
Final Audit Report

Freeport Union Free School District

For the Period

July 1, 2000 through June 30, 2001

SD-1201-3

November 6, 2003

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





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November 6, 2003

Dr. Joseph A. Cattano, Ph.D.
Board President
Freeport Union Free School District
235 North Ocean Avenue
Freeport, New York 11520

Dear Dr. Cattano:

The following is our final audit report (SD-1201-3) on the Freeport Union Free School District for the period July 1, 2000 through June 30, 2001. 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 report on actions taken as a result of this audit. This required report will be in the format of a recommendation implementation plan and it 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,

Michael Abbott, CPA

Enclosure

cc: T. Savo, B. Porter, T. Sheldon, J. Kadamus, R. Bullis, , C. Szuberla, C. Foster (DOB), J. Dougherty (OSC), Dr. Eric Eversley, Superintendent, Dr. Jerry W. Shiveley, District Superintendent

Executive Summary

Background and Scope of the Audit

The Freeport Union Free School District (Freeport) located in Nassau County served approximately 7,300 students in eight schools and spent approximately \$91 million during the 2000-01 school year. Freeport's 1999-2000 average cost per student was \$11,675, or about 15 percent lower than the average for school districts in Nassau County. Freeport's student performance in English and mathematics is considerably lower than the New York State average.

The audit examined selected management practices, records, and documentation for the period July 1, 2000 through June 30, 2001. This was a performance audit and our objectives were: to assess the adequacy of Freeport's system of management controls; to assess the adequacy and reliability of the policies and procedures for collecting and reporting general student attendance, night school attendance and contact hours claimed for the Employment Preparation Education (EPE) Program; and to assess the adequacy and reliability of the policies and procedures for collecting and reporting certain student performance data, including the student dropout rate and cohort statistics.

Audit Results

- Improvements are needed in reporting EPE contact hours for State aid. The audit determined that 23,247 (14.2 percent) of the 163,780 contact hours reported by Freeport were ineligible for State aid because the contact hours could not be documented, the students were under the age of 21, or no teacher record of the work sent to and completed by GRASP students was maintained. The Department is disallowing \$103,682 in State aid received by Freeport.
- Improvements are needed in collecting and reporting student performance data.

Freeport did not include students attending a Community School program in the dropout or cohort statistics reported to the Department. Data on students attending the Community School program were unreliable.

As a result, the audit could not determine the number of student dropouts. Freeport originally reported 46 dropouts, which equates to a 2.0 percent dropout rate. The audited dropout rate could be as high as 10.4 percent, which is more than five times what was reported. A better system for tracking and documenting dropouts and cohort data would keep Freeport apprised of adverse trends.

Reported data for the 1997 cohort incorrectly included some ineligible students and excluded others who should have been included.

- Improvements can be made in management controls related to Board governance, purchasing, establishing written policies, maintaining the level of fund balance, and reconciling bank accounts.

Comments of Freeport Officials

Freeport officials' comments to the findings were considered in preparing this report and are included as Appendix B. In response to the audit, Freeport officials generally agree with the recommendations and have already made improvements in some areas. Freeport officials disagree with the issue of documentation of non-traditional EPE contact hours. They believe a student maintained record is adequate.

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Introduction

Background

The Freeport Union Free School District (Freeport), located in Nassau County, served approximately 7,300 students in eight schools during the 2000-01 school year and spent approximately \$91 million. Freeport's 1999-2000 average cost per student was \$11,675, or about 15 percent lower than the average for school districts in Nassau County. Freeport's student performance in English and mathematics is considerably lower than the New York State average.

Objectives, Scope and Methodology

The audit examined management controls and reviewed practices, records, and documentation for the period July 1, 2000 through June 30, 2001. This was a performance audit, which focused on the following objectives:

- to assess the adequacy and reliability of the policies and procedures for collecting and reporting general student attendance, Community School attendance, and contact hours claimed for the Employment Preparation Education (EPE) Program;
- to assess the adequacy of Freeport's system of management controls;
- to assess the adequacy and reliability of the policies and procedures for collecting and reporting financial data; and
- to assess the adequacy and reliability of the policies and procedures for collecting and reporting certain student performance data, including student dropout and cohort data.

To accomplish our objectives we reviewed applicable laws, regulations, policies and procedures; interviewed Department and Freeport management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the audited financial statements.

We conducted the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting

and operational records, and applying other audit procedures considered necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

Comments of Freeport Officials

Freeport officials' comments about the findings were considered in preparing this report and are included as Appendix B. Freeport officials generally agree with the audit findings and recommendations. Freeport officials disagree with the issue regarding documentation of non-traditional EPE contact hours.

Accuracy of Data Related to EPE Aid

School districts are eligible to receive aid for Employment Preparation Education (EPE) programs that provide instruction that leads to high school or equivalency diplomas for students 21 years of age or older. EPE aid is generated based on the number of contact hours that are provided to eligible students and is limited to the lesser of program expenditures or the amount calculated using contact hours reported. EPE aid must be spent on allowable expenses for EPE-related services and, if the aid exceeds total expenses, it will be reduced accordingly in the following year.

EPE programs include both traditional adult education programs taught in classroom settings by certified teachers and non-traditional programs in which students are not present in classrooms, but their work is supervised by certified teachers. Freeport operated traditional programs as well as non-traditional programs such as Giving Ready Adults a Study Program (GRASP) and Crossroads Café.

Freeport claimed 163,780 contact hours resulting in \$730,459 (163,780 x \$4.46) in EPE aid for the 2000-01 school year. Freeport received \$103,682 in EPE aid to which it was not entitled. The excess aid was received for claiming: undocumented hours; non-traditional hours (GRASP) not supported by teacher records; and contact hours for students under the age of 21.

Non-Traditional Programs

The Department's 1995-1996 Clarification of Policy Guidelines for Generating and Expending EPE State Aid states the following:

“To ensure that EPE revenues paid to the district or BOCES are appropriate, the number of reported contact hours must be clearly documented. Any undocumented or overstated hours will be questioned upon audit and revenues will be reduced accordingly. The district or BOCES must maintain classroom attendance rosters of all students who attend EPE programs. Documentation must clearly support reported contact hours.”

Freeport reported 16,166 contact hours in the non-traditional programs. Initially, Freeport officials indicated the only non-traditional program was GRASP. Subsequent to the release of the draft audit report, the District produced documents supporting 3,912 contact hours for the Cross Road Café. It had no documentation to support 4,829 (30 percent) of the remaining non-tradition contact hours claimed.

Education Law and Department guidelines define contact hours eligible for EPE aid. For the GRASP program, Freeport is limited to 12 contact hours per hour the teacher worked. This is further limited to one teacher hour per actively enrolled student. A student is considered actively enrolled if the student completes and turns in a home study packet (packet) once in a two-week period. Therefore, for every packet turned in, 12 contact hours may be claimed.

Freeport claimed contact hours for GRASP students during 2000-01. Six contact hours were claimed for each student each week regardless of work submitted and all ten of the sample GRASP students were credited with the same amount of contact hours per month. The teachers did not keep records of work assigned to and completed by the student. As a result, 6,424 GRASP contact hours will be disallowed.

To be eligible to generate EPE aid, a student must be at least 21 years of age and not have a high school or equivalency diploma. The audit reviewed documentation provided by Freeport and determined that 1,001 GRASP student contact hours were ineligible for EPE aid because the students were under the age of 21 at the time the contact hours were completed.

Of the contact hours claimed by Freeport, 12,254 were found to be ineligible. The table below summarizes the disallowance of the GRASP program hours.

Summary of
Ineligible Non-Traditional Contact Hours

Reported Non-Traditional Hours	16,166
Lack of Documentation	4,829
GRASP Hours with No Teacher Record of Work Assigned to and Completed by the Student	6,424
Hours Claimed for Students Under the Age of 21	1,001
Total Non-Tradition Hours Disallowed	12,254
EPE Rate	\$4.46
EPE Aid Disallowance	\$54,653

Source: Audit Review and Analysis of Freeport EPE Files

Traditional EPE Programs

To be eligible to generate EPE aid, a student must be at least 21 years of age and not have a high school or equivalency diploma.

Freeport reported 163,780 contact hours on its EPE State Aid Claim Form for 2000-01. The audit reviewed documentation provided by Freeport and determined that 10,852 contact hours were ineligible for EPE aid because the students were under the age of 21 at the time the contact hours were completed. Therefore, Freeport is ineligible for \$48,400 in EPE aid (10,852 x \$4.46).

The audit selected a sample of 4,915 contact hours for traditional EPE courses. Documentation was not provided for 141 hours, resulting in \$629 (141 x \$4.46) in EPE aid that Freeport was not eligible to receive.

Student Folders Are Not Maintained According to Department Regulations

Every student served in an EPE program must have an individual student folder that is easily accessible to the student and to the teacher. The folder should contain information concerning registration, attendance, testing, and individual program needs. At a minimum, registration information must be dated and include the student name, goals, the date of birth, and the diploma status. Each folder must also contain evidence of class attendance including dates and times, and an Individual Education and Employment Preparation Plan (IEEPP).

The audit reviewed a sample of 56 student folders and noted that most of the folders had the required information. However, 21 of the students had not completed the section on

Freeport's Adult Education Student Record Card listing seven primary goals for attending and none of the folders had any records relating to the students' diploma status.

Recommendations

1. Maintain documentation for all reported contact hours.
2. Support all GRASP contact hours with a teacher record of work assigned to and completed by the students.
3. Claim EPE aid only for students 21 years of age and over.
4. Maintain the required information for each student in EPE student folders.

Comments of Freeport Officials

Freeport officials partially agree with recommendations 1, 3, and 4 and disagree with recommendation 2, which requires GRASP contact hours be supported by teachers' records.

Auditor Note

The requirement for documentation of GRASP hours is well established and has been upheld through audit appeals.

Freeport officials have submitted additional documentation of non-traditional contact hours and the disallowance has been adjusted accordingly.

Accuracy of Student Performance Data

School districts report data on student performance, which are the bases for various reports on student outcomes such as the New York State School Report Card (Report Card). Data should be reliable and valid to ensure that student performance is accurately portrayed. The audit assessed the accuracy of dropout and cohort data, which are used to track student progress toward meeting graduation requirements.

The audit determined that Freeport did not report a significant number of students who attended the Community School, reported some inaccurate data, and lacked adequate documentation to support other reported data.

Dropout Data

School districts are required to report the number of dropouts annually. The Department has defined a dropout as any student who left school prior to graduation for any reason, except death, and did not enter another school or approved high school equivalency preparation program. This information is used by the Department to calculate an annual dropout rate by dividing the total number of students who dropped out in a given year by the total fall enrollment in grades 9 through 12. The rate is published in the Report Card for each school district and can be used to compare performance among districts.

The dropout rate is a key measure utilized by the Department in gauging whether a school district's registration as a public school should undergo a review. It is also used as one of the Department's performance benchmarks in identifying schools that may need assistance in raising student performance.

Community School Dropouts Not Reported as Dropouts of the District

The Department's Office of Information and Reporting Services considers a community school to be an extension of a high school if it offers a high school diploma. A student who withdraws from a high school, enters the community school, and subsequently stops attending community school classes should be counted as a dropout of the high school (unless the student was previously reported as a dropout) in the year he/she stopped attending the community school.

Freeport operates a night program (known as the Community School) for individuals who are at least 16 years of age but under 21. The Community School offers courses necessary to complete high school and receive a diploma. Enrollment data were unavailable in the Community School for the fall 2000 semester and was approximately 130 for the spring 2001 semester. The audit was able to verify enrollment in the fall 2001 semester (160) and in the spring 2002 semester (122). Freeport officials estimate that half of Community School students drop out. Freeport does not report students who stop attending the Community School as dropouts of the district.

Freeport has understated its dropout rate by not including students who stop attending the Community School.

Other Inaccuracies in Freeport Dropout Data

Freeport reported 46 dropouts (2.0 percent dropout rate), for the 2000-01 school year on its Report Card - Comprehensive Information Report, issued on March 30, 2002.

The audit determined that an additional 129 students who withdrew from Freeport after the close of the 1999-2000 school year should be considered dropouts because documentation confirming their enrollment in another school or program was not provided. This results in a total of 175 dropouts and a rate of 7.7 percent, which is over three times the reported rate of 2.0 percent.

Freeport should change its procedures to ensure that adequate documentation is maintained in student files to support the reasons for the students leaving, efforts made to retain or place students in other programs, and whether students entered other schools or approved high school equivalency programs.

Revised Dropout Data

The audit identified significant underreporting of student dropouts. Because the exact number of students dropping out of the Community School is unknown, it is impossible to calculate a dropout rate. The following table shows what the calculated dropout rate at Freeport would be using estimated numbers/dropouts at the Community School. The estimates are bolded.

	Dropouts	Enrollment	Dropout Rate
Day School	175	2,284	
Community School	*80	160	
Total	255	2,444	10.43%
	Spring 2002		
	Dropouts	Enrollment	Dropout Rate
Day School	175	2,284	
Community School	*61	122	
Total	236	2,406	9.81%

*estimates provided by Freeport officials

The table illustrates that Freeport has significantly underreported the number of dropouts. Based on Freeport officials' estimates, the rate could be as high as 10.43 percent.

Cohort Data

School districts are required to track and report progress in meeting graduation requirements by submitting data based on the year students first enter ninth grade. These cohort data are used to gauge how students are progressing toward obtaining their high school diploma and can also be used to identify at-risk students. To ensure that cohort data are accurate, systems and processes are needed to track and accurately report the data.

Freeport originally reported that the "1997 Cohort as of June 2001" contained 399 students. On January 11, 2002, Freeport submitted a corrected "1997 Cohort as of June 2001" form containing 421 students. However, Freeport did not include any students attending the Community School in cohort data and some other data were inaccurately reported.

Community School Students Not Included in Cohort

The Department's Office of Information and Reporting Services states that unless the Community School has its own BEDS code, the students are considered to be enrolled in the high school and should be included in the high school's cohort reporting.

Freeport High School students who enroll in the Community School are no longer considered by Freeport to be enrolled in the high school and are not included in the high school's cohort reporting. Since the Community School does not have its own

BEDS code, Freeport must include those students in its cohort reporting.

Accuracy of Count

In addition to not including Community School student data in the cohort, Freeport incorrectly reported the number of students in the cohort and incorrectly reported test scores for two students in a sample of student records examined. The audit reviewed Freeport's documentation supporting the corrected cohort and determined that two students had been incorrectly removed from the cohort total. These students moved away from Freeport, but they left after June 2001. They were, therefore, part of the 1997 cohort as of June 2001.

A sample of 22 students was selected from the 421 students reported to be in the 1997 Freeport cohort. The audit reviewed the permanent record cards of the sample students. The audit determined that three of the students reported as members of the 1997 cohort as of June 2001 were first-time ninth graders in the 1996-97 school year and, therefore, part of the 1996 cohort.

The audit also identified nine dropouts who were first-time ninth graders in the 1997-98 school year and were enrolled in Freeport on October 6, 1999. Four were not included in the 1997 cohort as of June 2001.

Regents examination grades were also examined for the sample of 22 students. The audit reviewed the Regents' test papers and the permanent record cards of the sample students and determined that the Regents' grades for 2 of the 22 sample students were not reported accurately on the 1997 Special Regents Cohort Report – Progress Toward Meeting.

The discrepancies in the data illustrate the need for Freeport to improve the process of collecting, reporting, and maintaining documentation of cohort data.

Recommendations

5. Track and report Community School dropouts when reporting data on student performance.
6. Establish a system to adequately document and track the status of all students who leave Freeport and all efforts to retain students or place them in other programs. Also,

retain adequate documentation to support the reported number of dropouts.

7. Include Community School students in Freeport's cohort reporting.
8. Maintain adequate documentation to support cohort statistics. Review cohort statistics and documentation to ensure accuracy.

Comments of Freeport Officials

Freeport officials agree with these recommendations and have taken steps toward implementation.

Reliability and Validity of Attendance Data

Section 3211 of the Education Law requires school districts to maintain accurate records of students' attendance and absences. School districts are also required to summarize and report the data to the Department annually. Attendance data are a key factor in the formulas used by the Department to calculate and distribute State aid. Attendance data are also used as measures of student performance and are reported in each school district's Report Card.

Community School Hours Not Adequately Documented

Freeport reported 77,000 equivalent attendance hours for its Community School program on its Attendance Output Report for the 2000-01 school year (2001-02 aid year).

There was no summary sheet reconciling the number of hours claimed to the number of hours attended by the students. The audit computed total hours from attendance sheets which recorded absences and not days present. The attendance sheets were not complete; therefore, the audit was able to verify only 26,541 (34.46 percent) hours of the 77,000 claimed.

The present Community School director stated that the complete records from the 2000-01 school year could not be found. The previous Community School director no longer works at the school and could not be reached.

Reporting of Average Daily Attendance and Aggregate Attendance

Aggregate Attendance is the total student attendance in days for the school year. Average Daily Attendance (ADA) is determined by dividing the adjusted aggregate attendance by the net amount of sessions (school days where attendance is taken). ADA is reported to the Department on the SA-129 Form and Form A. The information is generated from the district's AT-6 Summary Report.

The audit reviewed the AT-6 reports for Freeport and identified the following minor differences.

- ADA for grades 7-12 on the AT-6 was 92 days (3 percent) less than the 2,961 ADA reported on the SA-129 and Form A for grades 7-12.

- Aggregate Attendance for grades 7-12 on the AT-6 is 180 days (.03 percent) greater than Aggregate Attendance reported on the SA-129 and the Attendance Output Report for grades 7-12.

Accuracy of Attendance Reporting

Freeport uses a different attendance recording process in its elementary schools than in its junior and senior high schools. The elementary schools record student attendance on “The Permanent Student Attendance Record.” This attendance is manually keyed into Freeport’s attendance database. The junior and senior high schools record student attendance on the “Biweekly Attendance Rosters” which are scanned into Freeport’s attendance database.

Absences reported in Freeport’s attendance database for 28 sample students in Bay View Elementary School and Dodd Junior High School were compared to the absences recorded on the students’ original source attendance documents.

- A sample of 14 students was selected from Dodd JHS with 103 absences reported. The “Biweekly Attendance Rosters” had 104 absences, or one more than reported.
- A sample of 14 students was selected from Bay View Elementary School with 114 absences reported. The “Permanent Student Attendance Record” had 117.5 absences, or 3.5 more than reported. Four of the 14 students, however, had fewer absences recorded on the “Permanent Student Attendance Record” than on Freeport’s database. These students were marked present (no entry on the attendance grid) by the teacher but marked absent on the database.

Recommendation

9. Develop policies and procedures to ensure that reported attendance statistics are accurate.

Comments of Freeport Officials

Freeport officials agree with this recommendation.

Management Controls

"Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance."

Government Auditing Standards, 1994 Revision

The audit identified several opportunities for Freeport to improve its management controls. The following sections discuss these opportunities, including board responsibilities and financial controls.

Board Responsibilities

A school board is responsible for overseeing and managing the district's affairs, personnel and properties, and has ultimate responsibility for the fiscal health and stability of the District. A school board should develop policies and should delegate the administration of the district to the superintendent and senior administrators who should manage the district within the established policies. The superintendent and senior administrators should then be held responsible for results. The audit identified opportunities where the Board can improve its oversight by changing the manner in which it conducts and documents its meetings, by providing leadership through the appointment and retention of qualified administrators and officers, and by updating and strengthening its policies.

Board Meeting Minutes

Board minutes are used to record the actions of a board during its meetings and provide a legal and historical record of a board's actions. The minutes should be written in a clear and concise manner and should be approved by the board on a timely basis. Extraneous information and details should be filed separately. The audit reviewed the minutes for the period and noted the following areas for improvement:

- The minutes were not approved in a timely manner. Often, there was an interval of a few months until minutes were approved.
- No salaries were included in the minutes of the organizational meeting. According to Freeport's Assistant

Superintendent for Personnel and Special Projects, salaries were not mentioned in the minutes because there were no new salaries. There were appointees, such as the Treasurer, who do not get paid a salary, and there were others who were continuing in their employment under the same contract with no change in their salaries.

- Cash reports were often submitted several months following the month covered by the report.
- Minutes were not indexed. The District Clerk is indexing the minutes going back many years.
- The specific purpose of executive sessions was not included in the minutes.

No Functioning Internal Claims Auditor

Article 35, Section 1709.20(a) of the Education Law states that no person shall be eligible for appointment to the office of auditor who shall be:

- a member of the board of education;
- the clerk or treasurer of the board of education;
- the official of the district responsible for business management;
- the person designated as purchasing agent; and
- clerical personnel directly involved in accounting and purchasing functions.

A board member was appointed to serve as Freeport's internal claims auditor for the 2000–01 school year, a practice prohibited by the Education Law. In actual practice, claims were audited and approved by clerical personnel directly involved in accounting and purchasing functions, a practice also prohibited by the Education Law.

The lack of a functioning internal claims auditor increases the possibility that payments will be made for inappropriate purposes, for the wrong amounts, or improperly classified in the accounting records. Freeport hired an internal claims auditor in March 2002.

Written Policies and Procedures

Education Law Section 2503 (2) requires a school board to establish policies and procedures concerning school district operations. Policies and procedures should be developed for budgeting, purchasing, accounting and auditing, travel,

transportation, school lunch, operation and maintenance, safety, toxic substances, energy conservation, disaster preparedness, and other areas. Copies of the policies and procedures should be readily available and distributed to school district officials and staff. In addition, school district staff should adhere to the policies.

Freeport lacks written procedures in many areas. There are no written procedures for the preparation and filing of forms to obtain Building aid, Private Excess Cost aid, aid for EPE students, Extraordinary Needs aid and Transportation aid. There are also no written procedures for the preparation and distribution of payroll.

Without written policies and procedures, there is less assurance that Freeport is adhering to applicable laws, regulations or other guidelines, as well as any verbal policies and procedures that may be unique to Freeport.

Purchasing

Purchasing is one of the most highly specialized activities in school administration and is regulated by State law, court decisions, and local board policy. Strong controls are necessary to ensure purchases result in securing goods and services in the right quantity and quality, at the right time, and for the right price, and to ensure that purchases are made in compliance with the law and district policy.

Purchasing Agent Does Not Sign Off on All Claim Forms

Section 1724 of the Education Law requires that a claim be approved by the 'officer giving rise to the claim' (purchasing agent) prior to being presented to the internal claims auditor for review.

The purchasing agent should initially give rise to a claim by signing a purchase order (PO) authorizing that funds be encumbered for a purchase. At the end of the process, the purchasing agent gives final approval to the claim by signing the claim form, which is a copy of the PO, that was signed by the vendor and returned with the invoice. The purchasing agent's signature confirms that the voucher packet is complete and should be processed for payment.

Freeport's purchasing agent signed the initial purchase orders, but the claim forms were not signed prior to submission to the internal claims auditor.

Required Documentation Not Always Maintained for Expenditures

The travel expense reimbursement section of Freeport's purchasing manual states that "receipts for meals, tolls, parking, registration and all other expected reimbursements are required."

The manual also states that a "Report of Conference" form must be filled out by the attendee together with the claim for reimbursement. The District Superintendent and the Assistant Superintendents are not required to complete a "Report of Conference" form.

The audit reviewed 37 transactions from Freeport's general ledger and determined the following:

- There was no invoice to support a \$14,000 payment.
- There were no invoices to support payment of a credit card bill for \$339.04 that had current and prior charges. The mere listing of a \$58.59 charge for a floral shop is not sufficient.
- A payment of \$8,593.97 was made against a purchase order authorizing the encumbrance of \$25,000. Fourteen payments totaling \$41,087 were listed on the same PO, exceeding the authorized amount by \$16,087.
- A teacher attended a conference and no "Report of Conference" form was filed.
- A hotel bill for an Assistant Superintendent included \$94.74 in long distance phone calls with no explanation of the purpose of these calls.

Freeport is not in compliance with its purchasing manual, greatly increasing the risk of unauthorized payments.

Fund Balance Exceeds Limits in Real Property Tax Law

The total fund balance of a school district's general fund is made up of the reserved fund balance and the unreserved fund balance. The reserved fund balance has moneys that can only be used for a specific purpose and cannot be used to reduce the tax levy in the following year. Section 1318(1) of the Real Property Tax law allows school districts to retain as an

unreserved undesignated fund balance an amount up to two percent of the proposed following year's budget. The remaining portion of the unreserved fund balance (the appropriated fund balance) is used for tax reduction. The unappropriated fund balance can be used for cash flow and to meet unanticipated ordinary contingent expenditures.

As of June 30, 2001, Freeport's unreserved fund balance was \$3,847,159 and the 2001-02 budget was projected to be \$91,764,288. This results in an unreserved fund balance of 4.2 percent of the upcoming year's budget, more than double the 2 percent threshold. Freeport is not in compliance with Section 1318(1) of the Real Property Tax Law.

Freeport believes that an unreserved fund balance in excess of two percent is in the best interest of the school system. Although the unpredictability of State aid has caused many districts to develop huge deficits, Freeport's unreserved fund balance has enabled it to operate with at least some degree of stability. Its bond rating has increased because of its higher fund balance. Nevertheless, all districts are required to adhere to the established laws and regulations. The Board should act to ensure its compliance with Section 1318(1) of the Real Property Tax law.

General Ledger Not Current

A bank reconciliation is an effective tool in determining the accuracy of the cash balances recorded in the general ledger and on the bank statements. If there are reconciling items outstanding for a long period of time, they must be investigated and the books may have to be adjusted in order to reflect the true cash balance. The reconciliation must be prepared in a timely manner by a person who is not involved in the handling or recording of the cash receipts or disbursements, and must be reviewed by someone independent of the preparer.

Freeport's bank balance was not reconciled to the general ledger's cash balance until year-end, but rather to the balance in the cash flow statement. Due to a transition in business office personnel and a training period, the office staff felt that in order to maintain proper control over cash, their primary concern should be to ensure the accuracy of their most relevant document, the cash flow statement. Although they were aware of transactions and adjustments that had to be posted to the general ledger, that was not done until year-end.

Not all cash account activity was recorded in the general ledger. Deposits made into the general fund and transferred to a different fund were treated as a “wash” and not recorded in the general fund.

Also, the bank reconciliations were neither dated nor signed by the treasurer or by another employee who should be reviewing them, and there were outstanding checks from one to three years old on the year-end reconciliation that should have been voided.

Recommendations

10. The Board should approve the minutes of each preceding meeting at the following meeting.
11. Officers of the board of education and their salaries, if any, should be listed in the minutes of Freeport’s organizational meeting.
12. The Treasurer must submit cash reports for each fund to the Board in a timely manner.
13. The District Clerk should index the minutes of Board action so that resolutions and policies can be quickly located.
14. Board minutes should specify the matters to be discussed in executive sessions rather than simply stating that personnel, legal, and/or negotiation issues have to be discussed.
15. Freeport’s Purchasing Agent should sign the claim forms to certify that they should be processed for payment.
16. An internal claims auditor must audit and approve each claim, except for contracted wages and debt service.
17. Written procedures should be developed for the preparation and distribution of payroll and for the preparation and filing of forms to obtain Building aid, Private Excess Cost aid, EPE aid, Extraordinary Needs aid, and Transportation aid.
18. Support all expenditures with required documentation.
19. Maintain an unreserved fund balance of two percent or less as prescribed by Section 1318(1) of the Real Property Tax Law.

20. The general ledger should be kept current with postings made in a timely manner.

Comments of Freeport Officials

Freeport officials generally agree with these recommendations. They disagree with recommendation 15 and believe that implementing it is unnecessary and will lead to inefficiency in the payment process.

Auditor's Note

Section 1724 of the Education Law requires that prior to presenting the claim for audit, the claim must be approved by the "Officer giving rise to the claim." This is the Purchasing Agent and his/her second signature specifies that the vendor has fulfilled the contract under the PO and that the claim has been processed for payment.

Freeport Union Free School District
Contributors to the Report

- James A. Conway, Audit Manager
- Neil Smith, CPA, Auditor-in-Charge
- Gerald Aberbach, Senior Auditor

The Exhibits provided with the District's Response are available upon request to the Office of Audit Services.



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July 22, 2003

Mr. James Conway
The State Education Department
Office of Audit Services
Room 524EB
Albany, NY 12234

Dear Mr. Conway:

This letter is in response to the document entitled Draft Audit Report, Freeport Union Free School District, For the Period July 1, 2000 through June 30, 2001, SD-1201-3, January 14, 2003. We have provided below responses to the recommendations contained in the document. I apologize for the delay in forwarding this written response.

Please note that the responses correspond to the recommendations included in the original draft report. It is my understanding that the order of recommendations 15, 16 and 17 may have been changed in the final report; therefore, we have included the text of the recommendations throughout this document in the interest of clarity.

Recommendation #1: Maintain documentation for all reported contact hours.

We partially agree with this recommendation.

Currently, we are using an SED developed and approved database, ALIES (Adult Literacy Information Evaluation System), in order to ensure the accuracy of contact hours collection. As you noted in the audit, we claimed 16,166 non-traditional hours. However, 1,001 were for students under the age of 21. These students were erroneously included in the calculation. We agree with this statement.

The audit chart on P. 4 references 16,166 GRASP hours claimed by the district. However, we never claimed these as GRASP hours. The 16,166 is the sum of SA 160.1 line 2 and SA 160.2 line 2 (non-traditional adult education). This number includes 2,830 CrossRoads Café hours and 2,220 Work Experience hours for 7/1/00012/31/00, and 2,422 CrossRoads Café hours for 1/01/01-6/30/01. Neither of these programs are considered part of the GRASP program. Therefore, if we deduct the 1,001 hours claimed for students under 21, our total allowable GRASP hours are 7,693.

Currently, we are unclear as to how the auditors determined that there was no documentation to support 8,741 hours. Given the retirement of our Director of Adult Education, Marilyn Stuzin, we have been able to reconcile our records with this claim. We would appreciate further explanation of how this number was derived.

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We do not agree with the claim that we do not have backup for 6,424 GRASP hours. Exhibit #1 is a sample of our record-keeping procedures for all GRASP contact hours. These procedures are in accordance with information received during a training given by GRASP program administrators on November 29, 1993, and presented to Mr. Neil Smith during his audit visit to the district. Furthermore, our calculations are in accordance with the formula presented by Sharon Conrick, BOCES Adult Education Literacy Specialist/GRASP (Exhibit #2).

Recommendation #2: Support all GRASP contact hours with a teacher record of work assigned to and completed by the student.

We disagree with this recommendation.

The SED audit states that “Teachers did not keep records of work assigned to and completed by the student. As a result, 6,424 GRASP contact hours will be disallowed.”

As stated above, evidence of the work logs was provided to the auditors during their visit to the district. During the aforementioned training session, Freeport GRASP program representative, Doris Henderson, informed us that a work log was sufficient evidence of student completion of assignments. All teacher and student hours were calculated according to the non-traditional formula contained in a memo from Konrad, Team Leader, dated 12/31/00 (exhibit #3). During an SED Office of Workforce Preparation and Continuing Education videoconference in 2002, Mark Haskins, Associate on Adult and Family Literacy and Tom Orsini, Team Leader for Adult and Family Literacy acknowledged that there is a need to clarify GRASP record-keeping procedures. Given this acknowledgement and the lack of clear guidelines from SED beyond what we already have, we believe that the 6,424 hours should be allowable. To do otherwise would punish us on the basis of an SED dispute that is beyond our control.

Recommendation #3: Claim EPE aid only for students 21 years of age and over.

We partially agree with this recommendation.

The audit states that “The audit reviewed documentation provided by Freeport and determined that 10,852 contact hours were ineligible for EPE aid because the student was under the age of 21 at the time the contact hours were completed.” As a result of a clerical error, we mistakenly claimed 4,156 hours for students who turned 21 during the year. Therefore, 6,696 should be allowable. Proper documentation will be provided as the auditors deem necessary.

Recommendation #4: Maintain the required information for each student in EPE students' folders.

We partially agree with this recommendation.

The district currently follows National Reporting System (NRS) guidelines for maintaining student folders (Exhibit #4). The audit states that, of 56 sample folders examined by the auditors, “21 of the students had not completed the section on Freeport’s Adult Education Student Record Card listing seven primary goals for attending.” According to NRS guidelines, only one goal is required. Therefore, we disagree with this aspect of the audit report.

We agree with the statement that, “none of the folders had any records relating to the students’ diploma status.” We receive information from SED regarding student attainment of diplomas. During 2000-01, that information came late, and was therefore not included in student folders. However, we do keep track of student progress towards a diploma in class logs.

Recommendation #5: Track and report Community School dropouts when reporting data on student performance.

We are now tracking and reporting Community School dropouts when reporting data on student performance. In addition, we have added clerical staff to support the maintenance of Community School data.

Recommendation #6: establish a system to adequately document and track the status of all students who leave Freeport and all efforts to retain students or place in other programs. Also, retain adequate documentation to support the reported number of dropouts.

We have made changes in our system for distributing transcripts that has enabled us to adequately document and track the status of all students who leave Freeport.

Recommendation #7: Include Community School students in Freeport’s cohort reporting.

As of the 2001-02 STEP report, Community School students are included in our cohort reporting.

Recommendation #8: Maintain adequate documentation to support cohort statistics. Review cohort statistics and documentation to ensure accuracy.

As of the 2001-02 STEP report, we have put systems into place to ensure the accuracy of cohort statistics, including the implementation of a new student information system (SIS). In September, 2001, a clerical position was added to the Community School to assist in the maintenance of data. The present Director has developed a system for keeping track of all students who attended the Community School.

Since the implementation of a new student information system in September, 2002, there are no longer two different attendance systems. At the elementary level, attendance cards are filled out by teachers and entered into the SIS by the attendance clerk. At the secondary schools (Dodd Middle School and Freeport High School), teachers enter period-by-period attendance through a web-based interface with the SIS.

Recommendation #9: Develop policies and procedures to ensure that reported attendance statistics are accurate.

In June, 2002, the Freeport Board of Education approved a new student attendance policy. This policy delineates procedures for monitoring student attendance, collecting attendance data and reporting to parents. Moreover, we have recently completed an analysis of the implementation of this policy and are modifying procedures accordingly.

Recommendation #10: The Board should approve the minutes of each preceding meeting at the following meeting.

This recommendation was met during the period in question. The Freeport Board of Education, then and currently, approves the minutes of the previous month's meeting at each Regular Action Meeting.

Recommendation #11: Officers of the Board of Education and their salaries, if any, should be listed in the minutes of Freeport's organizational meeting.

All salaries will be listed in the minutes as required by regulation and statute. Certain officers of the Board of Education receive no salary. Therefore, no salary figure has been included. The district's past practice has been to show only the salaries that change from year to year. Our future practice will be to show the stipend compensation for all individuals performing a specific duty for the Board. This section will not show the full salaries for an individual who assumes a Board responsibility as a small part of his/her regular job responsibilities. For example, the Assistant Superintendent for Business also serves as the district's purchasing agent for which he receives no additional stipend. His salary will not be included because to do so would grossly represent any reasonable compensation for that responsibility.

Recommendation #12: The Treasurer must submit cash reports for each fund to the Board in a timely manner.

Cash reports for each fund are submitted to the Board in a timely manner. As explained during the audit and other times, due to staff transition in the Business Office and staff on medical leave of absence, there were some delays. Under the circumstances, the cash reports are submitted on a monthly basis to the Board and the time lag sometimes is dependent on the date of the Board Meeting and internal deadlines that exist for submission of such reports to the Board of Education.

Recommendation #13: The District Clerk should index the minutes of board action so that resolutions and policies can be quickly located.

We agree with the recommendation. In fact, prior to the audit, in August of 2000, the District Clerk began a process to index Board of Education meeting minutes from the year 1915. That work is completed.

Recommendation #14: Board minutes should specify the matters to be discussed in executive sessions other than just stating that personnel, legal, and/or negotiation issues have to be discussed.

During the period covered by the Audit and currently, the Board of Education follows all Freedom of Information Act regulations in the maintenance of minutes, including executive session minutes.

Recommendation #15: Freeport's purchasing agent should sign the claim forms to certify that they should be processed for payment.

The internal claims auditor reviewed and approved the warrant listing for the fiscal year for which the audit was performed. A board member served in the capacity of the internal claims auditor at that time. As explained during the audit and other times, under the new Superintendent in 2001-02, the District appointed an outside individual to serve as the internal claims auditor. The internal claims auditor verifies and signs every claim for payment.

An administrator is responsible for originating a purchase order. After proper verification and following the prescribed procedures, the purchasing officer approves the purchase order for the ordering of goods or services. The originator (administrator or designee) of the purchase order confirms having received the goods or services and returns the claim and other documentation to the Business Office. The Business Office, after verification of the claim and full documentation, processes the claim for payment. The claim is approved by the internal claims auditor before payment. In the case of running purchase orders, the administrator or purchasing officer signs off on each claim payment that is made against the running purchasing order.

The purchasing officer approves the purchase order after it has been initiated by the originating administrator. The claim is always initiated, prepared and signed by the individual(s) responsible for the respective budget area(s). As we advised the auditors of our disagreement with this recommendation, we are awaiting documentary reference from Mr. Aberbach to confirm that all claims are required to be certified by the purchasing officer for payment. If so, this will create additional work, delays and duplication of work, because currently these claims are being certified for payment by the internal claims auditor. Our external auditors have been satisfied with our existing procedures and did not recommend any change in the last several years. Our counsel also disagrees with your observation/recommendation and we ask you to provide support for the recommendations from the appropriate authority.

Recommendation #16: An internal claims auditor must approve each claim except for contracted wages and debt service.

A board member served in the capacity of an internal claims auditor for the audit year as indicated in the response to Recommendation #15, a separate internal claims auditor was appointed by the Board of Education in fiscal year 2001-2002. The internal claims auditor approves every claim for payment, except for contractual wages.

Recommendation #17: Written procedures should be developed for the preparation and distribution of payroll and for the preparation and filing of forms to obtain Building Aid, Private Excess Cost Aid, EPE Aid, Extraordinary Needs Aid, and Transportation Aid.

We have written procedures for the preparation and distribution of payroll. This is based on our working manual for Pentamation Financial System module. As explained during the audit, most of the information relating to the preparation and filing of forms to obtain various aids are specified by the New York State Education Department guidelines and as provided online through the New York State Education website. We will compile all of this information into a manual that will contain the appropriate forms and procedures from the New York State Education Department website.

Recommendation #18: Support all expenditures with required documentation.

Our procedures require that all expenditures be supported with required documentation. The Business Office ensures that all claims are processed only with proper documentation. All expenditures are subsequently approved by our internal claims auditor who further ensures that all payments have required documentation. We have not noted any exceptions in the Management Letters from our external auditor. It is our continuing effort to make sure that

the filing system is properly maintained and stored. The District makes every effort to be in compliance with its purchasing manual and proper controls in place.

Recommendation #19: Maintain an unreserved fund balance of 2 percent or less as prescribed by Section 1318(1) of the Real Property Tax Law.

The District makes every effort to maintain an unreserved fund balance as prescribed by law. Any excess unreserved fund balance, the District continues to apply to reduce the tax levy. In the past five years, the District has applied an unreserved fund balance of \$1.5 million to \$2.8 million each year to reduce the tax levy.

We believe that the two percent limit places an unreasonable constraint on the financial operations of many school districts, including Freeport. Increasing the surplus fund balance limit from two percent to four percent would encourage better financial management and potentially save districts money. Allowing districts to retain a four percent fund balance would also increase a school district's ability to take a more responsible approach to financing school operations by smoothing out the unpleasant year-to-year fluctuations in local tax levies and tax rates. The 2003-04 State Budget situation is an excellent case-in-point. In addition, bond rating agencies consider a surplus fund balance to be a sign of fiscal health. Therefore, giving districts the discretion to retain a higher than two percent fund balance allows the potential to elevate their credit rating and thereby lower borrowing costs.

At this time when State revenues have declined and the State faces a deficit, districts are still expected to reach new higher standards, fulfill the requirements of unfounded mandates, and upgrade facilities. New York school districts should not be barred from exercising more responsible and prudent financial planning and management. We have supported S6520a/A11024a, a bill that would increase the statutory limit on fund balance from two percent to four percent for the school districts.

Recommendation #20: Reconcile the bank balance to the general ledger cash balance on a monthly basis.

As explained during the audit and other times, due to staff transition in the Business Office and staff on medical leave of absence, there were some unavoidable delays. However, under all standard circumstances, the general ledger is kept current with postings done in a timely manner.

If you are in need of further information or clarification, please contact me.

Sincerely,


Eric L. Eversley, Ed.D.
Superintendent of Schools

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Enclosures