacation leave at \$625 per day, for a total of \$8,800, or \$66,200 less than she was paid. There is no provision in the administrative employees' contract for payment of accrued but unused personal leave.

- The Assistant Superintendent for Grants left the District in June 2003. She had been appointed by a Board resolution which established her salary, but did not indicate that she would be entitled to earn leave time, or be paid for accrued leave upon termination. On July 23, 2004, she was paid \$24,310 for 39 days of accrued but unused vacation leave in accordance with a Board resolution dated June 21, 2004. However, leave accrual records indicated that she had no available vacation, sick or personal leave credits when she left the District. District officials could not explain why the payment was authorized.
- The District Treasurer left the District on June 30, 2004. On July 23, 2004 she was paid \$6,785 for 61 days of accrued and unused leave time. However, employee leave records indicate that she had 41.5 days of accrued sick leave and 5 days of accrued vacation leave at June 30, 2004. The District had no records indicating that she was entitled to earn leave time, or to be paid for accrued and unused leave upon termination.

Even though there was no proper authorization for her to receive any compensation for accrued and unused leave, if her employment had been covered by the administrative employees' collective bargaining agreement, she would have received \$4,932, or \$1,853 less than she was paid. Her termination payment was determined and authorized by the prior Assistant Superintendent for Business. Current District officials were unable to provide us with an explanation for the calculation.

- An Assistant Superintendent for Personnel was fired effective September 13, 2004, and subsequently paid \$5,875 for four unused sick days and six vacation days. Under the collective bargaining agreement, this official would have been entitled to no more than \$3,925 (four sick leave days at \$100 per day and six vacation days at \$587.50 per day), or \$1,950 less than she received from the District.
- On July 23, 2004, the District Clerk received payment of \$5,175 for 21 days of accrued leave time. Although the Clerk would have been entitled to this payment under the administrative employees' collective bargaining agreement, the Clerk was not covered by such agreement. The resolution appointing the Clerk did not include reference to leave accruals or entitlement to payment for accrued leave upon termination of services.

Meals and Refreshments at District Meetings

The Board may, by resolution, authorize any Board member, officer or employee to attend a conference. The District may pay actual and necessary expenses for meals incurred in connection with such attendance after audit and allowance of a properly itemized claim. The District may also provide meals and refreshments at meetings when a pressing need to complete official business prevents District officers or employees from taking time off during mealtime. Generally, the Board should only consider meals provided at meetings necessary when District officials travel outside of their regular work areas on official business for extended periods, or where events prevent them from taking time off during mealtime. To help control these expenses, the Board should have a written policy for meals and refreshments at District meetings, requiring officials to document who attended the meetings and how the meetings fit these conditions.

The Board did not have a written policy outlining when it is appropriate to provide meals and refreshments to officials and employees attending District meetings. The District expended \$172,120 for meals and refreshments at 396 meetings or events during our audit period, including:

- \$67,931 at 80 events primarily for students or the public,
- \$83,313 on 240 occasions for employees and officials and
- \$20,875 on 76 occasions where we were unable to determine whether attendees were students and teachers, or employees and officials.

Vendors' claims did not always describe the purpose of the events, who attended the meetings and the reason why the attendees needed food and refreshments to conduct District business. For example, the District paid a catering service \$6,908 for a total of 2,140 breakfast and lunch meals served at various District buildings between August 26, 2002 and September 4, 2002. The supporting documentation attached to the claim included only the vendor's invoice and District prepared requisitions that did not indicate who attended the meetings or why food and refreshments were required. Since school was not in session during this time period, we question the need for such an excessive number of meals.

Credit Cards and Travel Expenses

While the Board adopted written policies concerning travel and conference expenses and the use of District credit cards, managers and members of the Board did not always comply with these policies. During our audit period, the District expended a total of approximately \$263,000 on travel related expenses for members of the Board, managers and District employees. We examined more than \$60,000 in travel and conference expenses incurred by managers and members of the Board.

Credit Cards - School districts may only pay the authorized, actual and necessary expenses of officials incurred in the performance of their official duties. There is no authority to pay for personal expenses charged to District credit cards, even if the officials reimburse the District. Although the District's policy states that the use of credit cards for other than District business is not authorized, we found that several District officials used the credit cards for personal business. Of the \$52,600 in credit card charges incurred during our audit period, \$1,582 related to personal expenses incurred by several District officials. The personal expenses included meals unrelated to District business, purchases of clothing, etc. We noted that one of the members of the Board eventually reimbursed the District \$1,485 for his expenses, but \$97 of personal expenses incurred by other officials was never repaid.

The District's policy requires that proper documentation and receipts accompany each claim for credit card charges. However, the District paid claims containing credit card charges totaling approximately \$45,000 that did not have itemized receipts or invoices. These charges were primarily for travel related expenses and local meal expenses of District officials. For example, a claim paid by the District for credit card charges totaling \$5,091 for expenses incurred by several District officials during November 2002, was not supported by any paid bills or receipts. The expenses were primarily for airfare, lodging and meals in Atlanta, Georgia.

District officials told us that, because they feared late payments would result in finance charges and the possible cancellation of credit cards, they paid the credit card claims quickly and did not wait for District officials to submit supporting documentation. After the claims were paid, the business office requested supporting documentation, but District officials rarely submitted it. As a result, credit card claims were audited and approved for claims for payment even in those instances when supporting documents were not attached.

The failure to obtain and retain itemized receipts and invoices and then reconcile them with the credit card statements prior to paying claims is a serious internal control weakness that could result in the District paying inappropriate expenses.

Until February 2004, District credit cards were assigned to and used by the Superintendent, members of the Board and the District Clerk. District officials informed us that they had reevaluated the benefits and risks of District credit cards and cancelled all but one, for the Superintendent, effective February 2004.

Travel Expenses - The Board did not set a per diem allowance for lodging expenses. Some local governments have opted to set reasonable maximum per diem allowances for lodging (e.g. rates established by the Internal Revenue Service for business travelers). The District paid hotel expenses that exceeded the Federal per diem reimbursement rates on 36 of 70 conference related claims we tested, by amounts ranging from \$3 to \$89 per night. For example a former Assistant Superintendent stayed in Saratoga for a 2004 conference. While the Federal per diem rate in Saratoga at that time was \$75 per night, the District paid for a hotel room costing \$137 per night.

Cell Phones

District owned cell phones should be used only for District business. Any personal use should be prohibited. The District did not have a policy for cell phones until January 11, 2005, although the number of cell phones fluctuated from 16 in August 2002 to 34 in August 2003. Cell phones were assigned to Board members, the Superintendent, Assistant Superintendents, directors, principals, and various other employees. During our audit period, the District spent approximately \$73,000 on cell phone charges.

We found that certain cell phone users exceeded their monthly plan minutes by significant amounts, leading to extra charges. For example, the cell phone bill for July 2003, was \$4,840. One Board member used her cell phone a total of 4,545 minutes (an average of 2.5 hours per day, including weekends) on 1,006 calls (an average of 36 calls per day). The cost associated with this

Board member, \$1,184. There was no indication that the Board member was asked to account for the excessive usage or to reimburse the District for any personal use.

In January 2005, after noting the excessive usage, the Board adopted a cell phone policy. The District's business office is now responsible for monitoring cell phone use, and usage in excess of the allowed plan minutes will be billed to the user. In addition, cell phone users are required to reimburse the District for non-business related use. The new policy has had a positive effect on cell phone costs. Cell phone expenditures, which had averaged approximately \$3,190 per month in the fiscal year ended June 30, 2004, decreased to about \$1,970 per month during the first nine months of the 2004-2005 school year. In addition, most of the monthly plans for District cellular phones were changed to less expensive packages and the total number of phones was reduced.

While the new cell phone policy has reduced the District's costs, it is important that the Board and District officials monitor, enforce and comply with it. The April 2005 cell phone bill for \$2,138 included charges totaling \$718 for excess minutes, and \$114 for long distance phone calls. Three Board members accounted for \$425 of the excess minutes charges. However, no District records indicated that any Board member, District official or employee had been billed for excess minutes or for personal phone use. As of May 27, 2005, only one individual had reimbursed the District \$5.60 for personal calls.

Recommendations

6. The Board should ensure that termination payments made to District officials comply with the provisions of their employment contracts or Board resolutions. Contracts or Board resolutions should be prepared for all officials indicating the leave time they are entitled to earn and the basis for compensation for any accrued and unused leave time upon termination.
7. The Board should amend payroll policies to include procedures for verifying and approving termination payments. The approval of the internal claims auditor, or the Board should be required prior to payment.
8. The Board should examine termination payments made to various District officials between July 2003 and September 2004. If it determines that any of these payments were not in accordance with the terms of the officials' employment contracts, the Board should take appropriate steps to recover these funds.

9. The Board should adopt a written policy for meals and refreshments at District meetings. The policy should require officials to document who attended the meeting, the purpose of the meeting and how the meetings fit the conditions of its policy.
10. The internal claims auditor should require that every claim contain supporting documentation to determine that it complies with District policies, and that amounts claimed represent actual and necessary District expenses. The Board should review payments for credit card charges and demand reimbursement for personal charges.
11. The Board should consider establishing reasonable maximum per diem rates for lodging that officials may not exceed without approval. The Board, or the internal claims auditor, should monitor whether officials and employees follow Board policies concerning travel and conference expenses and meal reimbursements.
12. The Board should ensure that a cost-benefit assessment of cell phones used by District officials is conducted. This assessment should include a determination of who requires a cell phone. The Board should ensure that cell phone usage is monitored to ensure compliance with the policy. Procedures should be implemented to identify charges for personal calls and obtaining reimbursement. The Board should seek reimbursement for the cost of calls made for non-District purposes.

Claims Processing and Procurement

Another important component of the District's internal controls relates to policies and procedures governing claims processing and procurement. In general, the objectives of claims processing are to ensure that every claim contains enough supporting documentation to determine that it complies with District policies, and that the amounts claimed represent actual and necessary District expenses. The objectives of a procurement process are to obtain services or buy materials, supplies and equipment of the right quality in the right quantity from the right source at the right price in compliance with all the applicable Board and legal requirements. This helps ensure that taxpayer dollars are spent efficiently.

The Board adopted policies relating to purchasing and claims processing. However, we found that internal controls were not operating effectively which could result in undetected errors and irregularities. In addition, the failure to follow existing policy requirements led to questionable payments.

Claims Processing

Education Law requires that claims should not be paid unless a properly itemized voucher, approved by the officer or employee whose action gave rise to the claim, has been audited and ordered paid by the Board. The primary purpose of the department head or other District official's signature is to provide assurance that the claim is a proper District charge. Documentation of a claims processing system should be sufficient to show that payments are made in accordance with statutes and regulations and approved for payment by the District's Internal Claims Auditor.

The District's purchase order system did not operate effectively. The District's purchasing policy requires that purchase, professional service and public work contracts be entered into only after the issuance and approval of a purchase order. However, we found that 55 of 94 purchase orders tested were confirming orders issued after verbal orders had already been placed with vendors. For example on August 2, 2002, the District paid a vendor \$10,685 for clothing and various supplies. Purchase orders supporting this payment were dated July 26, 2002. However, invoices submitted by the vendor were dated between September 2001 and January 2002. The purchase orders did not indicate that they were confirming and there was no indication that these were emergency purchases.

The failure to appropriately use purchase orders limits management's ability to exercise timely, effective budgetary control and to prevent unauthorized purchases. It also reduces management's ability to properly plan and

coordinate procurement of goods and services. The practice of allowing goods to be ordered verbally, subject to subsequent confirmation by a written purchase order, should be limited to circumstances where there is a need for immediate action and should not be used as a substitute for proper planning.

Also, the District's purchasing policy does not require the employee or official receiving goods or services to sign delivery slips to attest that goods or services were received as ordered. All of the 100 claims that we tested lacked evidence that they had been received as ordered by the department head or other District official who had initiated the request for goods or services.

Competitive Bidding

General Municipal Law and the District's policy require that purchase and public work contracts, when they exceed in the aggregate \$10,000 and \$20,000, respectively, during a fiscal year, be publicly advertised for bids and awarded to the lowest responsible bidder. In determining the necessity for competitive bidding, the aggregate amount to be expended for an item or service in a fiscal year must be considered. Generally, items or services of the same or similar nature which are customarily handled by the same vendor should be treated as a single item for the purpose of determining whether the dollar threshold will be exceeded. Competitive bidding provisions should be followed to help assure the prudent and economic use of public moneys and to facilitate the acquisition of goods and services of required quality at the lowest cost.

During our audit period the District entered into over \$400,000 in contracts that were not advertised for bids in accordance with law and District policy.

- After the District received quotes from three security firms, the Board, by resolution dated November 12, 2003, awarded a contract for foot and vehicle security patrols without the benefit of competitive bidding. During the 2004 fiscal year, the District paid \$153,325 for these services. District officials informed us they were not aware that the purchase of security guard services was subject to the competitive bidding requirements of General Municipal Law.
- The District paid two vendors \$26,132 during the fiscal year ended June 30, 2003, and \$21,018 during the fiscal year ended June 30, 2004, for dry cleaning uniforms for the band and security guard. The District purchasing agent could not explain why these services were not advertised for bids.
- The District paid two vendors \$64,489 during the fiscal year ended June 30, 2003, and \$38,421 during the fiscal year ended June 30, 2004, for bottled water for students and District employees without

the benefit of competitive bidding. In October 2004, the Board awarded a contract for the purchase of bottled water for the fiscal year ended June 30, 2005, to the vendor submitting the lowest bid in response to a public advertisement for bids. The contract awarded in October 2004 resulted in the District paying \$2.49 for each five-gallon bottle of water, representing a 50 percent cost reduction.

- The District paid \$47,874 during the fiscal year ended June 30, 2003, and \$73,351 during the fiscal year ended June 30, 2004, for office furniture. The purchasing agent told us that the prior Superintendent personally placed an order for office furniture costing \$43,230 during the fiscal year ended June 30, 2004, before a purchase order was prepared and without advertising for bids.

The District's procurement policy and competitive bidding laws are both designed to guard against favoritism, improvidence, extravagance, fraud and corruption and to foster honest competition so that the District obtains the best goods and services at the lowest possible price. The District's failure to adhere to its own policies and bidding laws raises serious concerns about internal controls and whether the District's procurement process is achieving its objectives.

Professional Services Contracts

The District's purchasing policy requires that contracts for professional services be awarded after a review of competitive proposals. The request for proposal (RFP) process is meant to ensure that the District receives the desired service for the best price. We tested 27 significant professional service contracts, totaling approximately \$2 million during the two year period ended June 30, 2004, and found that 18 were awarded without benefit of competitive proposals. The District paid these 18 professional service providers a total of approximately \$900,000 between July 1, 2002 and June 30, 2004. In addition, we found that certain professionals were paid more than the amounts specified in their contracts or Board resolutions, and certain contracts did not adequately delineate the services to be provided.

Requests for Proposals – One of the 18 professional service contracts that was awarded without a RFP was between the District and a law firm. The firm was appointed to provide legal services by Board resolutions dated July 1, 2002 and July 1, 2003. There was no indication that any other law firms were requested to submit proposals prior to the adoption of the resolutions. During the two year period ended June 30, 2004, the District paid about \$320,000 to the law firm for various legal services. We were informed that the law firm had been appointed as the District's official attorney in previous years and this practice was simply continued during our audit period. The other 17 contracts, totaling approximately \$590,000, were for such things as educational consultants, a food service consultant and architectural services.

Overpayment – On August 12, 2003, the Board awarded a contract for the preparation of a geotechnical survey to an engineering firm for \$15,595, the lowest of the proposals received by the District. On September 23, 2003, the firm submitted a revised proposal to the District’s Facilities Director for \$18,573. There was no indication that the Board either reviewed or approved this revision. The firm was eventually paid \$18,573, or \$2,978 more than the amount of the contract awarded by the Board.

Payments for professional services should be compared to contractual agreements by both the business office and the internal claims auditor prior to approval for payment. However, it appears that such review was not sufficiently thorough to prevent the overpayment.

Inadequate Agreements – Written agreements for professional services should provide the District and the individual or firm furnishing the services with a clearly defined and mutually agreed upon basis for determining entitlement to payments. In addition, claims processing procedures prior to approval for payment should include the verification that the fees charged by professional services are in accordance with Board resolutions. One individual was appointed by Board resolution as a “consultant of community relations” at the rate of \$500 per day, not to exceed 44 days. The resolution did not describe the services the consultant would provide. Claims submitted by the consultant did not detail the services provided. The descriptions on the claims consisted mainly of one of the following: “special assignment”, “field work” and “meeting with clergy.” The consultant was paid a total of \$22,000 between October 24, 2003 and December 19, 2003.

A second consultant was reportedly hired by Board resolution dated August 15, 2002, at the rate of \$300 per day. However, the resolution stated only that the Board approved the Superintendent’s recommendation to hire retired administrators for the purpose of opening schools. The resolution did not indicate the names of individuals, nor did it indicate what was meant by the term “opening schools.” Claims submitted by the consultant consisted of time sheets showing dates of work, activity and time in and out. We reviewed a \$2,700 claim, dated October 2002, which indicated work at Jackson Main (an elementary school in the District), for nine days. She was paid a total of \$11,100 during the fiscal year ended June 30, 2003.

Temporary Employees

The District’s personnel office indicated that temporary workers are generally hired for the following reasons:

- Whenever full-time employees are out of work for an extended period of time.

- There is a project that requires extra help for a specified period of time.
- When there is no current Civil Service list and the District is waiting for a new list to be established

We were also informed that only clerical employees are hired on a temporary basis and that all such hiring is authorized by the District Superintendent.

Before deciding to hire temporary employees, the District should prepare an analysis to determine whether the use of temporary employees is a cost effective method for acquiring these services. In addition, the District should request proposals from various providers prior to awarding contracts for temporary services to employment agencies. Our examination of payments made to temporary service employees disclosed that the District's unwritten informal policy was not followed. The District does not have a written policy establishing guidelines regarding temporary employees.

During our audit period, payments to three employment agencies for temporary employees totaled approximately \$1.1 million. The District hired nurses, word processors, and stock clerk/laborers as temporary employees. We found no evidence that District officials had determined that hiring temporary employees was cost effective or that they had requested proposals from various providers of these services. Also, there was no evidence of pre-approval by the Board or District business office.

One employment agency provided the District with nurses and nurses' aides at rates ranging from \$17 to \$45 per hour. Payments to this agency totaled approximately \$150,000 during our audit period. During the period October 7, 2003 through February 6, 2004, two to five nurses and aides were hired each day to work at the same three District schools. Their daily time sheets were certified as correct by various school principals and the school nurse at the high school. There was no indication who the temporary workers were hired to replace or why the District found it necessary to hire them.

Another agency provided clerical employees. During our audit period, payments to this agency totaled approximately \$650,000. During March 2004, a total of 18 temporary employees were hired for an average of about 35 hours per week at \$17.50 per hour. There was no documentation explaining the need for hiring so many clerical employees and there was no indication that the temporary employees were hired to replace District employees on leave.

A third agency provided lower skilled employees to work in the District's cafeterias and the Facilities Department. One employee was used each week that schools were open between October 13, 2002 and June 30, 2003, at the rate of \$10.50 per hour. This person worked about 30 hours each week. No documentation was provided explaining why his services were necessary, and there was no indication that he was hired to replace unavailable District employees.

The use of temporary employees to provide needed services is not always the most effective means of providing such services. Without a written policy and strong internal controls, the District runs the risk of paying for services that are not needed, or paying more than necessary for services that are required.

Recommendations

13. The District should limit the use of confirming purchase orders to those situations where they are absolutely necessary. If confirming purchase orders are necessary, individuals making purchases should be required to indicate on the purchase order the reasons justifying the use of a confirming purchase order. Furthermore, confirming purchase orders should be clearly marked "confirming" so as to avoid duplication of orders already placed with the vendor.
14. Claims processing prior to approval for payment should include verification that the claim has been approved by the officer or employee whose action gave rise to the claim.
15. The Board should enter into written agreements with all firms and individuals that provide professional services to the District. These agreements should clearly stipulate the services to be provided and the basis for compensation. As part of the payment approval process, compensation claimed on vouchers should be checked to the agreements. If it becomes necessary to exceed an approved maximum contract amount the Board should modify the contract before incurring additional expenditures.
16. The Board should follow the provisions of its purchasing policy and award contracts to professional service providers (including temporary service employment agencies) only after soliciting proposals from prospective vendors.
17. District officials should prepare an analysis comparing the cost of hiring temporary employees to the cost of hiring additional full time employees to determine whether the use of temporary employees is cost effective.

18. Controls need to be established to ensure that the District pays for only those services that are required and that payments are not excessive. The Board should identify District officials that are authorized to approve temporary employees. Written approvals should include an explanation as to why the temporary services are necessary and which employees, if any, are being replaced on a temporary basis.

Capital Assets and Inventories

Complete and accurate accounting records for capital assets are necessary for proper financial reporting in conformity with generally accepted accounting principles. These records are also necessary to fix responsibility for the control and custody of District property and to provide assurance that such property is safeguarded. Furthermore, these records can be useful in determining insurance coverage and preparing claims for insurance recoveries.

District officials have not developed adequate policies and procedures regarding capital assets and inventories to insure the safeguarding of District assets. The last physical inventory of capital assets, which led to the creation of the District's written inventory record, was dated June 30, 2002. The written inventory record did not include sufficient identifying data such as manufacturer name, model number or serial number for all assets. There were no inventory records maintained to account for supplies and other consumable items, and these items were generally not kept in secure locations.

Capital Assets

Capital assets are those assets that have a useful life of more than one year and include such things as land, buildings and building improvements, furnishings, vehicles and electronic equipment such as computers. The District's inventory of capital assets represents a significant investment of resources. As of June 30, 2004 the District reported roughly \$29.8 million in capital assets.

The District does not have a complete, accurate, up-to-date record of capital assets and has not assigned responsibility for maintaining the records to anyone. Because of the District's failure to maintain a current capital assets inventory record, we attempted to physically verify the existence of assets that had been purchased during our audit period. Our sample included 35 items purchased between July 2002 and April 2004 at a total cost of \$51,537, including computers, printers, monitors, scanners and a digital camera. Only 11 of 35 items were in locations indicated on the invoice. Seven items were in locations other than the one indicated on the invoice. None of the 18 items had a tag affixed identifying the item as a District asset.

We could not locate 17 items valued at \$26,922. Two laptop computers purchased in August 2002 were reportedly stolen, but no police reports were available. The only documentation provided were letters dated March 2005, prepared by the individuals who were assigned the computers, after our attempt to view the computers. Both letters indicated that the thefts had occurred in 2003. Two other laptop computers and a desktop computer were reportedly

never received by employees at the location noted on the invoice. No one was able to tell us who received the assets. A desktop computer, a laptop computer and a printer were each reportedly received at the designated site, but forwarded to another location. No one was able to tell us where the assets were sent to, and we were not able to locate them. No one was able to tell us where the other nine items were. The nine items, costing a total of \$16,477, were primarily comprised of laptop and desktop computers.

District officials must ensure that capital assets are protected from loss, that their value is maintained and that they are used effectively. This can be accomplished by adopting policies, maintaining perpetual inventory records, conducting periodic inventories and establishing other safeguards.

The District does not have a capital asset policy. The policy should include the Board's objectives relating to capital assets and include the records and procedures required to achieve these objectives. The elements of the policy should include the duties of a designated property control manager, how asset records will be maintained, when periodic inventories will be conducted, how assets will be physically identified as belonging to the District and any restrictions on access and use of assets. The policy should describe the Board's expectations concerning capital assets and those expectations should be understood by District managers and staff.

The last physical inventory of capital assets, which established the District's inventory record, was dated June 30, 2002, and listed capital assets valued at approximately \$25.7 million. That inventory did not include sufficient identifying data, such as manufacturer, model and serial number. The inventory has not been updated since it was originally taken. Audited financial statements show that the District acquired capital assets costing in excess of \$1 million during the fiscal year ended June 30, 2002 and \$3 million during the fiscal year ended June 30, 2004. We noted that the District does not maintain general ledger control accounts for capital assets; therefore, the valuation reported in the financial statements was calculated by the auditors. Due to the deficiency of the records we could not determine which assets, if any, were disposed of during our audit period.

Complete and accurate accounting records for capital assets are necessary for proper financial reporting in conformity with generally accepted accounting principles. These records are also necessary to fix responsibility for the control and custody of District property and to provide assurance that such property is safeguarded. Furthermore, these records can be useful in determining insurance coverage and preparing claims for insurance recoveries.

Additional safeguards, unique to particular assets, should be put in place. For example, laptop computers, cell phones, AV equipment and assets of similar nature should include identification numbers and markings, restricted access to records and inventory items, and periodic physical inventories.

Supply Inventories

In order to safeguard supplies, District officials need to establish policies and procedures to adequately account for and protect these items from loss or misuse. Adopting such policies and procedures, maintaining written inventory records of supplies, keeping supplies stored in a secure location, conducting periodic physical inventories and assigning responsibility to an individual for the custody of supplies and responsibility for the maintenance of records to another individual will help prevent the loss or misuse of supplies.

The District spends about \$2 million annually for supplies but has not adopted written policies and procedures to ensure that inventories of supplies are safeguarded. District officials and employees do not maintain inventory records for supplies. Custodians have not been assigned to safeguard supplies and to maintain inventory records to account for supplies. In addition, there is no central storage location for items such as cleaning and maintenance supplies, stationary supplies, copy machine supplies, etc. Instead, each building keeps supplies and inventories in various storage facilities such as closets, storage sheds, empty classrooms, etc.

Vehicle Maintenance Records

The establishment of a formal fleet management program to provide guidance to District officials responsible for the acquisition, maintenance, replacement and disposal of vehicles is essential for the maintenance of an efficient fleet of vehicles capable of providing quality services without incurring unnecessary costs. The costs involved are not always monetary or obvious. For example, delaying the replacement of an older poorly operating vehicle defers the cost of a new vehicle to another year. However, vehicle maintenance costs and downtime increase, while the vehicle's efficiency and residual value declines.

In April 2005, the District owned 19 vehicles with a median age of nine years. Included in this total were vans, sedans, dump trucks and pick-up trucks. Private garages performed both maintenance and repair services for all District vehicles. According to the District's accounting records, vehicle repair costs totaled \$55,342 during our audit period. There was no indication that the District had purchased or disposed of any vehicles during this period.

District officials have not developed a formal fleet management program. Records of vehicle mileage are not maintained. In addition, detailed maintenance and repair records including parts and labor costs have not been maintained since the summer of 2003. As a result, District officials do not have the information necessary to determine when vehicles need to be replaced.

An efficient vehicle maintenance system should allow for the calculation of reliable annual maintenance and repair costs for each vehicle. With these costs readily available, District officials would have additional information to help determine the timing of vehicle replacements. An accurate and timely recordkeeping system of maintenance and repairs performed on each vehicle would also provide information for scheduling future periodic vehicle maintenance.

Recommendations

19. The Board should establish a comprehensive capital asset policy and designate an individual to be responsible for maintaining the capital asset inventory records. The District should establish a current and complete capital assets inventory record and should develop written policies and procedures to ensure the timely and accurate reporting of all acquisitions, dispositions and transfers of fixed assets.
20. The Board should ensure that a complete physical inventory for all District capital assets is taken to establish a correct current inventory record. These assets should be recorded in the general ledger capital asset accounts at original cost, or estimated original cost, if actual cost cannot be determined. Thereafter, acquisitions, dispositions and transfers of assets should be recorded as they occur.
21. Periodic physical inventories should be taken and compared to the capital asset records. Discrepancies should be investigated and resolved.
22. The Board should ensure that a proper investigation is conducted to determine what happened to the laptop computers and other missing items identified during our audit and take appropriate action.
23. The Board should establish policies and procedures to adequately account for and protect supplies from loss or misuse.
24. District officials should establish vehicle maintenance and repair record keeping system.

Cash Receipts and Disbursements

The Board is responsible for establishing appropriate internal controls to ensure that cash receipts and disbursements are properly accounted for. In general, the objective of a good internal control system over cash receipts and disbursements is to ensure that cash transactions are properly authorized and recorded, that cash is safeguarded, and that there is proper monitoring of the officials or employees who handle moneys as part of their official duties.

As a means of safeguarding cash, all cash collections should be documented by the issuance of press numbered cash receipt forms to ensure that all cash received is properly accounted for. An important internal control activity designed to detect errors and irregularities that may require further investigation is the reconciliation of cash register tapes to daily cash receipts records and to cash deposits. In addition, policies should set criteria for the timely deposit of moneys.

The District's policies and practices establishing internal controls over cash receipts, cash deposits and cash transfers were not appropriately designed and not operating effectively. We found the following weaknesses in internal controls:

- District policies and procedures do not require that press numbered cash receipts be issued to document cash collections. Although the Treasurer issues press numbered receipt forms for cash received in the Business Office, cash receipts issued at other District sites were not press numbered.
- During our audit period, cash registers were used at 11 cafeterias in the District's school buildings. Money collected at each of the 11 locations was deposited daily. Total cash collections at the cafeterias, per cash register tapes, ranged from \$1,100 to \$2,700 each day. The Director of Food Services prepares a monthly report for the District Treasurer that shows the daily deposits made by each cafeteria. He also prepares weekly control sheets that show the amount of money collected daily by each cafeteria. The daily postings to the weekly control sheets are taken directly from the cash register tapes. However, there was no indication that the Director of Food Services or any other District employee in the business office reconciled the cash register tapes or the control sheets to deposit tickets or bank statements. In addition, there were no written policies or procedures requiring such reconciliations. Audited financial statements for the fiscal year ended June 30, 2004, report cafeteria sales of approximately \$250,000.

We tested 46 days' receipts deposited during the period July 1, 2002 through October 13, 2004 and found that deposit tickets agreed to cash receipts journal entries and bank statements for each of the days. However, for 43 of the 46 days cash register tape totals did not agree with deposit tickets. For 23 days tested, register tapes exceeded the amount recorded on deposit tickets by a total of \$2,912. Deposit tickets exceeded register tapes by a total of \$2,228 for the other 20 days. For example, on February 3, 2003, cash register tapes totaled \$2,036, but only \$1,484 was deposited to the school lunch fund bank account.

Because of these discrepancies, we examined cash receipt activity at each of the 11 cafeterias for 18 of the 23 days when cash register tape totals exceeded the amounts deposited. At each location there were differences between the cash collections indicated on register tapes and the amounts deposited. Significant differences were noted on a daily basis at the Rhodes elementary school. For 16 of 18 days register tapes exceeded the amounts deposited. While cash register tapes for the 18 days totaled \$1,498, only \$223 dollars was deposited to the school lunch fund bank account. The difference of \$1,275 can not be accounted for. We received no explanations for the differences and there was no indication that anyone had investigated the differences to determine the cause.

- There are no provisions in the District's policy setting criteria for the timely deposit of cash receipts. Our test of 108 cash receipts collected between July 2002 and August 2004 disclosed that most receipts were deposited within one day of collection. However, four receipts totaling \$17,887 were deposited between 11 and 21 days after moneys were received by the District Treasurer.
- The District's policy is silent with regard to the authorization and approval of cash transfers. The policy does not include a requirement that all depository banks be notified that cash transfers from one District bank account to another can be made only after written authorization is received from designated officials or employees. We tested 96 cash transfers from one bank account to another that occurred between July 2002 and November 2004. There were no records available to indicate that an authorized District official or employee had approved three of these transfers, totaling \$618,021.

Recommendations

25. District officials and employees who receive money should issue press-numbered receipts. These receipts should be issued sequentially to further protect the integrity of the accounting records.
26. The Director of Food Services or the District's business office should conduct daily reconciliations of cafeteria cash register tapes and bank deposits. Any differences should be investigated and resolved.
27. The District should set criteria for timely cash deposits.
28. The District's policy should include a provision that all depository banks be notified that cash transfers from one District bank account to another can be made only after written authorization is received from designated officials or employees. The Deputy Superintendent for Business should ensure that cash transfers are properly authorized.

Payroll

The Board is responsible for ensuring that appropriate controls are established to both prevent and detect errors and irregularities regarding payroll and personnel practices. An effective system uses both types of controls, in balance, to minimize the risk that errors or irregularities may occur and go undetected. Our examination of existing policies and internal controls disclosed deficiencies concerning attendance records. While we found that written policies and procedures were generally adequate, attendance records were not appropriately designed and were not operating effectively to ensure that leave time was properly charged against employee leave accruals.

Leave time is an employee benefit generally granted to all school district employees in negotiated contracts. Employees earn a fixed number of days each year for vacation, illness and personal use. School districts often provide cash payments to employees for all or a portion of their earned and unused leave time when they leave district service. Therefore, it is important to maintain accurate leave accrual records to prevent overpayments to employees upon termination.

Our evaluation of internal controls related to attendance records disclosed weaknesses related to leave accrual records that could lead to abuse. Employees in the District's payroll office use time cards submitted by the Facilities Department and time sheets submitted by school building principals and other department heads to update employee leave accrual records. The time cards and time sheets indicate the daily employee attendance or absence from work. However, with the exception of two locations in the District, attendance records generally do not reflect partial days' absence. In addition, with the exception of the Facilities Department, employees' supervisors do not sign attendance records to certify that the listed individuals were actually at work.

Employees of the Facilities Department use time cards to evidence their starting and ending times each day, and employees in the business office are required to sign in and out each day. However, the rest of the District's full-time employees simply initial an attendance record to indicate their presence at work. These records do not indicate whether the employees arrive at work late or leave work early. We were informed by employees in the Payroll Department that leave accruals are not charged for partial days' absence unless the Payroll Department is notified by a school principal or other department head that an employee arrived at work late or left work early. As a result, employees may have the ability to take advantage of this weakness in the system and work for only a portion of the day without incurring charges to their leave balances. Due to the lack of adequate records, we were unable to determine the extent of leave time abuse, if any.

We also found that, with the exception of time cards used by individuals in the Facilities Department, which are signed by each employee's direct supervisor; supervisors generally do not sign the attendance sheets to verify that the listed individuals were actually at work. This can also lead to abuse of the system if employees' initial attendance records of employees that are absent.

Recommendation

29. District officials should ensure that attendance records used by the Payroll Department to update employee leave accrual records are accurate. The records should include space to record leave time charges of less than a full day. In addition, all attendance records submitted to the Payroll Department should be certified by supervisors attesting to the accuracy of the records.

APPENDIX A
RESPONSE FROM DISTRICT OFFICIALS

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

The District's response letter includes page references to our draft report discussed with District officials. The final report formatting has resulted in different page numbering.



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September 9, 2005

Mr. Alan G. Hevesi
Comptroller
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: Response to Audit

Dear Mr. Hevesi:

The Hempstead Union Free School District ("District") and its Board of Education ("Board") have reviewed the audit report of the District's control environment. In response to your request for comments, we offer the following.

Initially, we wish to extend our thanks to you and your office for its thorough examination of the District's operations and procedures. The District's current administration is committed to ensuring that the residents of Hempstead are provided with the highest quality education possible so that its children can meet the challenges of the twenty-first century. In order to achieve this goal, we recognize the need to carefully examine our administrative practices so that we can continue to make improvements in the ways in which the business of the District is conducted. Your report is an important part of these efforts.

Clearly, any critical examination such as reflected by your audit, can be sobering. However, rather than be disheartened we are encouraged by the results of the audit. In the last several months, the District has engaged in a comprehensive evaluation of its practices and procedures aimed at ensuring that monies are utilized wisely in order that they be available to provide the greatest range of educational services to the residents of Hempstead. As a result of these efforts, the District has, in most instances, already taken action to rectify many of the deficiencies identified by the audit. It is gratifying to know that the District's own actions have already identified and corrected many of the historic problems which your report reflects.

At the same time, as an educational community we can not become complacent. The Board recognizes that there are still many challenges facing the District. First and foremost, we are committed to improving the academic performance of our students. In order to meet this goal, we must insure that resources are spent wisely and conservatively. We welcome the assistance which your audit provides in helping us to meet this goal.

Because this audit will be examined by numerous persons concerned over the wise fiscal management of the taxpayers' monies available to educate our children, it is essential that the report accurately reflect, not merely the past, but also the present. In many instances, the audit details past practices without reference to the measures which have recently been taken to address these issues. This presents an inaccurate picture of the current administration and Board as reactive rather than proactive. It is important to note that prior to the issuance of this audit report, the District had undertaken measures to address the majority of the deficiencies identified. In order to more accurately place both these issues and the District's actions to address them in a proper context, we offer the following comments to the report.

See
Note 1
Page 51

Board Control Environment:

Throughout the audit report, you make reference to "divisive attitudes", "irresponsible behavior" and "poor attendance" at meetings by members of the Board. While these conditions inarguably existed during the time of your examination, the report reflects a prior period in time and is not indicative of the current Board.

Unquestionably, the last two years have presented numerous challenges to the District. Prior Board members frequently permitted their reasonable differences relating to District management to escalate into personal animosities. This was irresponsible and counterproductive to the needs of the District's student population. Additionally, the criminal actions of an individual former Board member, for which he now stands convicted and has been removed from the Board, contributed to a paralysis

which inhibited effective management.

We are therefore pleased to report that your report reflects historic circumstances and is not indicative of the current Board's management. The recent election of Board member, Diane Hamilton, and the appointment of Timothy Butler, have resulted in a dramatic change in the Board. The appointment of Mr. Butler, within a matter of weeks after the vacancy occurred on the Board, reflects the new Board's willingness to work together and addresses one of the concerns raised in your report.

In the past eight weeks, the operation of the newly elected Board has been marked by a spirit of cooperation, hard work and attention to improving the fiscal management of the District and educational environment of its students. In furtherance of these goals, the Board has appointed a new Superintendent of Schools who, with his Cabinet, have expeditiously developed a budget, curriculum, teaching schedule, ordered textbooks and gone about the important business of providing for the education of the District's students.

See
Note 1
Page 51

Significantly, the District's current budget, adopted at a time when the District is operating under contingency, has actually resulted in a tax savings to the residents of Hempstead. An independent auditor has been retained, and the District's bills are being paid on a timely basis. These changes are dramatic and could not have occurred without the cooperation and efforts of the current Board. It is for these reasons that we are confident in stating that your report is not indicative of the current environment within the District.

School Buildings: (Page 10)

The closure of school buildings referenced in your report reflects years of tight budgets, deferred maintenance and a lack of timely planning. However, the current Board and the Administration have taken steps to rectify these past failings.

Under the guidance of the new Superintendent, the District

is currently working on the development of a new bond referendum to finance the demolition, reconstruction and expansion of its facilities to meet the growing needs of its residents. Both the Superintendent and the Board are committed to submitting to voters at the earliest possible time, a new bond issue to provide the funds necessary to undertake these vital projects. Additionally, the Superintendent is currently investigating the availability of various grant monies to assist the District in rebuilding its facilities.

See
Note 2
Page 51

Significantly, the current Board recognizes that the submission of a bond issue is destined to fail unless the District is able to restore the confidence of the community in its ability to provide sound fiscal management. Public confidence can only be won by demonstrating the Board's commitment to responsible action. Thus, the Board is dedicated to continuing its progress in returning responsible fiscal management as stewards of this important public trust.

The District has also undertaken measures to evaluate the conditions of its facilities in order to insure that a proper program of preventative maintenance is enacted. The District has recently implemented a computer system to track and notify the Facilities Director when maintenance is appropriate. Accordingly, the District has previously addressed the Comptroller's concerns regarding a lack of annual evaluations and preventative maintenance.

Termination Payment: (Page 14)

In many school districts it has been common practice to extend to central office personnel, which are not part of any bargaining unit, benefits afforded the bargaining units. This practice has historically been the policy of the District. However, we acknowledge your comment that this practice should be memorialized in a written contract between the District and its administrative personnel. As a result, the Board has directed its general counsel to develop contractual documents to reflect these terms and conditions of employment for all future employees.

With respect to the combined payment to the Assistant

Superintendent for Business, the Assistant Superintendent for Grants, the District Treasurer, the Assistant Superintendent for Personnel and the District Clerk, all who left the District and whose payments for accrued benefits totaled \$117,145, common practice was followed and Board approval obtained for issuance of these payments.

See
Note 3
Page 51

Upon further review, the calculation used to arrive at the amount of payment followed reimbursement for the intended purpose, but the formulas used did not coincide with the bargaining unit. This issue is intended to and shall be addressed by the Board with recommendations from the Superintendent. It is intended that each individual not covered by a bargaining unit will sign an agreement determining termination payments and benefits.

Meals and Refreshments at District Meetings: (Page 15)

There is a Board policy #2522 "Educational Travel Expenses and Reimbursement". Adherence to this policy must be enforced, and efforts are already underway to strengthen this policy to set appropriate limits and insure proper documentation .

With the start of the 2005-2006 school year, the District will not provide food and/or refreshments. This ban extends to all central office and meetings held in the various schools. Refreshments may be provided by individuals at their own expense. The District urges that the school lunch program be utilized for these services. The use of the school lunch program is encouraged to insure that only nutritional food be served in the schools.

See
Note 4
Page 51

Credit Cards and Travel Expenses: (Page 16)

The District's credit card policy #6665 and #6665-R "District Issued Credit Card Use" will be enhanced and enforced to insure compliance.

Starting with the 2005-2006 school year, there are only two credit cards, one for use by the Superintendent in the performance

of his duties as Superintendent and the second is for use by the District Clerk for official duties of the Board with very limited use.

There exist credit card charges incurred by the former superintendent which have not been paid and will not be paid until original receipts are provided to the District. So far efforts to obtain those receipts have failed.

Cell Phones: (Page 17)

The District's new cell phone policy has put considerable controls upon the use of cell phones. Costs have been reduced, distribution has been limited and one person in the Business Office is assigned to monitor all cell phone use. This individual reviews all calls and personal calls are billed to the user.

The Board of Education on September 8, 2005 adopted a resolution restricting the use of District owned cell phones to the Superintendent of Schools, Board Members, the Director of Facilities, the Assistant Director of Facilities, Day Security, and Night Security. In the future, any other position authorized a cell phone must have the recommendation of the Superintendent and the Board of Education approval.

Claims Processing: (Page 20)

Establishing the assurance that goods and services provided to the District are, in fact, provided has taken on a new perspective. Anyone ordering the goods and services must provide original, signed receipts detailing the delivery. All staff have been notified.

All staff have been informed that they must adhere to the purchase order procedure.

Competitive Bidding: (Page 21)

Security Guard service unquestionably is required to be bid. There may have been a misunderstanding as to whether Security Guard service was a professional service which only requires a Request for Proposal ("RFP"). A memo from the Assistant Superintendent for Business will be distributed to all relevant personnel setting forth the requirements for competitive bidding for goods and services.

Dry Cleaning service is now being bid as it should have been. As well as bottled water has been bid. In addition, a complete inventory of all bottled water and its location is now underway. Once the inventory is complete, the issue of bottled water will be put under control.

The issue of Bottled Water was addressed by the Board of Education at its Special Meeting held September 8, 2005. At this time all bottled water is to be removed from the District except those areas (relocatable classrooms) that water is not readily available to the students.

Professional Services Contracts: (Page 22)

Professional Consultants currently working in the District have a written agreement signed by both parties, however to improve upon this procedure, the District's General Counsel is being asked to prepare a standardized contract form that provides details of services provided; dates and time to work, when appropriate; costs of service, either on a per diem, hourly and/or overall contract sum. In addition, any other fees, compensation and/or benefits that there may be.

See
Note 5
Page 51

Beyond the aforesaid measures aimed at addressing the sufficiency of professional services contracts, the Board has recently begun a practice of having its General Counsel review invoices submitted for professional services where the invoice relates to extraordinary services or otherwise appears questionable. As a result of the adoption of this practice, the District has recently rejected several invoices tendered for extraordinary legal services subject to the submission of clarification and additional documentation to substantiate the charges.

Requests for Proposals: (Page 22)

Contrary to the statements contained in your report, in each of the last three academic years (2003-2004, 2004-2005 and 2005-2006), professional services contracts for the District's general and labor counsel were solicited and awarded pursuant to a formal RFP. It is now the District's procedure to obtain RFP's for all professional services.

See
Note 6
Page 51

Overpayment: (Page 22)

The engineering firm originally contracted to do geotechnical survey, which was to provide test borings at three schools. It was subsequently determined that additional test borings was required at a fourth school. This resulted in an increase in cost. Due to an oversight, the District failed to obtain a change order. Change orders are now required before any additional work is approved.

Inadequate Agreements: (Page 22)

As previously addressed in response to "Professional Services Contracts," the District is taking definitive action to avoid any inadequate agreements.

Temporary Employees: (Page 23)

Starting with the 2005-2006 school year, the District will not use "temporary employees." Coverage will be provided by assigning or reassigning District personnel and/or establishing a position in the Table of Organization to be filled by a permanent person in accordance with Civil Service rules and regulations.

It has been determined that temporary employees used as

they were is fiscally irresponsible. The Personnel Department, the Director of Pupil Personnel, and all principals have been notified that no temporary employees are to be used. All requests must go through the Personnel Department approved by the Assistant Superintendent of Personnel.

Capital Assets: (Page 25)

The Board is aware that the public school buildings and grounds and the equipment are among its greatest assets, and they must not only preserve them but must maintain a complete and accurate accounting of the District's capital assets.

The Superintendent is in the process of assigning an individual to conduct an accounting of all assets which are valued at \$1,000 or more. This individual will take the District's written inventory record completed on June 30, 2002 and update it. The person will inventory one school at a time and go through each room identifying, marking and logging all appropriate items.

The person will work closely with the Business Office and directly with the Purchasing Agent.

The Board shall address the issue of adopting a Capital Asset policy. This current Board is cognizant of its importance.

Supply Inventories: (Page 26)

Of the various departments in the District, the maintenance department has developed and maintains accurate records of their supply inventories. Each of the schools shall be responsible to maintain accurate inventories of its supplies with a definitive emphasis on technology equipment, duplicating equipment, textbooks, office and classroom supplies.

The head custodian in each school shall be responsible, under the direction of the principal, to maintain inventory control and supplies.

Vehicle Maintenance Records: (Page 27)

The establishment of a formal fleet management program has begun. Individual forms detailing all pertinent information for vehicles now in use. The Director of Buildings and Grounds is working closely with the Consultant for Business and Operations to establish a formal Fleet Management Program.

Cash Receipts and Disbursements: (Page 29)

The Treasurer has ordered and is using pre-numbered "Treasurer's Receipt" and "Cash Receipt." Anyone who brings in cash to deposit receives a receipt and a copy of the original remains in the possession of the Treasurer.

In addition, cash brought into the District is counted by the Treasurer or the Deputy Treasurer in front of the person bringing in the money. After counting the money, the receipt is signed and dated.

Cash controls are being put into place for the School Lunch Program by the Nutritional Consultant provided by the State Education Department in conjunction with the Business Office.

Payroll: (Page 31)

As detailed by the report, the policies already in place within the District are adequate to insure that leave time and attendance are properly documented. The District's focus, therefore, is upon establishing an environment where these procedures are fully implemented and adhered to. In accordance with this goal, the Superintendent has directed that all departments comply with the policies relating to time and attendance records.

In order to more accurately record partial days absences by employees, the District is currently engaging in discussions with the representatives of the various collective bargaining units regarding

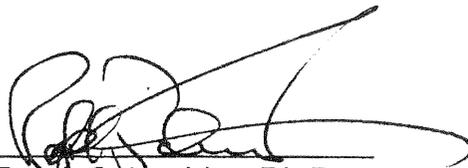
representatives of the various collective bargaining units regarding the implementation of additional procedures to accurately track the hours worked by its employees. In view of the recent spirit of community and cooperation existing between the District and its various bargaining units, the Board anticipates that the adoption of these new procedures will proceed rapidly.

Conclusion:

As is evident from the foregoing, even prior to the issuance of this report, the Board had already enacted the overwhelming majority of the suggestions proffered by the Comptroller. These measures were taken, not only in response to the conclusions of the auditors, but also out of a recognition by the Board that changes were necessary if it was to effectively serve the needs of the community and improve the quality of its educational services. Nonetheless, the Comptroller's audit has provided the District with an invaluable service by confirming that the measures taken by the new Board and the Administration represent an appropriate response designed to address past practices. Clearly, these past practices left much to be desired and room for improvement. However, a new day has dawned in Hempstead represented by a Board and Superintendent who are dedicated to providing responsible fiscal management in order to protect the taxpayer's while providing a superior educational environment for the children of Hempstead. For this, the Board extends its sincere thanks to the State Comptroller and its gratitude for affording it this opportunity to respond.

See
Note 7
Page 52

Respectfully submitted,



Ralph Schneider, Ph.D.
President, Board of Education



Nathaniel Clay, Ph.D.
Superintendent

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APPENDIX B

OSC COMMENTS TO THE DISTRICT OFFICIALS' RESPONSE

In response to comments in the District's response letter, we provide the following information.

Note 1

The Board did not appoint a new Superintendent at the start of the 2005-2006 school year. Instead, the Board reappointed the previous Superintendent, who actually was the Superintendent during the period of time we audited. The findings of this report relate directly to this Superintendent.

Note 2

The District's previous bond referendum was defeated in December 2003. Since that time numerous events have occurred that call into question the District's ability to be a prudent steward of the public's funds. We suggest that the Board meets to regain the community's confidence through a thoughtful and inclusive capital planning process before it proposes another referendum.

Note 3

It was not fiscally responsible for a District that faces as many fiscal challenges as Hempstead to provide a gift of public funds that they were not contractually obligated to meet.

Note 4

The Board policy, "Educational Travel Expenses and Reimbursement (#2522)," addresses the reimbursement to Board Members and the Superintendent of Schools for the "cost of attending educational conferences and other Board and district related business activities." This policy does not delineate when it would be appropriate to provide meals and refreshments at District meetings.

Note 5

The finding is about inadequate agreements. While there were Board resolutions, they did not contain sufficient information about the services to be rendered or the fees to be paid.

Note 6

Our audit reviewed the Requests for Proposals (RFPs) for the two academic years within our audit period (2002-2003 and 2003-2004). We asked for whatever records and documentation that was available to verify that the district had made RFPs prior to the appointment by the Board of Education. We requested this information specifically for the law firm appointed as District's school attorney on July 1, 2002 and July 1, 2003. There was no documentation provided to us to indicate that the District received RFPs for the position of school attorney for the Board of Education.

Note 7

We are concerned with the District’s characterization that a “new day has dawned.” Instead, the District has reinstated the Superintendent who, along with the School Board at that time, was responsible for all the poor practices identified in this report. We are not sure this was a wise first step in reinstating fiscal accountability and regaining the public’s confidence.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objectives we interviewed appropriate District officials and employees about operating policies and procedures. These interviews allowed us to analyze the internal control structure governing the processes for cash receipts and disbursements, procurement of goods and services, capital assets and inventory, and payroll. We also made an assessment as to whether or not the established controls were sufficient to provide assurance that resources were protected from possible loss or improper use, to minimize the risk of errors and irregularities and help ensure compliance with applicable rules and regulations.

We reviewed pertinent documents including District policy and procedures manuals, Board of Education minutes, contractual agreements, cancelled checks, bank statements, payrolls, claims, inventory listings, and various other accounting records and interim financial reports. We tested the effectiveness of internal controls related to cash receipts and disbursements, procurement of goods and services, capital assets and inventories, and payroll. In addition, we tested transactions in order to determine whether the District was in compliance with good business practices and applicable legal statutes. We reviewed the following payments for appropriateness that were made to and on behalf of administrators: termination payments, cell phone use, credit card use, travel related expenses, and meal purchases.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards. Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX D

TAXPAYERS' COMPLAINTS

We reviewed the following complaints we received from taxpayers that pertained to the scope of our examination. In addition we have received various complaints alleging criminal misconduct in the District and our Division of Investigations is working on these matters with the Office of the Nassau County District Attorney. This report is also being referred to the District Attorney's Office for their review and consideration.

1. Complaint: One Board member alleged that another Board member used a District credit card to pay for personal expenses on four to seven occasions over a six month period.

Audit Conclusion: The Assistant Superintendent of Business informed us that this Board member's credit card was used to pay for personal expenses. When questioned by the District, the Board member reportedly denied the allegations and claimed the charges must have been made to his account in error. The District investigated the charges in question with the credit card company and found that the personal charges were in fact made by this Board member. We reviewed the expenses as part of our audit and determined that the Board member repaid \$1,485, representing all of the personal expenses he had incurred. See our finding entitled "Credit Cards."

2. Complaint: A Board member alleged that another Board member had applied for Unemployment from the District. When questioned, the Board member claimed the Unemployment was for his father. However, after investigating the matter the complainant found that the application was for the Board member, not his father.

Audit Conclusion: The Assistant Superintendent of Business informed us that it was the Board member who applied for and received unemployment benefits from the District. The application had been submitted prior to this individual's election to the Board in May 2003. The Assistant Superintendent of Business informed us that the District received "Notice of Benefit Reimbursement Charges" from the Department of Labor, which the District denied in March or April 2003. The Department of Labor did, however, bill the District for this individual's unemployment payments. After this individual was elected as member of the Board, the Assistant Superintendent of Business informed him it would be a problem for him to be receiving unemployment benefits from the District while serving on the Board. We reviewed the "Notice of Benefit Reimbursement Charges" provided to the District by the Department of Labor. The unemployment benefit was stopped prior to the Board member taking office.

3. Complaint: A complaint stated that an "informational newsletter" indicated the District paid \$82,868 and \$95,392, respectively, for "Catered Food & Party Supplies" and "Bottled Water".

Audit Conclusions:

- a. The charges for catered food & party supplies represent payments to Sandy's Party Supplies for tables and chairs that are used for graduations and other events. These charges also represent payments to Lenore's Catering Services to provide light food and beverage at District meetings. As part of our audit we reviewed payments for catered foods. See our finding entitled "Meals and Refreshments at School District Meetings."

b. Our review of purchasing practices disclosed that the District had purchased significant amounts of bottled water without publicly advertising for bids. See our finding entitled “Competitive Bidding.”

4. Complaint: A complaint indicated that the District is in dire straits financially, administratively and in relation to Board governance.

Audit Conclusion: Our review of the District’s financial condition at fiscal year ended June 30, 2004, indicated that year-end fund equity totaled \$6.2 million, with an unreserved unappropriated fund balance of \$2.4 million. This would not indicate that the District is in immediate financial difficulty. However, the District still has to be mindful of its budgeting practices so as to maintain a sufficient fund balance to absorb unforeseen expenditures.

5. Complaint: A complaint indicated that the District spent over \$2 million for the “campaign to pass the bond.” The bond in question was presented to the District’s voters in December 2003.

Audit Conclusion: The budget for the 2003-2004 school year included a \$2 million appropriation for pre-construction costs. During the 2003-2004 school year, the District spent a total of approximately \$1.3 million for these pre-construction expenses. The only expenditures we could identify as relating to a “campaign to pass the bond” were payments totaling \$22,000 made to an individual hired as a community relations consultant. See our finding entitled “Inadequate Agreements.”

6. Complaint: A complaint states that a local minister was paid \$500/day for 45 days (a total of \$22,500) for “promoting passage of the bond.”

Audit Conclusion: The resolution that served as the basis for compensation for the consultant did not provide a sufficient description of the services he would provide and claim vouchers submitted in support of services provided were not sufficiently itemized. This individual was paid a total of \$22,000 during the fiscal year ended June 30, 2004. See our finding entitled “Inadequate Agreements.”

7. Complaint: A complaint indicated that Pupil Personnel Services, located on Front Street, “is a repository of District funds” and needs special audit attention.

Audit Conclusion: This location provides a school psychologist, social workers, special education evaluations and various other support services. We found no evidence that any funds were collected at this site.

8. Complaint: A complaint indicated that the contract with the Deputy Superintendent provides for a salary of \$175,000 plus additional revenues, totaling \$5 million over a five year period.

Audit Conclusion: We reviewed the Deputy Superintendent’s contract. This contract provided for a base salary of \$175,000 with a 5% increase each succeeding year. There is no indication of any additional revenues being paid to this individual. The total salary that would be paid out over a five year period would approximate \$1 million.

9. Complaint: A complaint states that the Prospect School was closed in September 2003 after \$301,000 was spent during the summer for new windows and bathrooms in this building.

Audit Conclusion: We reviewed work orders and claim vouchers submitted by outside contractors for work performed between July and September 2003 at the Prospect School. The cost of this work totaled \$26,210. There were additional maintenance and repair services completed by the District's Facilities Department, but it was not feasible for us to place a dollar cost on this work.

10. Complaint: An article that appeared in Newsday on February 12, 2004, entitled "Hempstead's Food Fight," alleged that the District's food service program runs a deficit of \$1 million. This article indicated that there was not only spoiled food, but also that money was not collected as it should have been, special foods were ordered for teachers or for special events, procedural failures for handling the food and possible theft of meals and money.

Audit Conclusion: In December 2004, The State Education Department (SED) conducted a site visit to the District to review various program operations. They had a number of findings concerning the management and operation of the District's food service program. The findings were similar in nature to those contained in the study that was the subject of the newspaper article. SED concluded that the District has made little or no progress in correcting operational deficiencies in the food services program and strongly recommended that the District hire a qualified director to run the food services program and correct the deficiencies. In May 2005, the District hired a consultant to provide the necessary management for the food services program. The selection of the consultant was based upon a list of qualified individuals submitted to the District by the SED. SED has agreed to pay for this consultant's services for a period of six months, after which time the District will be responsible for paying for his services.

Our test of cash collections at District cafeterias disclosed numerous instances when cash collections, as evidenced by cash register tapes, did not agree to amounts deposited to District bank accounts. See our finding entitled "Cash Receipts and Disbursements".

11. Complaint: The Superintendent's out-of-state trips paid for by the District were actually personal trips.

Audit Conclusion: Our review of all the Superintendent's out-of-state trips indicated that the trips were only for District purposes. We found nothing in the District's records to substantiate this complaint.

12. Complaint: Board members and administrators have cell phones, some of which incur \$200 monthly package plans.

Audit Conclusion: Our review of cellular phone bills verified that during the school year ended June 30, 2004, one Board member did have a \$200 monthly package plan. We also found that a Board member exceeded the allowance of minutes, incurring additional charges to the District totaling more than \$1,000 in a single month. See our finding entitled "Cellular Phones."

13. Complaint: The Superintendent's District credit card was used to pay for his personal expenses.

Audit Conclusion: Our review of all credit card payments disclosed that the Superintendent's credit card was not used for non-business related purchases.

14. Complaint: Board members hire unqualified friends and family members to high salary positions, for example the new Treasurer.

Audit Conclusion: We reviewed the latest filing of the Civil Service certification of the District's payroll. The initial certification copy included a number of exceptions, such as questions regarding the qualifications of certain employees. The District resolved all of the questions raised by Civil Service and the final certification copy for the period shows no exceptions.

15. Complaint: The District spent \$30,000 on dry cleaning between February 2003 and December 2003.

Audit Conclusion: Our review disclosed that the District did not publicly advertise for competitive bids for dry cleaning services, which amounted to more than \$20,000 for each fiscal year during our audit period. See our finding entitled "Competitive Bidding."

16. Complaint: No one is overseeing the adult education programs. As a result, monies are being spent for purposes other than adult education, including purchases of materials and equipment for personal use.

Audit Conclusion: The Adult Education Department is overseen by a District employee who was designated the coordinator of the adult education program. We reviewed the District prepared transaction report of items purchased for the adult education program and did not find any indication of payments for materials and equipment for employee's personal use.

17. Complaint: Teachers and administrators in the Adult Education Program take computers home. No one monitors these computers to ensure that they are returned to the District.

Audit Conclusion: We did an inventory check of notebook computers that were purchased for the Adult Education Program. All the notebook computers were on-site at the Middle School except for two which were located at another Adult Education location. These computers are used on-site by teachers for administrative testing.

18. Complaint: A Board member stated that no one is monitoring the budget to ensure that sufficient funds are available to finance the District's operations through the remainder of the fiscal year.

Audit Conclusion: Although we were informed by the District Clerk that budget reports were provided to the Superintendent and members of the Board monthly, as of late May 2005, the Board had not approved any budget modifications for the fiscal year ended June 30, 2005. As of the end of May 2005, the Assistant Superintendent for Business was reportedly in the process of preparing the necessary budget modifications for the current fiscal year for submission to the Board for approval.

19. Complaint: A District official indicated that the Board is hiring professional firms through resolutions that do not indicate their hourly rates, or the total cost of their contract.

Audit Conclusion: Our examination of payments to professional service providers disclosed that the basis for compensation for the professionals (i.e. hourly rates or total fixed cost) were generally included in contracts and Board resolutions. See our finding entitled "Professional Service Agreements"

20. Complaint: A District official stated that some professional firms are being hired because the firm's owners have ties to Board members. These firms are hired without going through a request for proposal (RFP) process. If the RFP process was used for all professional contracts, the District could save several hundred thousand dollars per year.

Audit Conclusion: Although the purchasing policy requires the District to seek competitive proposals prior to awarding contracts for professional services, we found that competitive proposals were solicited for only one-third of the professional services that we tested. See our finding entitled "Professional Service Contracts."

21. Complaint: A District official stated that a tutor from Family Help Services overcharged the District for thousands of dollars for work he never performed. He was also paid at a higher hourly rate than the rate approved by a Board resolution.

Audit Conclusion: Our examination determined that the firm was paid less than what was originally anticipated because the District was not satisfied with the services provided. The District paid a total of \$30,000 during the fiscal year ended June 30, 2003 for services provided between February and April 2003. These payments were made in accordance with the provisions of the Board resolution hiring this firm. The resolution stated that the firm would be paid \$10,000 a month for a six month period (January 2003 through June 2003) to provide mentoring services for the District's youth improvement project.

22. Complaint: A District official stated that a consultant was paid more than the \$25,000, as indicated in a contract, and he provided little or no service to the District.

Audit Conclusion: The information provided to us in this complaint was vague and we were not able to determine the name of the consultant or the services to be provided to the District. We did identify some concerns with services provided and payments made to some vendors. See our finding entitled "Professional Service Contracts."

23. Complaint: A District official stated that students are sent to special programs that have not been approved by the Board. Since the programs have not been approved, the District does not receive reimbursement from NYS.

Audit Conclusion: A District student has been attending a special education school since September 2004. District records indicate that the student's tuition at the school is \$1,062 per week. Employees in the Special Education Department informed us that the student's tuition is probably not reimbursable because the school is not eligible for aid. No documentation was available to indicate that the District had ever submitted the tuition payment information to the State Education Department in order to determine whether the school's tuition is reimbursable.

APPENDIX E

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APPENDIX F

OFFICE OF THE STATE COMPTROLLER DIVISION OF LOCAL GOVERNMENT SERVICES AND ECONOMIC DEVELOPMENT

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