
Final Report

Seaford Union Free School District

Special Review

FW-1005-2

February 10, 2006

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234





THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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February 10, 2006

Mr. Bradley Kass
Board President
Seaford Union Free School District
1600 Washington Avenue
Seaford, NY 11783

Dear Mr. Kass:

The following is our final report (FW-1005-2) on the Seaford Union Free School District (District). The review was conducted pursuant to Section 305 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

Ninety days from the issuance of this report, District officials will be asked to submit a report on actions taken as a result of this review. I appreciate the cooperation and courtesies extended to the staff during the review.

Sincerely,

Michael Abbott

Enclosure

c: T. Savo, J. Stevens, J. Bruce, B. Porter, C. Szuberla, C. Foster (DOB), W. Campbell (OSC), G. Duffy (Superintendent), J. Mapes (District Superintendent)

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Results of the Review

The Commissioner requested the Office of Audit Services (OAS) review the circumstances surrounding the Seaford Union Free School District (Seaford) announcing a \$1.7 million surplus for the 2004-05 school year. A District official initially calculated the surplus to be \$1,068,000 and then increased it by \$658,000. The announcement of the surplus was made well after the 2005-06 school year budget vote and as such was not considered in the preparation of the budget. The budget was defeated and the Seaford Board of Education adopted a contingency budget.

To gain an understanding of the circumstances, OAS contacted Seaford Officials and requested certain documents, completed a desk review of those documents, and followed up with interviews of Seaford Officials and the District's Certified Public Accountant. We focused our review on internal controls over the budget process and general accounting controls. We obtained an understanding of these internal controls by inquiry, inspection of documents and reviewing the independent auditor's management letter and financial audit. Based on the explanations provided by Seaford Officials and the District's Certified Public Accountant, and the documents reviewed, we concluded that Seaford had not adequately monitored its financial condition and was unaware of the surplus at the time of budget development. Seaford did not routinely prepare fund balance projections and did not effectively use its budget status reports. Seaford also lacked a formal budget policy and did not reconcile or monitor some accounting records on a timely basis. Finally, Seaford's independent auditor identified a number of areas of business operations where controls can be improved.

Fund Balance Projections

Seaford did not periodically project fund balance during the 2004-05 school year. Fund balance projections are a key component in providing the Board and the business administrator with accurate fiscal information when preparing the upcoming year's budget. The projections are needed to limit the undesignated, unreserved fund balance to two percent, to estimate the tax levy, and to make decisions regarding the establishment and use of reserve funds. The analysis of fund

balance, which should begin no later than January, involves estimating expenditures for the remainder of the year against appropriated balances and reviewing expected revenues against budgeted revenue. Without fund balance projections, the 2005-06 budget was prepared with incomplete information.

Recommendation

1. Project fund balance at least monthly beginning in January.

Monitoring of Budget Status Reports

Seaford's Board of Education (Board) did not consistently monitor and follow up on the Budget Status Reports presented to them. Commissioners Regulations Part 170.2 (k) requires the board of education to ensure that district expenditures do not exceed the budget approved by the voters or otherwise authorized by law. The Treasurer is required to provide the board with a budget status statement, at least quarterly (monthly if budget transfers have been made since the last report), showing the status of the district's revenue accounts and appropriation accounts. This report enables Seaford Officials to determine the status of each revenue and expenditure account. It is by monitoring this report that Seaford Officials should begin to see unanticipated revenue or lower than expected expenditures. This in turn, enables them to manage funds and anticipate the year-end results.

Budget status reports were provided to the Board, however it does not appear they were used to closely monitor district finances. The Board minutes do not show any discussion of the reports or recommendations.

Budget status reports are a valuable management tool to monitor the fiscal status of appropriation function/object accounts. Management should use this as a tool to determine the accuracy of the charges to its programs, the need for additional resources, or if unobligated funds are available for use.

Recommendation

2. Monitor the budget status report on a regular basis and extract critical information for use in developing future years' budget.

Budget Oversight

Chapter 13 of the Local Government Management Guide (Guide) issued by the Office of the State Comptroller identifies the development of a budget policy as an effective means of ensuring that financial objectives are met. The Guide states that a budget policy “should set forth the board’s objective to ensure that sufficient resources are available to fund needed services. The budget for each operating fund should provide a reasonable estimate of revenues, financing sources and expenditures for the ensuing year. The board should establish supporting procedures consistent with law that ensure that the best estimates are developed. These procedures should also address the monitoring of actual results during the year and the related modification of original budget amounts.”

The Board has not adopted a policy on its budget process. Public school districts face serious challenges due to rising costs, higher standards, changing enrollments, and difficulty in obtaining adequate resources. To manage a district cost-effectively and within legal constraints while meeting its mission and program objectives, a district must carefully plan, evaluate, and control its activities. Key to the effective management of a school district is a sound budgeting system.

An effective budgeting process begins with positive direction from a board in the form of policy. A budget policy should be up-to-date and provided to all district personnel involved in the budget process. The State Education Department’s Budgeting Handbook for School Districts suggests a comprehensive budget policy should address:

- The board’s responsibility for preparation and presentation of the budget;
- Long-range planning requirements;
- The budget calendar setting forth the approximate times of the year and order of consideration for budget items by the board;
- General format for presentation of the budget;

- Budget adoption;
- Use of fund balance;
- Administration of the budget; and
- Budget transfer requirements.

The development of a comprehensive budget policy will strengthen control over the process.

Recommendation

3. Establish policies regarding budget development and budget preparation.
4. Develop budgetary objectives, which encompass funding priorities, maintenance of reserves and fund balance, incurrence of short-term debt and replacement of fixed assets.

Reconciliation of Bank Accounts and Maintenance of Accounting Records

Seaford Officials acknowledged that bank reconciliation's were not done for the period December 2004 through August 2005 as required by Commissioners Regulations Part 170.2 (o). As of this review, the District had brought their bank reconciliations up-to-date.

Seaford Officials also acknowledged that some accounting records were not consistently maintained. Accounting records should be prepared in accordance with generally accepted accounting principles and the Office of the State Comptroller's Uniform System of Accounts. Records should be comprehensive, accurate, and current.

The lack of timely reconciliations and non-current accounting records may have contributed to the unidentified surplus.

Recommendations

5. Reconcile bank accounts in a timely manner.
6. Keep accurate and current accounting records by balancing accounts and reports on a monthly basis.

Seaford's Independent Audit for Fiscal Year Ending 2005

School districts are required to submit their independent audited financial statements annually to the New York State Education Department. The management letter submitted with Seaford's financial statements for 2005, disclosed the following areas of business operations, where improvements can be made to internal controls:

- Board of Education Oversight
- Computer and Accounting Controls
- Cash Management
- Payroll
- Purchasing and Claims Payments
- Budgets and Fund Balance
- Fixed Assets
- Extraclassroom Activity Clubs
- Audit Committees
- Internal Audit Function
- Reserves
- Interim Administrators and Teachers
- Documentation for Conference Expense

Seaford should use the management letter as a basis for improving controls.

Recommendation

7. Develop a corrective action plan to address the observations contained in the independent auditors management letter.

Conclusion

Seaford did not adequately monitor its financial condition in the months leading up to the preparation of the 2005-06 school year budget. As a result of the District's lack of monitoring, the size of the surplus was not known until after the completion of the fiscal year and the beginning of preliminary work by the auditors.

Comments of District Officials

District officials generally agree with the findings and recommendations and have taken action to address them.

Contributors to the Report
Seaford Union Free School District

- James Conway, Audit Manager
- Jean Stone, Senior Auditor



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GEORGE L. DUFFY, III
SUPERINTENDENT OF SCHOOLS

RECEIVED

FEB 07 2006

OFFICE OF
AUDIT SERVICES

February 6, 2006

Mr. Michael Abbott, CPA
Office of Audit Services
Room 524 EB
The State Education Department
The University of the State of New York
Albany, NY 12234

Dear Mr. Abbott,

Thank you for providing me with a copy of the draft report (FW-1005-2) on the Seaford Union Free School District.

After careful review of this report, I am in agreement that the Seaford School District must take and, in fact has taken, necessary steps to provide the Board of Education and community with up-to-date and complete information needed to monitor its financial condition. The Seaford School District has replaced the Asst. Superintendents for Business and the District Treasurer. In addition, the district has employed the services of an Internal Auditor and a Claims Auditor. (See enclosed job descriptions.)

Utilizing the report provided by Seaford's independent auditor dated October 30, 2005, the district has implemented numerous changes and practices and has addressed the concerns as outlined in the Management Letter provided by the independent auditor.

Fund Balance Projections

In 2004-2005 the Seaford School District did not adequately project its fund balance. Beginning January 2006, the Ass't Superintendent for Business will project the fund balance on a monthly basis and provide the Board of Education with a monthly report. This information will be utilized by the Board of Education

and Superintendent of Schools to estimate the tax levy for 2006-2007 and make decisions regarding reserve funds.

Monitoring of Budget Status Reports

The Seaford School District's Board of Education has currently four new members on a five-member board. All five members of the Board have attended the required training for board members. The Board of Education is taking its responsibility very seriously and as such is carefully reviewing Budget Status Reports on a monthly basis. The Board of Education has formed an Audit Committee composed of the Board as a whole in response to recent State requirements.

The Treasurer has completed and submitted Budget Status Reports and Monthly Treasurer's Reports to the Board on a monthly basis for their review and approval.

Budget Oversight

With respect to Budget Oversight, the Seaford Board of Education updated and adopted on January 5, 2006 the following policies:

Policy	Title
2160	School District Officer and Employee Code of Ethics
6000	Fiscal Management Goals
6135	Budget Implementation
6140	Budget Transfers
6240	Investment Policy
6241	Use of Surplus Funds
6600	Fiscal Accounting and Reporting
6620	Types of Funds
6650	Internal Auditor
6670	Petty Cash/Petty Cash Accounts
6700	Purchasing
6710	Purchasing Authority
6740	Purchasing Procedures
6800	Payroll Procedures

Please find enclosed a copy of each policy. Additionally, the Board of Education has been in contact with the New York State School Boards Association and is currently in the planning stages to utilize their services during the 2006-07 year to review and revise the entire policy manual for the district.

Reconciliation of Banking Accounts and Maintenance of Accounting Records

The school district has employed a new Treasurer and an Internal Auditor. The Board of Education is requiring that the newly appointed Internal Auditor review all of the Treasurer's reports and bank records on a monthly basis and report

their status monthly to the Board. Additionally, the Assistant Superintendent for Business closely monitors this information on a weekly basis.

Seaford's Independent Audit for Fiscal Year Ending 2005

The Seaford School District closely reviewed the management letter for the Fiscal Year Ending 2005. A corrective action plan was provided to the Board of Education (please see enclosed memo dated November 9, 2005). Each area identified by the independent auditor has been corrected and is being closely monitored by the Assistant Superintendent for Business, Superintendent of Schools, Internal Auditor (new position), Claims Auditor (new position) and the Board of Education. The district will continue to work closely with the independent auditor to insure compliance with all State regulations and in order to closely monitor its financial condition.

The Board of Education of the Seaford School District, the Superintendent of Schools and the entire administrative team remain committed to providing the students of the district with continued quality educational programs and the taxpayers of the community with sound and appropriate fiscal control.

I would like to thank Ms. Jean Stone, Senior Auditor for her assistance and patience during this review.

Thank you for the opportunity to respond and provide this information. Please do not hesitate to contact me if you have any further questions,

Sincerely,



George L. Duffy, III
Superintendent of Schools

GLD:kmf

Cc: Board of Education,
Mr. Vincent Cullen, Independent Auditor
Mr. Ken Aldrich, Assistant Superintendent for Business