
Audit Report

Beacon City School District

For the Period

July 1, 2004 through April 20, 2006

SD-0106-1

June 20, 2008

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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June 20, 2008

Mr. William Zopf
Board President
Beacon City School District
10 Education Drive
Beacon, NY 12508

Dear Dr. Parr:

The following is our final audit report (SD-0106-1) on the Beacon City School District for the period July 1, 2004 through April 20, 2006. The audit was conducted pursuant to Education Law Section 305 and the Board of Regents/State Education Department Strategic Plan – Goal #5 which states: “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 corrective action plan as a result of this audit. This required report must specifically address what actions have been taken on each audit recommendation.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

James Conway

Enclosure

c: Commissioner Mills, T. Savo, J. Duncan-Poitier, B. Porter, J. Delaney, M. DiVirgilio, C. Szuberla, R. Reyes, A. Timoney (DOB), J. Dougherty (OSC), J. Parr, J. Pennoyer (District Superintendent)

Executive Summary

Background and Scope of the Audit

The Beacon City School District (Beacon), located in Dutchess County, served 3,601 students in 6 schools during the 2004-05 school year. Beacon expended \$12,164 per student in 2003-04 school year, below the State average of \$13,826 per student. Total General Fund expenditures were over \$42 million in 2004-05. This is a suburban school district with high student needs in relation to its resource capacity. In 2004-05, 26 percent of the students were eligible for free or reduced price lunch.

Student performance at the elementary level compares favorably with the New York State (State) averages as shown on the 2006 State School Report Card (Report Card). The percentage of students meeting the standards in English language arts (ELA), mathematics, and science are all higher than the State's. At the middle level, students in Beacon are performing below State percentages in ELA. In fact, Beacon is in the category of In Need of Improvement Year One for middle and secondary level ELA. At the middle level, the percentages of students meeting the standards for science are 51 percent compared to the State's 42 percent. The graduation rate for the 2000 cohort is 84 percent compared to 77 percent for the State. Beacon's drop out rate has declined from 4.4 percent in 2003-04 to 3.2 percent in 2004-05. The percentage of Regents diplomas rose from 50 percent in 2003-04 to 76 percent in 2004-05 for all students.

The objective of the audit was to assess the adequacy of Beacon's internal controls, which are designed to help ensure its goals and objectives are accomplished; laws, regulations, and good business practices are observed; assets are safeguarded; and accurate and reliable data are maintained. The audit focused on internal controls and we reviewed practices, records, and documentation for the period July 1, 2004 through April 20, 2006.

Audit Results

The audit found Beacon has many necessary internal controls in place, but identifies improvement opportunities in several areas. Some key improvement opportunities and recommendations are as follows:

- Beacon has been overspending the appropriated amount for individual budget items. In addition, critical financial reports such as the budget status report are not submitted to the entire Board of Education (Board). Treasurer's Reports are not submitted on a regular basis; there were instances when they were submitted late or not at all. The Board needs to increase and strengthen its fiscal oversight of Beacon by requiring financial reports to be submitted regularly to the entire Board for review and by carefully monitoring Beacon's budget to prevent overspending.
- Beacon does not use available tools to aid in fiscal planning. For example, fund balance projection and cash flow statements are not prepared.
- Duties and responsibilities in the office of the treasurer are incompatible. Key functions should be delegated among staff to achieve segregation of duties.

- Beacon did not comply with the competitive bidding requirements for certain procurement transactions. Beacon should ensure that it is procuring items and services at the best possible price by using competitive bidding where required by law or by soliciting quotes or requests for proposals.

The audit also found improvement opportunities related to establishing policies and procedures; using of accurate account codes; updating the bond and note register, proper recording of grants and capital projects; timely depositing of cash receipts; and use of district funds for appropriate purposes.

Comments of Beacon Officials

District officials' comments about the findings were considered in preparing this report. Their response is included as Appendix B.

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Introduction

Background

The mission of Beacon City School District (Beacon) states “We will enable all students to meet high and challenging educational standards through quality programs and support services which promote the intellectual, physical and cultural well being of diverse students and families in our community.” Beacon, located in Dutchess County, served 3,601 students in 6 schools during the 2004-05 school year. Beacon expended \$12,164 per student in the 2003-04 school year, below the \$13,826 State average per student expenditure. Total general fund expenditures were over \$42 million in 2004-05. This is a suburban school district with high student needs in relation to its resource capacity. In 2004-05, 26 percent of the students were eligible for free or reduced price lunch.

Student performance at the elementary level compares favorably with the State averages as shown on the 2006 State School Report Card (Report Card). The percentage of students meeting the standards in ELA, mathematics, and science are all higher than the State average. At the middle level, students in Beacon are performing below State percentages in ELA. Beacon is in the category of In Need of Improvement Year One for middle and secondary level ELA. The middle level percentages for science are higher than the State’s percentages. The graduation rate for the 2000 cohort is 84 percent compared to 77 percent for the State average. Beacon’s drop out rate has declined from 4.4 percent in 2003-04 to 3.2 percent in 2004-05. The percentage of Regents diplomas rose from 50 percent in 2003-04 to 76 percent in 2004-05 for all students.

At the end of the 2004-05, Beacon had a \$4.9 million deficit in the General Fund and \$1.7 million dollar deficit in the Capital Fund. On July 26, 2005, the State legislature passed a law allowing Beacon to issue bonds to finance these deficits. At the end of the 2005-06 school year, Beacon had a \$1.2 million unreserved, undesignated fund balance and created reserves for Employee Benefit Accrued Liabilities of \$1,000,000 and Employee Contribution reserves of \$350,000.

Objectives, Scope, and Methodology

The Office of Audit Services reviewed selected management practices, records, and documentation for the period July 1, 2004 through April 20, 2006. The audit used a questionnaire to focus on seven key areas: governance and planning, accounting and reporting, revenue and cash management, purchasing and expenditures, facilities and equipment, student services, and student-related data. The questionnaire contains information on key controls in each of the areas and also includes the specific criteria or the standards used in assessing Beacon's operations. A copy of the questionnaire is available on the OAS website at <http://www.oms.nysed.gov/oas/Resources/Resources.htm>.

The objective of the audit was to assess the adequacy of Beacon's internal controls, which are designed to help ensure its:

- goals and objectives are accomplished;
- laws, regulations, and good business practices are observed;
- assets are safeguarded; and
- accurate and reliable data are maintained.

To accomplish the objective, we reviewed applicable laws, regulations, and policies and procedures; interviewed Beacon's management and staff using our questionnaire; examined records and supporting documentation; sampled a limited number of transactions on a non-statistical basis; and reviewed Beacon's audited financial statements.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Our audit included examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other procedures considered necessary in the circumstances. The audit also included assessing the estimates, judgments, and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

Audit Results

The audit found Beacon has many necessary internal controls already in place; however, some key improvement opportunities are as follows:

- Beacon has been overspending the appropriated amount for individual budget items. In addition, critical financial reports such as the budget status report are not submitted to the entire Board of Education (Board). Treasurer's Reports are not submitted on a regular basis and there were instances when they were submitted late or not at all.
- Beacon does not utilize available tools to help it in its fiscal planning. For example, fund balance projection and cash flow statements are not prepared.
- Duties and responsibilities in the office of the treasurer are incompatible.
- Beacon did not comply with the competitive bidding requirements for certain procurement transactions.

The audit also found improvement opportunities related to establishing policies and procedures; using of accurate account codes; updating the bond and note register; proper recording of grants and capital projects; timely depositing of cash receipts; and use of district funds for appropriate purposes.

The improvement opportunities are addressed in more detail in the body of the report. The Board should give careful consideration to the recommendations to further improve the operation and management of Beacon.

Comments of Beacon Officials

District officials' comments about the findings were considered in preparing this report. They agreed with the recommendation and have implemented 29 of the 35 recommendations. Their response is included as Appendix B.

Governance and Planning

The board of education (board) is ultimately responsible for the education of the children residing in its district and for providing governance and oversight of the district's affairs, personnel, and properties. The superintendent and senior management are responsible for operating the district within the approved policies and establishing, implementing, and maintaining an effective management control system. The controls should be designed to help ensure management's objectives are met; reported data are valid and reliable; assets are safeguarded; and laws are observed.

Board Governance

A school board has a fiduciary responsibility for the operations and management of the school district. It is responsible for ensuring that the district meets all legal requirements, operates in accordance with its mission, and uses its assets appropriately. The audit determined the Board addressed many of its governance and planning responsibilities. However, Beacon has improvement opportunities in several areas: assessing financial condition, budget monitoring, updating policies and procedures, communicating the organizational structure, and financial reporting.

Assessing Financial Condition

Section 1718.1 of the Education Law states that no board shall incur a liability in excess of the amount appropriated. Beacon has experienced deficits in the General Fund for 2003-04 and 2004-05, the Special Aid Fund for 2003-04, and the Capital Fund for 2003-04 and 2004-05. These required Beacon to obtain deficit financing. Weaknesses observed by the audit included spending in excess of appropriations and lack of budget monitoring. According to Beacon, extraordinary measures were taken in the 2005-06 school year to address this fiscal concern. As a result, Beacon ended the 2005-06 school year with an unreserved fund balance of \$1.2 million.

Recommendation 1: Ensure appropriations are available before encumbrances or payments are made,

expenditures are within the revised budgeted amounts, and the necessary transfers are made.

Budget Monitoring

Part 170.2(p) of the Regulations of the Commissioner of Education (Regulations) states that the board shall have the power and it shall be its duty to require the treasurer to render a report to the board, at least quarterly, and monthly in the event budget transfers have been made, for each fund including no less than the revenue and appropriation accounts required in State budget form.

Prior to December 2005, only the finance committee received the revenue and appropriations status reports on a quarterly basis. Though the finance committee is a part of the Board, these reports should be shared and discussed with the entire Board.

Recommendation 2: Require the revenue and appropriation status reports for each fund be submitted to the entire Board on a quarterly basis, and monthly if budget transfers have been made.

Recommendation 3: Actively monitor the budget by regularly comparing budgeted to actual revenues and expenditures, and take appropriate action to avoid overspending.

Policies and Procedures

Section 2503(2) of the Education Law and good business practices require a board to establish policies and procedures for district operations and major operating cycles. Beacon lacked specific policies and procedures for: cash receipts (revenue collection), cash disbursements (accounts payable), payroll, billing procedures, and capital asset policy. Beacon only has general policies, and most were outdated, some dating back to 1992.

Recommendation 4: Update and/or establish policies and procedures manual for all areas of operation.

Communicating the Organizational Structure

Good business practice requires that districts clearly define roles and responsibilities for all its employees. Organizational charts establish the chain of command and the appropriate lines of communication.

Beacon's organizational chart did not show all significant positions, lines of communication, and names of people in the position. For example, the organization chart did not include the claims auditor and the director of special education. In addition, names were not included.

Recommendation 5: Revise the organizational chart to ensure that all significant positions and corresponding names are included.

Certain district officers are required by law and good business practice to report directly to the board to prevent any conflict of interest and promote segregation of duties. For instance, Sections 1604(35) and 2503(15) of the Education Law require the claims auditor and the treasurer to report directly to the board.

Beacon's organizational chart showed that the treasurer was reporting to the business official instead of the Board.

Recommendation 6: Require the Treasurer to report directly to the Board.

Financial Reporting

Section 170.2(o) of the Regulations states that the board shall have the power and it shall be its duty to require the treasurer to prepare a report for each fund. Fiscal reports are most useful when they are submitted on time. This allows a board to have a current report on cash position and helps them make informed financial decisions.

The Board did not receive the Treasurer's Report timely as shown below:

**Treasurer's Report Presented and Accepted
At Board Meetings**

Date of Treasurer's Report	Board Meeting Date
May 2004	July 26, 2004
June 2004	September 13, 2004
September 2004	December 13, 2004
October –December 2004	April 11, 2005
February 2005	June 20, 2006
March – May 2005	August 29, 2005
August 2005	January 9, 2006

Source: Board Minutes

During the 2004-05 school year, Beacon operated without a business official, leaving the Treasurer to perform both job responsibilities. This prevented the Treasurer from preparing the Treasurer's Report and submitting it on time. The lateness of the submission of the Treasurer's Report, and in some instances, the lack of it, prevented the Board from regularly evaluating the financial status of Beacon.

Recommendation 7: Prepare the Treasurer's Report on a regular basis and submit to the Board in a timely manner.

Comments of Beacon Officials

Beacon officials agreed with the recommendations and have taken action to implement them.

Payroll and Personnel

Salaries and fringe benefits make up two of the largest expense categories of a district's budget. The payroll function should be clearly defined through policy and procedures and should be closely supervised. The personnel function should provide assurance that a district is hiring and retaining the most qualified individuals. Beacon generally implemented the necessary controls for payroll and personnel; however, it could make some improvements by providing timely evaluations to its employees, ensuring all salary changes are authorized, and updating job descriptions.

Evaluations

A good administrative practice is an annual evaluation of each employee by an immediate supervisor. Evaluations let employees know if they are meeting management's expectations and serve as a record of performance. The collective bargaining contracts with Beacon also require that employees be evaluated at least once annually.

A review of 11 employee folders revealed that only teachers are receiving annual evaluations. Therefore, Beacon was not in full compliance with the negotiated contracts for its employees; in addition, it runs the risk of allowing poor employee performance to remain unaddressed.

Recommendation 8: Review negotiated contracts and prepare a schedule for evaluations of all employees to be performed timely.

Salary Change Authorization

A key internal control within any payroll process is the requirement for written authorizations prior to any salary changes. This control ensures additions and/or deletions to salary are based on the decisions of management.

Although a salary change form is being used in Beacon, it is only generated for data entry purposes and not approved and signed by the appropriate supervisor. As a result, the payroll clerk could enter unauthorized changes into the

payroll system. Salary changes should also be approved by the Board.

Recommendation 9: Require appropriate supervisory approval of all salary changes.

Job Descriptions

Section 2503(5) of the Education Law states that the board shall create, abolish, maintain, and consolidate such positions, divisions, boards or bureaus as, in its judgment, may be necessary for the proper and efficient administration of its work; shall appoint properly qualified persons to fill such positions.

Personnel changes in Beacon's business office have occurred in recent years and a re-assignment of duties has taken place; however, the job descriptions were not updated. Without an accurate description of job responsibilities, Beacon could not properly evaluate the qualifications of applicants. In addition, there is no standard to measure an employee's job performance and some employees may not be aware of all their responsibilities.

Recommendation 10: Update job descriptions to match the duties actually performed by the person in the job title.

Comments of Beacon Officials

Beacon officials agreed with the recommendations and have taken action to implement them.

Accounting and Reporting

A board has the fiduciary responsibility to monitor the financial condition of its district. To ensure fiscal stability, districts need to develop balanced budgets, ensure expenditures are within budgeted amounts, monitor spending, and make necessary budgetary adjustments. Districts must have adequate accounting and reporting systems in place to ensure that accurate, timely, and complete financial records are maintained and disclosed in periodic reports to the board, the public, and the State. The accurate presentation of the school district's financial condition is the purpose of the accounting system. Data generated from the accounting records are the basis for many decisions made by the board and the school district administration.

Beacon can improve certain areas of its accounting and reporting system. These include the content and submission of the Treasurer's Reports, use of the Uniform System of Accounts, fund balance projections, cash flow statements, use of bond and note register, accounting for federal and State grants and Capital projects, and journal entry documentation.

Required Format of Treasurer's Reports

Section 170.2(o) of the Regulations require the Treasurer's Report to show the cash balance on hand at the beginning of the month, receipts by source during the month, total disbursements during the month, the cash balance on hand at the end of the month and reconciliation with bank statements. Beacon's Treasurer's Report only has one line showing actual deposits for the month.

Recommendation 11: List all revenues by their source in the Treasurer Report.

Uniform System of Accounts

General Municipal Law Section 36 requires districts to use the Uniform System of Accounts prescribed by the Office of State Comptroller (OSC) as the basis for reporting financial transactions. The Uniform System of Accounts is the framework where financial transactions are recorded and

reported. The Uniform System of Accounts provides for a standard chart of accounts and fund structure that is the basis for the Annual Financial Reports (ST-3) required to be filed with the State Education Department (Department).

The audit found instances when Beacon did not follow the prescribed account codes by the Uniform System of Accounts. For example:

- Beacon did not distinguish between State and federal grants. All grant revenues were recorded under account code F3289. The Uniform System of Accounts designates all State aid or grants to be recorded under the F3000 codes and federal aid or grants to be recorded under the F4000 codes.
- General Fund Tax Anticipation Notes were recorded under account code A9770, the code designated for Revenue Anticipation Notes. Tax Anticipation Notes should be recorded under A9760.
- Account code C201 was used with the account title Deposit in Transit while the Uniform System of Accounts prescribed districts to use this code for Cash in Time Deposits.

The Uniform System of Accounts also requires reconciliation between the ST-3 and the audited financial statements. Beacon provided a report showing a listing of all the account codes used and its corresponding ST-3 codes. Three revenue accounts in the General Fund did not have corresponding ST-3 account codes; although the total amount in the accounts was immaterial, there was a risk that not all revenues were accounted in the ST-3. In addition, Beacon indicated that one revenue code, A1085, related to real property taxes was reported in the ST-3 as A1720, Parking Lots and Garages, a code not valid for school district use. While the total revenue on the ST-3 equaled total revenue from the audited financial statements, it was not clear how Beacon converted the revenue amounts from this code to the ST-3.

Recommendation 12: Use appropriate account codes for grant revenues according to their source.

Recommendation 13: Review all account codes used in the accounting system to ensure conformity with the Uniform System of Accounts.

Recommendation 14: Review and map all revenue and appropriation accounts to valid school district ST-3 accounts.

Fund Balance Projections

Fiscal Fitness a Guide to Monitoring Your School Districts Budget, released by the Department in February 2004, recommends that districts prepare year-end fund balance projections for all funds beginning in January of each year and revised monthly to reflect any departure from budgeted amounts. Fund balance projections should consist of the fund balance as of July 1 of the fiscal year being reported, plus the revenues realized by source, less the expenditures by major function, and any adjustments to determine the anticipated fund balance.

Beacon's fund balance projection for 2004-05 consisted of only four lines of information: beginning balance of zero, addition of anticipated money left from expenditures, additional estimated revenue, and the total anticipated fund balance.

Recommendation 15: Revise the format of fund balance projections to include all pertinent information such as revenues realized by source, expenditures by major function, and any adjustments, and submit to the Board for review.

Cash Flow Statements

A critical element of sound financial management is the ability to project or plan cash flow for the fiscal year. Districts should prepare accurate cash flow statements to project any excess funds for investment or any shortfalls where borrowing may be required. The cash flow projection is a useful tool when constantly updated as additional information becomes available. Copies of cash flow statements should be presented to the superintendent and the board to aid them in planning district finances.

Beacon did not prepare cash flow statements. This limits the Board's ability to monitor the financial position of Beacon.

Recommendation 16: Require cash flow statements to be prepared and submitted to the Board for review on a regular basis.

Bond and Note Register

Section 170.2(g) of the Regulations states that the board shall have the power and it shall be its duty to require the district to maintain a bond and note register recording the dates of resolutions authorizing the notes, the types of notes, the dates on which notes are drawn, the numbers of the notes, the banks from which the money was borrowed, the amounts of the notes, the rates of the interest, the dates of maturity, the dates the notes were paid, and the amounts of principal and interest paid. A complete, accurate, and up-to-date reconciliation of all bond and notes payable will assist in accurately budgeting for all interest and principal payments.

Beacon's bond and note register was not current and only listed the types of bonds, original amount, due dates, principal and interest amounts, budget codes, and a column for "paid." It still listed bonds and notes that were previously paid off causing Beacon to over-encumber its debt service account.

Recommendation 17: Prepare and update the bond and note register with the required data elements and reconcile the schedule to the general ledger at least quarterly.

Federal and State Grants and Capital Fund

The Special Aid Fund is used to account for special projects or programs supported by federal or State funded grants. The Capital Fund is used to account for the acquisition and/or construction of capital facilities and equipment purchases financed in whole or part by proceeds of obligations. Federal and State grants and Capital projects are budgeted on an individual project basis and are assigned separate project numbers once the budget is approved by the Department. Districts should account for each grant whether federal or State and each capital project separately.

This would facilitate their expenditure reporting to the Department.

Beacon did not maintain separate reporting for individual grants and construction projects, preventing adequate monitoring to determine when appropriation is overspent. The Special Aid fund had a deficit of \$607,691 for the 2003-04 school year. The Capital Fund had deficits of \$1,731,416 for the 2003-04 school year and \$1,682,039 for the 2004-05 school year.

Recommendation 18: Ensure that the Special Aid Fund and Capital Fund are maintained by individual grant or project.

Recommendation 19: Monitor each grant or project in Special Aid Fund and Capital Fund regularly to ensure that projects are not overspent.

Journal Entry Documentation

Internal control standards require that documentation be maintained to preserve evidence to substantiate a decision, event, or transaction. Documentation should enable managers to trace each transaction from its inception through its completion.

Beacon did not adequately document journal entries. Pertinent information was not captured such as purpose, recording date, preparer, and approval. As a result, audit trail is lacking, entries may be duplicated, or may be charged to the incorrect accounts or funds.

Recommendation 20: Require the person preparing the journal entry to sign and date the entry, provide a detailed explanation for the entry, and attach any supporting document.

Recommendation 21: Review and approve each journal entry prior to entry into the accounting records, with each entry signed and dated by the reviewer and the recorder.

Recommendation 22: Maintain a journal entry log to ensure completeness and accuracy of the accounting records.

Comments of Beacon Officials

Beacon officials agreed with the recommendations and have taken action to implement them.

Revenue and Cash Management

Districts collect and invest millions of dollars in revenue each year. Districts must have adequate controls in place to ensure the funds are collected and deposited, accounted for accurately, and safeguarded. Beacon generally complied with revenue and cash management requirements; however, the District could improve its controls over various aspects of cash receipts.

Cash Receipts

Districts must establish strong internal controls over cash collections to prevent mishandling and to safeguard against loss. Strong internal controls over cash receipts require that districts establish separation of duties, prompt deposit of all receipts, and use of pre-printed, pre-numbered cash receipt forms.

Segregation of Duties

OSC's Standards for Internal Control In New York State Government defines segregation of duties as the division of key tasks and responsibilities among the various employees and sub-units of an organization. No one individual should control all key aspects of a transaction or event. Management can reduce the risk of error, waste, or wrongful acts from occurring or going undetected by separating key tasks and responsibilities such as receiving, recording, depositing, securing, and reconciling assets.

Beacon's Treasurer was responsible for receiving, depositing, and recording cash receipts, and reconciling bank accounts. As a result, the Treasurer controlled the entire cash receipts process. While ideal segregation of duties is not always possible in small office, Beacon should strive to separate key functions and/or provide for increased supervisory oversight over high-risk areas.

Recommendation 23: Improve controls over cash collections by separating key duties or increasing supervision and oversight of certain activities.

Timing of Deposits

Promptly depositing cash receipts reduces the risk of theft or diversion of funds and contribute to the best possible use of resources. Judgmental samples of 34 cash receipts were tested to determine the timeliness of deposits. Of the 34 cash receipts, 22 were not deposited timely. For example,

Receipt Number	Amount	Date Received	Date Recorded	Date Deposited
8874	\$37,930	6/25/2005	7/8/2005	7/14/2005
8875	\$5,701	6/30/2005	7/8/2005	7/14/2005

Beacon increased the risk of having its cash or checks stolen or lost by making untimely deposits. Moreover, these deposits were not recorded until the following fiscal year which might affect the accuracy of the financial statements.

Recommendation 24: Make bank deposits daily or as soon as practicable and record cash receipts in the appropriate time period.

Form of Cash Receipts

Section 170.2(ii) of the Regulations requires employees who receive monies on behalf of a district, other than the treasurer, to issue pre-numbered receipts printed in triplicate. It also states that the copies of the receipts shall be distributed as follows: original to payer, copy to treasurer with the money or bank deposit receipt, and copy retained by person authorized to receive money.

Beacon used an employee other than the treasurer to issue cash receipts. Beacon used two forms of cash receipt: pre-printed, pre-numbered and computer generated. The computer generated receipt forms do not comply with regulations. Furthermore, these two forms were not reconciled to each other resulting in duplicate numbering and issuing out-of-sequence receipts. Beacon has less assurance that all cash receipts are accounted for.

Recommendation 25: Obtain and use the pre-printed, pre-numbered triplicate receipt form for all cash receipts.

Recommendation 26: Have the cash receipts prepared by the individual receiving cash and distribute the original

to payer, one copy to treasurer with the deposit, and a copy retained for control purposes.

Comments of Beacon Officials

Beacon officials agreed with the recommendations and have taken action to implement them.

Purchasing and Expenditures

Districts purchase thousands of products and services each year. A district's purchasing process should ensure maximum value is received for each dollar spent on equipment, supplies, and contracted services. Strong controls are necessary to ensure that purchases result in securing goods and services in the right quantity, at the right time, and for the right price, and are made in compliance with the law and district policy. All purchases should be necessary, reasonable, and adequately documented.

A judgmental sample of 37 payments totaling \$964,610 were selected to determine if purchasing and bidding rules and regulations were followed, and proper approvals for the purchases and payments were obtained from appropriate personnel and the internal claims auditor. Beacon has opportunity to improve controls on the bidding process, coding of expenditures, timing of payments, ensuring appropriateness of expenditures, and documenting of credit card payments.

Purchasing Requirements

Section 103 of General Municipal Law (GML) requires all public work contracts involving an expenditure of more than \$20,000 and all purchase contracts involving an expenditure of more than \$10,000, be awarded to the lowest responsible bidder. In general, contracts for public work involve services, labor, construction, and some incidental acquisition of goods. Purchase contracts involve the acquisition of commodities, materials, supplies or equipment and could involve some incidental services or labor. Section 104-b 2(d) of GML requires adequate documentation of actions taken by the district. Achieving the goal of adequate documentation involves leaving a paper trail for action taken. Purchases below the bidding limits should show evidence of written or verbal quotes or requests for proposals (RFPs). Procurements of items not subject to competitive bidding, such as professional services, emergencies, purchases under State or county contracts or from sole sources should be documented in the file. Similar procurements to be made during a fiscal year should be considered in the aggregate to determine whether it is subject to competitive bidding or not.

Section 109(b) of the GML also discusses various types of contracts subject to competitive bidding. Paragraph 3(a) states “Installment purchase contracts which includes lease purchase agreement, installment sales agreement, or other similar agreement providing for periodic payments between a corporation, person or other entity, and a political subdivision which has as its purpose the financing of equipment, machinery, or apparatus, shall constitute purchase contracts for public bidding purposes and shall be subject to public bidding requirements to the extent applicable by law. For purposes of determining whether the cost of the equipment, machinery, or apparatus exceeds the monetary threshold, the cost of the equipment, machinery or apparatus, exclusive of the cost of financing, shall be considered.”

A sample of the 37 payments was examined for compliance with purchasing requirements. At least five payments were identified which should have undergone competitive bidding, request for proposal, and verbal or written quotes; however, there is no documentation to indicate that such took place. For example,

- A payment of \$6,475 was for principal and interest on two combined lease purchase agreements for various audio-visual equipment. Without the cost of financing, the total cost was \$241,900 for the first lease and \$98,161 for the second lease.
- A payment of \$14,812 for another lease purchase agreement was for a computer server. Excluding the cost of financing, the cost of the server was \$42,102.
- A payment of \$12,516 for agenda notebooks.
- A payment of \$11,549 for security services, total cost was \$76,600.
- A payment of \$22,080 to a construction management company.

In another instance, Beacon had a contract with a vendor to provide management services for its buildings and grounds operations. This includes the training, managing, and directing of District employees in its custodial, plant operations, and maintenance and grounds upkeep. Beacon

appropriately solicited RFPs before the vendor was awarded the contract. The terms of the agreement required the vendor to make additional or replacement equipment available at the District's requests. The vendor purchased equipment for Beacon without bidding. For example, the vendor purchased a truck costing \$33,000.

In addition, some payments from the sample tested related to procurements exempted from competitive bidding; however, this was not documented in Beacon's file as required by GML. By not using RFPs, obtaining verbal or written quotes, and other means, when competitive bidding is not required, Beacon could not ensure that it obtained the best possible price for these purchases.

Recommendation 27: Comply with the competitive bidding requirements of GML for purchase contracts over \$10,000 and for public works contracts over \$20,000.

Recommendation 28: Maintain bidding documentation, if bidding is not required, document the reason and the alternative method employed to ensure the best price was obtained.

Coding of Expenditures

The Uniform System of Accounts expenditure codes are arranged by functional unit and object code. Function refers to the primary classification and description as to the purpose of the expenditure. The object code is a secondary classification and identifies the item purchased or service obtained in order to carry out the function.

Beacon used incorrect expenditure codes in 11 of 37 payments tested. For example, a payment to another school district was coded to A2250.400 Special Education, even though the invoice specifically stated that it was for a non-handicapped student. Another example is a payment for a lawnmower purchased by a vendor for Beacon was coded to A1620-400 Contractual Services, when it should have been coded to an equipment code. The incorrect coding of expenditures may result in inaccurate reporting of expenditures.

Recommendation 29: Code each payment to its proper account code to ensure expenditures are properly classified in the accounting records.

Advance Payment for Services

According to Section 170.2 (k) of the Regulations, the board should not pay any obligation of the district until materials have been received or services rendered.

Beacon made a partial payment to one individual ten days prior to services being rendered despite the wording in the contract. The approval was made without verification that services were rendered. As a result, Beacon paid for services in advance.

Recommendation 30: Ensure all payments made are for services rendered or materials received.

Graduation Flowers for Students

State Comptroller's Opinion 579 states that district funds may not be used for graduation pins or flowers for each student. Beacon purchased 210 boutonnieres at a cost of \$470 for the class of 2005, paid through the General Fund. Supporting documentation shows that Beacon has been paying for flowers for various occasions since 2001. These expenses were personal in nature and should not be paid by District funds.

Recommendation 31: Eliminate use of Beacon funds for inappropriate purchases such as graduation flowers for individuals.

Documentation for Credit Card Payments

Districts are responsible for protecting their limited resources and must ensure that payments are for valid and legal purposes, obligations are incurred by authorized officials, goods are actually received or services rendered, obligations do not exceed appropriations, and claims are in proper form, are mathematically correct, meet legal requirements, do not include sales tax, include applicable discounts, and are in agreement with the purchase order. To determine if these requirements are met, districts should

maintain complete and accurate documentation to support all payments.

Beacon's credit card purchases were paid based on credit card statement; all original receipts were not submitted as documentation. Without actual receipts, there was less assurance that expenditures were necessary, appropriate, accurate, and directly related to District's activities.

Recommendation 32: Require original receipts for credit card purchases and other appropriate documentation to be submitted for payment approval.

Comments of Beacon Officials

Beacon officials agreed with the recommendations and have taken action to implement them.

Student Services

Districts provide various services for their students including student transportation, food service, and extraclassroom activities. The audit found improvement opportunities related to the extraclassroom activity funds.

Section 172 of the Regulations requires a district to establish policies and procedures for the creation and operation of extraclassroom activities and for the safeguarding, accounting, and auditing of the activity funds. The funds should be established for appropriate activities and should be operated by the students. The review noted opportunities for improvement.

Extraclassroom Activity Fund (ECA) Quarterly Reports

Section 172 of the Regulations, defines ECA as funds raised other than by taxation or through charges of a board of education for, by, or in the name of a school, student body, or any subdivision thereof. The activities are operated by and for the students. The students collect money and spend it as they determine, in accordance with established regulations. To complement the Regulations, the Department issued a finance pamphlet called *The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds*. It requires the central treasurer to receive and verify the bank statements monthly and to prepare reports for presentation to the faculty auditor and the board of education monthly.

Beacon's ECA central treasurer did not reconcile the account balances to the bank statements or submit any reports to the Board to help meet its oversight responsibilities.

Recommendation 33: Require the central treasurer of the ECA to properly reconcile the account to bank statements.

Recommendation 34: Require the central treasurer to prepare and submit the required reports to the Board quarterly.

Comments of Beacon Officials

Beacon officials agreed with the recommendations and have taken action to implement them.

Other - Sale of Old High School Building

Background

In March 2002, Beacon signed a contract to sell the old high school building (Building) to a local realty company. In March 2003, the local realty company assigned all of its rights over to a not-for-profit organization (NFP) created exclusively to take over this mortgage and building. The Superintendent of Beacon at that time was also a board member of the NFP. This NFP received the title to the Building in exchange for a mortgage/promissory note for \$3,670,000. It did not have the financial means to obtain its own mortgage nor have the utilities put in its name. Beacon agreed to hold the mortgage and keep the utilities in its name until the NFP could assume those expenses. Beacon re-negotiated the contract three times from March 2003 to December 2004, giving the NFP many opportunities to comply with the agreement. In May 2005, five months after the third addendum to the contract was signed, Beacon sent a letter to the NFP expressing concerns regarding its continued failure to abide by the agreement. As of February 2006, the NFP entered into bankruptcy proceedings and was seeking to have the value of the building reduced.

Utilities for NFP Paid By the District

Section 1 of Article 8 of the New York State Constitution states that “No school district shall give or loan any money or property to or in aid of any individual, or private corporation or association, or private undertaking.”

When the mortgage and title transferred to the NFP, it lacked the financial means to have the utilities put in its name even though the contract required it to assume all operational costs as of the date of closing. Beacon allowed the utilities to remain in its name and made an agreement with the NFP for reimbursement. By allowing this, the Board did not act prudently in carrying out its fiduciary responsibility in protecting its resources.

The NFP failed to reimburse Beacon for utility payments. From the time the title transferred to the NFP, the amount that was owed Beacon was about \$118,000. Beacon spent its own funds, unnecessarily, paying for the NFP’s utility

bills and also for legal services retained in an attempt to recover funds.

Recommendation 35: Ensure that district funds are used appropriately, for district purposes.

Comments of Beacon Officials

Beacon officials did not express agreement or disagreement with the recommendation. However, they offered the information that the building has reverted back to Beacon's ownership because of the inability of the original purchaser to make payments. The building is currently up for sale.

Beacon City School District
Contributors to the Report

- Maria Guzman, CPA, Audit Manager
- Janet Matuszek, Senior Auditor
- Greg Isaacs, Auditor

Beacon City School District
Response to Draft Audit Report for the period from July 1, 2004 – April 20, 2006

Background

The Beacon City School District has historically been a district that has provided a quality education to its students without burdening the taxpayers. Over the last several years, the district has had to deal with several situations that have left their mark on the district's overall financial condition. During the 2004-05 school year, the Superintendent had discovered that the district was in financial trouble and the budget was not adequate to support the current programs in place. To add to the projected deficit, the district was also required to implement a full accrual of the teacher's retirement payment which meant an additional expense of approximately \$1 million to be booked in one year. The Superintendent contacted the local state lawmakers to start the process of obtaining approval to obtain deficit financing. The total borrowing of \$5.2 million was enough to cover the deficits of all three funds that totaled approximately \$4.99 million. (The \$1.7 million deficit in the capital fund is included in this number; it is not in addition to). In preparing the budget for the 2006-07 school year, the Superintendent and the Business Official realized that the budget had to increase significantly to avoid a similar situation happening again. The tax levy increase for the 2005-2006 school budget was increased on an average of 18.5%. This increase and the deficit financing bond allowed the school district to become financial sound. We were even able to re-create reserves that we had in the past and have an unappropriated fund balance.

Recommendation # 1 - The board of education of the Beacon City School District is a group of individuals that know what their responsibilities are to both the children in the district and the senior management and they work hard to accomplish these responsibilities. The board was made aware of the projected deficits during the 2004-05 school year as soon as the Superintendent became aware. The Business Official had left the district during this school year and the staff of the business office was working hard to maintain the financial operations while the Superintendent was looking for a new Business Official. Prior to this, the board had not received the financial information on a timely basis which made it difficult for them to monitor the budget and the spending. The current management staff has worked very hard to improve the reporting to the board and keep them up to date of the status of the budget on a quarterly basis. We are able to monitor the encumbrances and expenditures more thoroughly by using a module in our accounting system that does not allow an encumbrance or payment to be generated unless there is money in that specific budget code. A budget transfer would have to be done first.

Recommendation #2: During the current school year, we have been providing the Board of Education with the revenue and expenditure status reports on a quarterly basis in their board packages. The budget transfers are printed and approved by the Board on a monthly basis.

Recommendation # 3 – We have activated the controls in the computer software program that will not allow a purchase requisition to be processed unless there is money in the specific budget code. We do actively review the budget status report to ensure that we do not spend over the budgeted amount.

Recommendation # 4 – During the 2006-07 school year, the board formed a committee which included board members, the Superintendent, the school attorney and other administrators to work with █████ BOCES to update all the policies and regulations of the school district. The final draft went up to █████ BOCES during 2007-08 and a final review by the board is scheduled to be done in the next few weeks. The project for the 2008-09 school year is to update the corresponding regulations.

Recommendation # 5 – The organizational chart has been updated to include all the significant positions in the school district. We have not yet included the names and will work on doing this in the next school year.

Recommendation # 6 – The treasurer of the Board of Education is also the principal account clerk in the business office. The organizational chart mistakenly showed that the treasurer reports to the Business Official. The treasurer position does report to the Board and the principal accountant position reports to the Business Official.

Recommendation # 7 – The treasurer reports are being submitted to the board approximately two months after the month end which is a significant improvement from the time period looked at during the audit.

Recommendation # 8 – In the past, we have only prepared formal written evaluations for our teachers and administrative staff. Other unit members receive informal evaluations from their supervisors if there is a problem or concern with their performance. We will look into establishing a more formal evaluation process for all the staff in our school district.

Recommendation # 9 - A change to an employee's salary is included on the board agenda and subsequently approved by the Board of Education. There are salary changes done during the school year that are authorized by an employee's contract and not included as an agenda item for the board of education. For example, a teacher was hired mid-year and they do not receive their step increase until their anniversary date. The payroll clerk will prepare a salary change form to be included with the employee's paycheck that explains the change made. Historically we have only included a copy of this salary change form for the employee as an explanation. We have started a process where we will keep a copy in the business office and have the Business Official sign off on the change before the payroll is certified by the Superintendent.

Recommendation # 10 – During the last three years, there has been several changes in the job responsibilities in the Business Office. We were able to add an additional full time account clerk position which allowed us to delegate some of the duties of the staff members to this new position. Although the duties for the new position were not formally written, we were

able to evaluate the qualifications of the applicants by utilizing the job skills included in the titles from Civil Service. The entire staff in the Business Office knows what their individual duties are and we will work on formalizing the job duties for each position in a more formal written job description format.

Recommendation # 11 – We have changed our treasurer’s reports to show the source of the revenue.

Recommendation # 12 – Our grant revenue and expenditures are accounted for separately by grant. The account codes used for the grant revenue are different but do fall into the F3000 series. We will review these account codes and reclassify the grant revenue based on whether they are state or federal grants.

Recommendation # 13 - The coding of a tax anticipation note in revenue anticipation note account code was an error in the accounting records but was classified correctly for the ST-3. The C201 account will be reviewed and the correct account will be used.

Recommendation # 14 - The Business Official does reconcile the amounts found on the ST-3 to the audited financial statements. We reviewed all the account codes after the audit and corrected any accounts that did not have a corresponding ST-3 code.

Recommendation # 15 – We are currently using a fund balance projection schedule that details the source of the excess revenue and savings in the expenditure areas. We discuss these projections with the Board of Education during the budget process so they can make well informed decisions on whether or not to use any excess fund balance to reduce the tax levy for the subsequent school year.

Recommendation # 16- We are currently preparing cash flow statements and updating them on a monthly basis. These statements are forwarded to the Superintendent and the Board to keep them informed of the cash situation of the district.

Recommendation # 17 – We are currently working on preparing a more detailed bond and note register that includes all the data mentioned in the audit report.

Recommendation # 18 & #19 - We do maintain separate budget codes for each grant in the Special Aid fund and for each capital project in the Capital Fund. The deficit in the Special Aid fund was the result of not budgeting for the school district’s share of the Summer Handicapped program. The school district is supposed to budget for 20% of the expenses related to this program. We have appropriately included our share in all of the subsequent budgets. The deficit in the Capital Fund was the result of one of our capital projects being overspent. There were several circumstances that led to this project being overspent including a forged document prepared by a former Business Official and the lack of monitoring of the project by a subsequent Business Official. We currently have controls in place that will ensure that this type of situation will not happen again.

Recommendation # 20, 21 and 22 – The journal entry now documents the name of the person preparing it and the date. We have also begun attaching documentation to substantiate the reason the journal entry is being prepared. The Business Official is signing and dating each journal entry that is done. The journal entry log is maintained automatically by the accounting system and details all the entries by number.

Recommendation # 23 – Beginning this school year, we have a part time employee opening all the mail that comes to the business office and record all checks that are received. After she records the check information on a spreadsheet, she gives the checks to the treasurer who prepares a treasurer's receipt and subsequently deposits it in the bank. The amount of checks we receive in the business office is quite small. The major part of the revenue is received through a lock box (school tax collections) or through wire transfers (state aid payments).

Recommendation # 24 – Our goal is to deposit cash receipts in the bank as soon as possible. We try to go to the bank everyday, but there are times when that is not possible. Currently, we do not leave deposits in our office more than a few days before a deposit is made. The untimely deposits found during the audit were the result of changes in the business office staff that were occurring at the end of the 2004-05 school year. We have worked hard over the last few years to be diligent about recording cash receipts in a timelier manner and getting them to the bank in a more appropriate time period.

Recommendation # 25 & 26 – We do have employees that work in the school buildings that collect cash and send it over to the treasurer so it can be deposited in the bank. The treasurer has created pre-printed receipts and has distributed them to each building so that any cash sent over to the business office will be accompanied by this receipt. Each building was given a different number sequence so we can keep track of where each receipt is coming from.

Recommendation #27 & #28 – The school district has made a conscious effort in the last two years to comply with the competitive bidding requirements mandated by general municipal law and maintain the proper bidding documentation. There were a few occasions during the audit time period that the district did not appropriately bid out items or services. We did not always maintain the proper documentation when bidding was not required. We currently use the NYS contract or a local BOCES contract to purchase items. For those items that can not be obtained by either one of these contracts, we prepare Requests for Proposals or Bid documents to obtain the good or service. Since we no longer have an outside contractor manage our operations and maintenance areas, we have more control over the goods and services for that area. We have also educated other departments in the school district to use the state contract or vendors we obtained by a bid instead of trying to place orders with others. The accounts payable clerk and the purchasing agent review all the things purchased and do send back things that are not properly purchased.

Recommendation # 29 – We try very hard to code expenditures to the proper account before a purchase order is prepared. When we find something that is coded incorrectly, we prepare a journal entry to re-classify the item. On a monthly basis the treasurer and the Business Official review the budget to actual reports to ensure that the budget code items are correct.

Recommendation #30 – The district office personnel have been asked in the past to prepare a check in advance so the check would be available to be given to the contractor on the day the contractor is finished with their service. Although the check is dated earlier than the contract date, the check is held until the service is complete. In the process of further tightening the internal controls in the business office, we no longer prepare a check until the service is completed.

Recommendation # 31 – The boutonnieres purchased were for the high school students that were worn as part of the graduation ceremony. We purchased enough for all the students graduating. After the audit was complete and we discussed this practice further with the auditors, we stopped purchasing flowers for our graduation ceremony.

Recommendation # 32- Our school district has a very limited number of credit cards which are only used for emergency type purchases. During the audit, the credit card statement that was used for payment was for a gasoline purchase that a bus driver made to fill a bus while they were picking up a special education student from a school he was attending out of state. The driver did not have the original receipt, so we documented the statement received by the gas company and paid from the statement. Our superintendent does not have her own credit card and the store credit cards we do have, are kept in the business office and only given out when we receive an approved purchase requisition which details the type of things they are going to buy. The employee using the credit card must sign it out. Once the card is used, it is returned to the business office with the receipt for the items purchased.

Recommendation # 33 & 34 – The senior account clerk in the business office reconciles the records maintained by the central treasurer to the bank statements on a monthly basis. Beginning this school year, we did provide the board of education with a report of all the funds included in the Extra classroom Activity Fund on a quarterly basis.

Recommendation # 35 – The school district sold the old high school building to [REDACTED], a not-for-profit company, in 2002. After the building was sold, the district continued to use space in that building to house their alternative high school program. The amount of rent that the school district was supposed to pay to [REDACTED] was offset by the amount that [REDACTED] was supposed to be paying the school district for interest only payments on the mortgage. The district continued to maintain insurance on the building because it was holding the \$4 million mortgage on the building. The district worked with [REDACTED] over the next few years to have the utilities turned over to their name. [REDACTED] did not have enough money to put up the deposit with Central Hudson to have their own account set up. While [REDACTED] was trying to raise the money needed, the utilities remained in the school district's name and [REDACTED] would reimburse the district on a monthly basis for the utilities paid on their behalf. The school district decided not to continue the alternative high school program for the 2006-06 school year and gave up the space it occupied in the old high school building. During the next year, [REDACTED] was having some serious financial problems and stopped reimbursing the district for the utilities. In July 2005, the district contacted [REDACTED] and told them we would no longer be responsible for the electric and gas accounts for the old BHS. [REDACTED] owed approximately \$100,000 to the school district for the utilities from the prior

few months. The building eventually reverted back to the school district in December of 2006 as a result of the bankruptcy being granted to the [REDACTED]. The building is currently up for sale.