
Final Report

Hempstead Union Free School District

for the Period

July 1, 2002 through March 31, 2004

SD-1003-2

May 27, 2005

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





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May 27, 2005

Mr. Youssef Soufiane
Board President
Hempstead Union Free School District
185 Peninsula Boulevard
Hempstead, New York 11550

Dear Mr. Soufiane:

The following is our final report (SD-1003-2) for the review of the Hempstead Union Free School District for the period July 1, 2002 through March 31, 2004. The review was conducted pursuant to Section 305 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

Ninety days from the issuance of this report, District officials will be asked to submit a report on actions taken as a result of this review. 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 recommendation.

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

Sincerely,

Michael Abbott

Enclosure

c: T. Savo, B. Porter, J. Kadamus, C. Szuberla, R. Bullis, C. Foster (DOB), W. Campbell (OSC), S. Johnson, Superintendent, J. Mapes, District Superintendent

Executive Summary

Background and Scope of the Review

The Hempstead Union Free School District (District), located in Nassau County, served about 7,000 students in 10 schools during the 2002-03 school year. The District expended \$15,091 per student, which is just below the Nassau County average of \$15,163 per student. Total general fund expenditures were about \$99 million. This is a district with high student needs in relation to the district resource capacity. In 2002-03, about 71 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 2004 New York State School Report Card (Report Card). However, the District is in need of improvement at the secondary level. For example, the Report Card shows the graduation rate for the 1998 cohort was only 38 percent compared to 64 percent for similar schools and the State average of 77 percent. Besides the challenges related to student performance, the District also faces challenges related to the condition of its buildings and crowded classrooms. To address these challenges, Board members and the Superintendent must work together.

The objective of the review was to assess the adequacy of the District's internal controls, which are designed to help ensure its goals and objectives are accomplished; laws, regulations, and good business practices are complied with; assets are safeguarded; and accurate and reliable data are maintained. The review focused on internal controls and reviewed practices, records, and documentation for the period July 1, 2002 through March 31, 2004.

Review Results

The review found the District has many of the necessary internal controls in place, but identifies improvement opportunities in several areas. However, a primary concern is the need for the Board and Superintendent to work together to effectively address the challenges related to student performance and facilities. Some key improvement opportunities and recommendations are as follows:

- The Board performed many of its oversight responsibilities, but it needs to focus on improving student performance and facilities. The Board needs to reassess its ability to set the proper tone at the top and work effectively. It also needs to maintain the full number of Board members and appoint an appropriate individual as the internal claims auditor. (pages 5-8)
- Develop a long-term financial plan that includes major aspects of expenditure and revenue projections. (page 8)
- Develop a plan to address the deficiencies in the school lunch operations including the negative fund balance. (page 10)
- Develop a process to gather the required information and bill for Medicaid eligible services on a timely basis. (pages 12 and 13)
- Improve controls over cash receipts and the petty cash fund. (pages 14 and 15)

- Improve practices related to competitive bidding, consultant contracts, use of temporary personnel, separation of duties, and reimbursement of meals and travel costs. (pages 16-20)
- Develop a plan to address the facilities' deficiencies and improve inventory control. (pages 21-23)
- Develop a process to provide assurance that staff, temporary employees, and consultants undergo fingerprinting and background checks as required by the Regulations. (pages 24 and 25)
- Improve controls over reporting student data. (pages 26-28)

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 the District. Consideration must also be given to the results of the audit by the Office of the State Comptroller and reviews by New York State Education Department program staff (Facilities Planning, Child Nutrition, Instructional Review, Attendance and School Safety) and the Nassau County District Attorney's Office.

Comments of District Officials

District officials' comments were considered in preparing this report and are included as Appendix B. In response to the review, District officials generally agree with the recommendations and indicate that, in some instances, actions have been taken to implement them.

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Introduction

Background

The mission of the Hempstead Union Free School District (District) is “to ensure that students achieve personal growth and academic success and become productive citizens in a global society, by engaging students, staff, family and community in a comprehensive, challenging curriculum and effective instructional program which responds to each student’s needs and aspirations in a safe and nurturing environment.” The District, located in Nassau County, served about 7,000 students in 10 schools during the 2002-03 school year. The District expended \$15,091 per student, which is just below the Nassau County average of \$15,163 per student. Total general fund expenditures were about \$99 million. This is a district with high student needs in relation to the district resource capacity. In 2002-03, about 71 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. The 2004 New York State School Report Card (Report Card) shows the number of elementary level students who exceeded the standards in English language arts and mathematics were higher than State averages and have improved over the past three school years. Similarly, 82 percent of the students scored above the State designated level in science, exceeding the State average of 70 percent.

At the high school level, the District was identified as in need of improvement for the second consecutive year in English language arts and secondary-level mathematics. The District did not make adequate yearly progress in these subjects, as required by the No Child Left Behind (NCLB) legislation. Furthermore, according to the Report Card, the graduation rate for the 1998 cohort was only 38 percent compared to 64 percent for similar schools and the State average of 77 percent. The District’s dropout rate was 11.2 percent.

At the end of the 2003-04 fiscal year, the District had over \$6.2 million in fund balance, or 5.6 percent of its general fund budget, and an unreserved/undesignated fund balance

of about \$2.4 million. The total fund balance decreased by \$1.5 million from the prior year.

Additional information about the District's financial condition and student performance can be obtained from the following sources:

- *Statistical Profiles of Public School Districts* available online at http://www.oms.nysed.gov/faru/Profiles/profiles_cover.htm
- *The New York State School Report Card* published March 2004 and available online at <http://www.emsc.nysed.gov/irts/reportcard/home.html>

The New York State Education Department (Department) conducted several audits of the District over the past decade. Each of the audit reports identified opportunities for improvements and contained specific recommendations, many of which were implemented. In the Office of Audit Service's (OAS) 1999 audit, the Department questioned whether the actions of the District's board of education (Board) and Superintendent exemplify the proper "tone at the top" for control consciousness in the District. In this current engagement, OAS continues to be concerned with the "tone at the top" and the effectiveness of the Board.

There has been political infighting among Board members and accusations of kickbacks, theft, and sexual harassment. Some Board meetings had to be cancelled due to a lack of a quorum. There have also been numerous articles in various newspapers questioning the Board's actions. A Board member has even questioned the ability of the Board to govern the District. This atmosphere has contributed to the public's lack of confidence and a growing consensus that the Board is not able to operate effectively. This is of particular concern given the District continues to face numerous challenges with its student performance, the condition of its facilities, and crowded classrooms.

In addition to this review, the District is also being audited by the Office of the State Comptroller (OSC) and reviewed by several of the Department's program offices. The results of these audits and reviews should be used to develop a plan to address the District's improvement opportunities.

Objectives, Scope, and Methodology

OAS reviewed selected management practices, records, and documentation for the period July 1, 2002 through March 31, 2004. The review 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 the District's operations. A copy of the questionnaire is available from OAS.

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

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

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

Our review 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 review also included assessing the estimates, judgments, and decisions made by management. We believe that the review provides a reasonable basis for our findings, conclusions, and recommendations.

Review Results

The review found the District has many of the necessary internal controls in place, but a primary concern is the need for the Board and Superintendent to work together to effectively address the District's challenges related to

student performance and facilities. The audit noted some improvement opportunities in each of the seven key areas reviewed.

The improvement opportunities are addressed in more detail in the following sections of the report. The Board should give careful consideration to the recommendations to further improve the operation and management of the District. Consideration must also be given to the results of the audit by OSC and the reviews by Department staff and the Nassau County District Attorney.

Comments of District Officials

District officials' comments were considered in preparing this report and are included as Appendix B. In response to the review, District officials generally agree with the recommendations and indicate that in some instances actions have been taken to implement the recommendations.

GOVERNANCE AND PLANNING

A board of education is responsible for the education of the children residing in its district and must provide for the governance and oversight of the district's affairs, personnel, and properties. The review determined the Board addressed many of its governance and planning responsibilities related to the control environment, compliance with legal requirements, fiscal oversight, and staffing. However, the Board could make improvements related to board governance, strategic planning, and budget development.

Board Governance

A board has general oversight responsibilities for a district but relies upon a superintendent to function as the chief executive officer of the district. A board should develop policies and delegate the administration of the district to the superintendent, senior administrators, and board-appointed officers who should manage the district within the established policies. It is the superintendent's duty to enforce all provisions of the laws, rules, and regulations in the district and to have general supervision and direction over all district activities.

The Board performs many of its oversight responsibilities. The Board should establish policies and leave the day-to-day management of the District to the Superintendent. It also needs to ensure vacant Board positions are filled in a timely manner and the appointed internal claims auditor does not have any conflicting duties.

Recommendation 1: The Board should provide appropriate oversight, but leave the management of the District to the Superintendent and administrators.

Recommendation 2: Board members should attend training programs on board governance and board effectiveness.

The Board has departed from its day-to-day policymaking responsibilities and became involved in management activities. For example, the Board acted without the recommendation of the prior Superintendent and without advance notice to bring back an administrator who was removed from a position. On September 4, 2003, with the

recommendation of the then Superintendent, the Board approved the termination of an administrator effective October 3, 2003. However, during the March 9, 2004 meeting, the Board rescinded its approval to terminate and, in effect, re-hired the administrator without the prior Superintendent's recommendation even though the Superintendent's recommendation is required by Education Law Section 3012.1(b). Their involvement in administrative matters may detract from the Board's effectiveness in policy development.

The Board also reversed its decisions concerning matters of extreme importance with far-reaching fiscal consequences. The Board approved a resolution to close the Prospect and Rhodes schools only to reverse it and then reinstate it later. These decisions require finding new space and rescheduling classes and transportation routes. In another example, the Board rescinded a contract with a consulting company only to reverse the decision later.

The productivity of the Board meetings may be diminished by internal conflict among the members. In one Board meeting, a member brought forward a resolution requesting another Board member to resign. The Board member responded with a counter resolution asking the former to resign. This internal conflict is widely known in the community and published in local newspapers. This erodes the confidence of the community in the ability of the Board to govern the District.

Recommendation 3: Maintain the full number of Board members at all times.

Education Law Section 1709, paragraph 17, states that the board of every union free school district shall have the power and it shall be its duty to fill any vacancy which may occur in said board by reason of the death, resignation, removal from office or from the district, or refusal to serve, of any member or officer of said board; and the person so appointed in the place of any such member of the board shall hold his office until the next regular district election. The person elected to fill such vacancy shall take office immediately upon filing his official oath of office with the district clerk. The State Charter for the District calls for a full board consisting of five members.

The Board consisted of five members at the beginning of the 2003-04 school year. One member was removed on August 8, 2003 for official misconduct and another member has missed many meetings. To have a quorum, the Board needs to have at least three members present during any of its meetings in order to conduct business and approve resolutions. On at least two occasions, the Board meeting was cancelled without advance notice due to a lack of a quorum. One of those occasions was on January 26, 2004. The agenda for this meeting was to provide an update on the District's budget and to discuss another bond referendum. In January 2004, the Board acknowledged that the vacancy is an issue that needs to be addressed; however, no action was taken until March 2004 when a fifth Board member was appointed.

Recommendation 4: Appoint an individual as the internal claims auditor who is not directly involved in any accounting or purchasing function or prohibited by law from holding such office.

Districts are required to appoint certain officers and individuals to administer the district's affairs. Education Law and the Regulations of the Commissioner of Education (Regulations) prohibit some positions from being held by the same person. The Board could strengthen controls over payment processes by appointing an internal claims auditor who does not have any conflicting duties in the District.

Section 1709 (20-a) of the Education Law prohibits certain persons from holding the office of internal claims auditor. They are:

- a. A member of the board;
- b. The clerk or treasurer of the board;
- c. The official of the district responsible for business management;
- d. The person designated as purchasing agent; and
- e. Clerical personnel directly involved in accounting and purchasing functions.

Duties should be segregated so that the work of one employee serves as a check and balance on the work of other employees. The District did not adequately separate duties for some positions. For example, the internal claims auditor has also been designated as deputy treasurer. As

deputy treasurer, she performs back-up duties signing checks and transferring and depositing funds in the absence of the treasurer. In instances when the deputy treasurer has to sign checks, she will also review them as the internal claims auditor. She is also responsible for processing purchase orders. This lack of segregation of duties compromises the District's internal controls.

Strategic Planning and Budget Development

A district's budget is critical to its operation. It provides a framework for district officials and serves as a gauge upon which the result of the operation can be measured. The budget development process is important in that it affects student welfare, future cost projections, tax levy, community relations, and the long-term well-being of the district as a whole. For this reason, a number of laws and regulations exist to guide budget development and approval. The review determined that the District administrators perform many of their budget related responsibilities; however, improvements could be made related to long-term planning.

Recommendation 5: Develop a long-term financial plan that includes major aspects of expenditures and revenue projected for the next five years.

The District does not have a long-term financial plan that includes major aspects of expenditures and revenue projected for the next five years. The District should develop a plan taking into account enrollment projections, estimated increases in salary and fringe benefit costs, changes in student-teacher ratios, supplies and equipment needs, building maintenance costs, capital needs, debt service, and other needs. It also needs to include projected revenue including real property tax revenue, State aid, Medicaid revenue, federal aid, and other sources and projections for fund balance. Lastly, the plan should provide for adequate resources to fund the District's strategies to accomplish its goals and objectives. Long-term planning can help ensure continuity of services, facilitate the annual budget process, aid in planning and financing capital purchases, and help managers better anticipate and prepare for the future.

Comments of District Officials

District officials agree with the recommendations.

Auditor's Note

In response to recommendation 4, District officials indicated that a public accounting firm has been engaged to function as the internal claims auditor. Section 170.2 of the Regulations empowers a board, at its discretion, to appoint an officer to be the internal claims auditor. It is our interpretation that an officer of the District must be an individual not a corporate entity.

ACCOUNTING AND REPORTING

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 District has many of the necessary controls related to financial condition, financial accounting and reporting, auditing, and State aid and grants. However, the District can make some improvements related to the fiscal management of the school lunch fund, the financial accounting system, and the financial reporting of Medicaid reimbursable activities.

Fiscal Management of the School Lunch Fund

Financial health is defined as the ability of a district to fund the level and quality of service expected by its citizens. A board has the responsibility to monitor and ensure the financial health of a district. To ensure fiscal stability, districts need to carefully develop balanced budgets for revenues and expenditures for all funds, ensure expenditures are within budgeted amounts, monitor budgets, and amend them as necessary.

While the District's general fund is in a relatively stable financial condition, the school lunch fund continually expends more than it receives in revenues. As a result, significant fund transfers from the general fund are necessary to support the school lunch fund. However, the general fund transfers were not enough to prevent a deficit in the school lunch fund for at least the last four years (2000-01 to 2003-04).

Recommendation 6: Examine all aspects of the food service operation to determine the cause of the operating deficits and establish a plan to eliminate the negative school lunch fund balance.

The school lunch program has been operating at a loss for at least the past four years ending 2003-04. Despite the yearly fund transfer from the general fund, the consistent operating loss of the program kept the fund balance deficit at about \$1.2 million for the first three years and increased to \$1.4 million at the end of fourth year.

School Year	Revenue Less Expenditures	Transfers from General Fund	School Lunch Fund Balance
2003-04	(\$725,901)	\$500,000	(\$1,423,395)
2002-03	(\$280,861)	\$300,000	(\$1,197,494)
2001-02	(\$529,135)	\$500,000	(\$1,216,633)
2000-01	(\$392,038)	\$427,472	(\$1,187,498)

In response to the deficit and reported operational inefficiencies – varying from unsanitary conditions and spoiled food to a disparity in the number of meals served to paying and free/reduced priced lunch students – the District sought the help of a consultant who was hired in September 2003 to evaluate and recommend operational and facilities improvements. Among the consultant’s observations were the need to use updated student enrollment as the basis for ordering food and supplies, the lack of a system to ensure meals are delivered timely, the inefficient use of staff, instances of all meals being served for free, special meals being prepared for teachers, and the need for an audit of all free lunch applications. These observations provide a significant opportunity for the District to improve its administration of the program and the observations should be considered in developing a plan to address the deficit.

Financial Accounting System

A district’s accounting system should provide for an accurate, clear, and complete record of all financial transactions. The system should include written policies and procedures, accounting software, and record keeping systems. It must be designed to comply with certain accounting principles, policies and procedures, and classification and coding guidelines. It should also be able to generate periodic financial reports for the board, management, and State.

The District’s accounting system generally met those requirements. However, the review identified improvement opportunities related to record keeping for bonds and notes.

Recommendation 7: Maintain a bond and note register to provide a complete record of each issuance of bonds or notes as required by Local Finance Law and the Regulations.

Section 163 of the Local Finance Law requires districts to maintain a bond and note register and a complete record of each issuance of bonds or notes. Section 170.2(g) of the Regulations states that one of the duties of a board is to provide the treasurer with a note register in which to record the dates of the resolutions authorizing 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 interest, the dates of maturity, the dates the notes were paid, and the amounts of principal and interest paid.

Although information pertaining to individual bond issues is readily available, the District has not maintained a bond and note register which would maintain the information in one document. The maintenance of a bond and note register should improve accountability with bonds and notes and ensure a smooth transition in case of turnover of key staff.

State Aid and Grants

Federal law authorizes Medicaid reimbursement for certain diagnostic and health support services provided to eligible students with disabilities ages 3 through 21. In addition, special transportation recommended by either the Committee on Special Education or the Committee on Preschool Special Education and identified on the students individualized education program is eligible for reimbursement. This reimbursement program was initiated in July 1, 1999 and allows districts to bill for services up to two years after the services were provided. The audit found the District does not have a process to track and bill for eligible services on a timely basis and, therefore, is not receiving all the revenue it is entitled to receive.

Recommendation 8: Ensure that all Medicaid billings are current.

Recommendation 9: Develop a written procedure to streamline the Medicaid billing process.

A follow-up to a prior OAS audit found some improvement in billing for Medicaid services; however, at the time of this field work the District was lagging in its Medicaid billing.

This lag is delaying the District's receipt of funds and, in some cases, risking the forfeiture of funds.

As of February 2004, no billing was submitted by the District to Medicaid for any services received in the 2003-04 school year. For 2002-03, about half of the services received had not been billed and only six months worth of billing had been submitted for the remaining half. In addition, many of the services for the prior years remain unbilled.

Also, the District has never billed Medicaid for special transportation services provided to preschool and school age students with disabilities even though the services were reimbursable. Since the District can only go back two years in its billings, it is likely that prior claims are lost.

During the time of the review, the responsibility for billing was transferred from the pupil personnel services office to the business office. However, the Medicaid billings did not substantially improve due, in part, to a lack of billing procedures and systems in place and cooperation between the two offices.

Comments of District Officials

District officials agree with the recommendations.

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. The review determined the District generally complied with revenue and cash management requirements related to processing cash receipts and investments. However, the District could further improve its controls over cash receipts and petty cash.

Cash Receipts and Revenue

Districts must establish strong internal controls over cash collections to prevent mishandling and to safeguard against loss. The District established necessary controls over cash collections, but it could make improvements related to control over the receipt of cash by individuals other than the treasurer.

Recommendation 10: Use pre-printed, pre-numbered cash receipt forms for all cash receipts.

Employees who receive monies on behalf of a district, other than the treasurer, must issue pre-numbered receipts printed in triplicate, as required by Section 170.2(i) of the Regulations. It also states that 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.

The District does not require employees who receive monies on behalf of the District, other than the treasurer, to use a pre-printed, pre-numbered receipt in triplicate form. For example, the person at the high school in charge of collecting fees from students who lost their books did not issue a pre-printed, pre-numbered receipt. As a result, there is an increased risk that all cash received will not be remitted to the treasurer.

Petty Cash Fund

The Regulations authorize districts to establish petty cash funds for payment of certain materials, supplies, and

services. The District can improve controls over petty cash by requiring the submission of vouchers (request for reimbursement) and supporting documentation prior to payment and by periodically auditing petty cash funds on hand.

Recommendation 11: Use a standard voucher form for each petty cash disbursement.

Recommendation 12: Periodically audit the petty cash funds to ensure that the correct amount of cash and receipts are on hand and that funds are being used in accordance with policy and procedures.

An effective control system for the disbursement of petty cash funds requires the use of vouchers approved by an authorized official or employee other than the custodian of the fund before any disbursement is made. A separate voucher should be used for each disbursement and supporting documents, such as invoices and receipts, should be used as supplementary to, not in lieu of, the voucher. Such supporting data should be attached to each voucher and should accompany it when vouchers are surrendered for reimbursement. The combination of the cash balance, paid receipts, and any unpaid reimbursement vouchers must equal the total amount of the fund at all times.

The District's controls over petty cash are weak. It has not established standard procedures and does not conduct periodic audits of the petty cash fund. While fund custodians submit receipts and any remaining cash to the treasurer at the end of the school year, the documentation to support petty cash expenditures does not show who made the purchase or approved it. In other instances, only summary sheets are submitted listing the names of the vendors and the amount. A review of the petty cash documentation showed missing funds. For example, a report dated September 23, 2003 showed a shortage of \$24.25 (out of \$100) for one of the funds.

Comments of District Officials

District officials agree with recommendations 10 and 11 and indicated that the use of petty cash funds has been eliminated.

PURCHASING AND EXPENDITURES

A district purchases thousands of products and services each year. Purchasing in a district is regulated by State law, court decisions, and local board policy. Adequate controls must be in place to ensure the purchases are made in compliance with the law and district policy and result in securing goods and services in the right quantity, at the right time, and for the right price.

The District has many of the necessary controls related to purchasing and expenditures. The review identified opportunities for improving controls in purchasing practices, accounts payable and cash disbursements, certain personnel practices, and travel and conference documentation.

Purchasing Practices

The District has written policies and procedures for the purchasing process and many of the necessary purchasing controls in place, but improvement opportunities exist in bidding practices and the use of consultant and temporary worker services.

Recommendation 13: Ensure competitive bidding requirements are adhered to for purchases in excess of \$10,000.

Section 103(1) of the General Municipal Law requires that purchase contracts exceeding \$10,000 be competitively bid and awarded to the lowest responsible bidder. There are some exceptions to the bidding requirement which are aimed to promote the use of certain providers.

Competitive bidding laws are designed to guard against favoritism, extravagance, fraud, and corruption and to foster honest competition to help ensure districts obtain the necessary goods and services at the lowest possible price.

The review determined the District generally adhered to the competitive bidding requirements; however, a small sample of purchases found the District purchased furniture for three administrators' offices costing about \$43,230 without going through competitive bidding. This did not ensure that the

furniture was obtained at the lowest possible price and that taxpayers' dollars were used efficiently.

Recommendation 14: Ensure there is a written contract for all consultant services, signed by both parties, agreeing on the details, dates, and costs of services provided.

It is good business practice to have a signed contract with a consultant to establish the deliverables and the terms of the services and payments. This also legally protects the district should any disputes arise. The District did not always use written contracts for its consultants. For example, the District did not have a contract for a consultant it hired for \$22,000 for community relations. Similarly, the District did not have contracts with retired administrators who were hired as consultants to perform various tasks. One such administrator was paid \$13,300 in the 2002-03 school year for various services (photography and opening of schools).

Of the few consultant contracts that existed, two were reviewed. One was vague and did not clearly state what the consultant would do and what the deliverables would be. As a result, there are no means to assess the effectiveness of the use of the District's funds.

Recommendation 15: Evaluate the cost-effectiveness of continuing to use temporary personnel services.

The District paid almost \$600,000 for temporary service staff during the 2002-03 school year and over \$400,000 during the 2003-04 school year. The temporary workers were nurses, clerical staff, and food service workers. With such a significant cost, the District should periodically evaluate the cost-effectiveness of such practice and consider if there are other, more efficient alternatives.

Accounts Payable and Cash Disbursements

The payment of claims requires strong internal controls to protect the assets and finances of districts from misappropriation and abuse. The District had many of the necessary controls over the payable and cash disbursement process, but improvement opportunities exist in segregating incompatible duties and paying for food and meals provided at official functions.

Recommendation 16: Establish procedures whereby the person who prepares the checks is not involved in mailing the checks.

Controls over the payable process should provide for the separation of key tasks and responsibilities. The individual responsible for preparing checks should not approve or mail the checks; however, the District does not have this control in place. After checks are signed, they are returned to the check preparer to mail. Allowing the preparers to mail checks compromises internal control and increases the risk of misappropriation or alteration of the check.

Recommendation 17: Establish a policy to ensure that amounts spent on meals and refreshments are reasonable and necessary.

Recommendation 18: Ensure reimbursement claims for meals show the names of the guests, the purpose of the lunch/dinner meeting, and the topics discussed.

OSC's Financial Management Guide states that the cost of meals may be paid for by the district when it is determined that it will promote a valid local government purpose, such as a business luncheon with other government officials or community leaders for discussion of a matter to be decided by the board. The claim for reimbursement should state the names of the people in attendance and the topics discussed. The appropriateness of any given expenditure of this nature must be carefully assessed to ensure that it is for a valid district purpose and is not frivolous.

As of December 2003, the District spent about \$34,000 in meals for conferences and meetings for the 2003-04 school year. In the 2002-03 school year, the District spent about \$17,400. These amounts are only a portion of the total payments related to meals and food purchases as they are only direct payments to vendors; credit card charges were also made for similar purchases. The majority of payments mentioned above were made without sufficient documentation of the purpose of the meeting and the people in attendance. Therefore, the review was not able to assess the appropriateness of the charges.

Personnel Practices

Salaries and fringe benefits make up two of the largest expense categories of a district's budget. As such, 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. The District generally implemented the necessary controls for payroll and personnel, but it could make some improvements by formalizing the process for hiring new staff and providing timely evaluations to its employees.

Recommendation 19: Develop formal written procedures for hiring staff.

Under the sensitive and controversial climate that the District is operating, it is necessary that a formal written procedure for hiring staff is in place and being followed. Although there is a standard procedure being followed for hiring, there is no formal written procedure. A formal written procedure will help maintain the integrity of the hiring process and ensure continuity of the process during periods of staff turnover.

Recommendation 20: Ensure evaluations are completed for all employees.

Good administrative practices require each employee to be evaluated at least annually by an immediate supervisor. A written report should be prepared and a copy placed in the employee's personnel folder. The evaluation lets employees know if they are meeting management's expectations and also serves as a record of employee performance.

The District is not current with its employee evaluations. For example, five files were reviewed and only one had an updated evaluation. The remainder of the files show dates of the last evaluation ranging from 1996 to 2002.

Travel and Conference

Many districts have credit cards for use by officials for travel expenses incurred in the performance of their duties. The monthly credit card statements should be supported by detailed documentation and must be paid within a

reasonable time. The District incurred about \$10,000 in credit card charges for the 2003-04 school year as of December 31, 2003. Although the District established some procedures for processing credit card charges, they were not followed.

Recommendation 21: Ensure that all credit card charges submitted to the business office have sufficient documentation including the name(s) of the traveler(s), the purpose, and the destination.

Recommendation 22: Ensure that each claim contains sufficient detail to permit a full audit.

The District's policy requires detailed receipts to be submitted to support charges on monthly credit card statements. In general, Board members do not routinely submit receipts for charges even though a memo is sent regularly from the business office to the Board as a reminder. This causes the internal claims auditor to review and approve claims using the credit card statement only. Without receipts, the District has less assurance that expenditures are appropriate and accurate. In addition, the Board member's failure to submit receipts and supporting documents appears to disregard the need for accountability and results in not establishing the appropriate "tone at the top."

Recommendation 23: Follow the Board policy on Board and Superintendent travel and conference attendance.

The Board's policy on travel and conference for Board members and the Superintendent states that "within two months of the conference, members should personally share their experience with other members and the public at a Board meeting." Although the Board members and Superintendents have attended some conferences, the minutes did not indicate any discussion pertaining to conference topics or issues.

Comments of District Officials

District officials agree with the recommendations.

FACILITIES AND EQUIPMENT

Districts must provide adequate facilities and equipment for educating their students. In addition, districts must adhere to all requirements related to facilities maintenance and construction, and must implement the necessary inventory control to safeguard their assets.

Districts have a substantial investment in their assets including land, buildings, and equipment. As such, districts should establish controls that safeguard property against loss, ensure effective utilization, identify amounts for insurance coverage, evaluate needs, and identify surplus items. The District had many of the necessary controls in place, but needs to address the critical issues related to the condition of its buildings and improve controls by adopting a formal schedule for physical inventories.

Facilities Maintenance

Each district is responsible for providing suitable and adequate facilities to accommodate educational programs. School buildings must be safe, properly maintained, and preserved. A periodic assessment of the condition of a district's buildings is critical to maintaining adequate facilities and protecting the health and safety of students and district employees. Districts must establish a long-term plan to address aging, wear and tear, and obsolescence. At the time of the review, the District's facilities were in deteriorating condition and limited resources were available to repair them.

Recommendation 24: Develop a written comprehensive plan for educational facilities, which includes addressing both the short- and long-term facility deficiencies. Provisions for this plan must be provided for in the District's budget.

Section 155.1 of the Regulations requires each district to develop and keep on file a comprehensive long-range educational facilities plan. The plan must be evaluated at least annually and must include an appraisal of the present and projected pupil enrollments; space utilization and State-rated capacity of existing facilities; priority of need for maintenance, repair, or modernization of existing facilities,

including consideration of their obsolescence and retirement of certain facilities; and the provision of additional facilities.

Increasing student enrollment resulted in overcrowded classrooms and inadequate facilities. These conditions were worsened by years of failure to maintain the school buildings which resulted in rapid deterioration beyond repair, major structural damage, decaying facades, inability to regulate heat, molding conditions, and falling ceiling tiles. All of these conditions prompted the District to plan for major renovations and construction of new buildings. A proposal for a construction project costing \$177 million was put in place; the approval of which would have permitted the District to build new school buildings, repair and renovate others, and eliminate the need for portable classrooms. However, voters defeated this proposal during the December 11, 2003 bond referendum leaving the District to use its limited resources to address matters based on urgency and fund availability. To make matters worse, in March 2004, asbestos was found at the high school prompting the school to close for a few days. The increasing magnitude of facilities-related problems with no corresponding timely and long-term resolution will continue to adversely affect the District's finances and overall operation for years to come.

Inventory Controls

Adequate inventory controls include the maintenance of complete and accurate records, identification of assets with ownership tags, and the periodic conduct of physical inventories.

Recommendation 25: Establish a procedure that would keep the fixed asset inventory updated and ensure all District equipment has a tag identifying it as District property.

Recommendation 26: Assign a staff person who will be responsible for maintaining and updating the asset inventory and will act as a liaison to the company performing the inventory.

The District has written policies and procedures regarding its equipment and many of the necessary controls. However, the District can improve controls by establishing and implementing policies and procedures for periodic

physical inventories. The District had an inventory performed in 2002 in order to comply with the requirements of GASB 34. However, no inventory had been conducted on a regular basis prior to this and, at the time of this review, no other inventory has been conducted. In addition, while the District had affixed stickers to many items of furniture and equipment identifying them as property of the District, not all items were tagged.

No one in the District has been assigned responsibility for updating and maintaining the inventory. In order to establish adequate controls over assets, inventory records should be updated throughout the year to reflect any movements, relocations, or additions of assets.

Comments of District Officials

District officials agree with the recommendations.

STUDENT SERVICES

Districts provide various services for their students including student transportation, food service, and extraclassroom activities. Districts should provide students with a learning environment that is safe and secure. The review found the District generally complied with laws, regulations, and good business practices for its transportation operations. The District also generally complied with laws and regulations concerning school safety and security. However, the District could make some improvements related to the safety of school buildings and compliance with the fingerprinting requirement for all temporary services personnel.

Safety and Security

Education Law Section 155.17 calls for each board to adopt a school emergency management plan to ensure the safety and health of children and staff, and to ensure integration and coordination with similar emergency planning at the municipal, county, and State levels. The board should then adopt a school safety plan, both at the district level and the building level. A school safety plan is a comprehensive, multi-hazard plan that covers all buildings of the district and addresses crisis intervention, emergency response, and management at the district level.

Recommendation 27: Upgrade facilities to comply with safety requirements.

The District developed safety/emergency plans for all of its buildings; however, some facilities are not equipped to implement safety/emergency plans in case of an actual incident. For example, the middle school cannot conduct lockdowns because the classroom doors cannot be locked from the inside. District officials indicated they are in the process of replacing the doors. In addition, some classrooms do not have working phones. In the event of an incident, these deficiencies could result in dire consequences.

Recommendation 28: Develop a process to verify that all individuals working within the District comply with fingerprinting and background check requirements.

Section 87.4(b) of the Regulations requires an employee of a provider of contracted services to districts to undergo a criminal history record check and fingerprinting. The District contracts with a number of vendors to provide temporary clerical workers, substitute food service workers, and substitute nurses. The District was not able to tell us if they had a process in place to verify that all temporary workers met the fingerprinting requirement. As a result, the review was not able to determine if the District is in compliance with the Regulation or if students may be exposed to individuals with an unsatisfactory criminal history record.

Comments of District Officials

District officials agree with the recommendations.

STUDENT RELATED DATA

Districts are required to collect and report data on student attendance and student performance including dropout, cohort, enrollment, and test scores. A district needs to have adequate policies and procedures in place to ensure the data are accurate, reliable, and valid. The Department uses the data as a performance benchmark to identify schools that may need assistance in raising student performance; it also uses some of the data for State aid and School Report Cards.

The District has implemented many of the necessary controls to accurately account for and report attendance and student performance data. However, the District needs to maintain certain permanent student records and secure all student records. The District also needs to improve its accuracy of reporting student data to the Department on the System for Tracking Education Performance (STEP).

Recommendation 29: Maintain the required permanent student records for all students.

Recommendation 30: Ensure all permanent student records are properly secured.

Districts are required to maintain permanent academic records for all students. The permanent records include cumulative achievement record equivalents (sometimes referred to as “permanent record cards”) for elementary and secondary school students including, but not limited to, information on school entry, withdrawal and graduation, special education status, subjects taken, grades received from examinations, and standardized test results. In addition, districts are required to maintain certain other academic related records for at least six years after the student would normally have graduated high school. Student records are confidential documents and should be adequately secured at all times.

The audit reviewed student records at the high school and determined some documents, such as discharge forms and requests for transcripts from a student’s new school, are discarded after one year. In addition, some of the permanent student records were not adequately secured in

that they were stored in unlocked cabinets in a common area of the building.

Recommendation 31: Develop written procedures for collecting, entering, and reviewing data that are transferred from the local database to the STEP system, and define the particular responsibilities of the staff members involved.

Recommendation 32: Ensure that all data in the STEP report are internally reviewed and accurate prior to the Superintendent's certification and submission to the Department.

NCLB requires states to establish accountability systems and produce annual report cards that inform parents and communities about academic progress. To meet the NCLB's reporting requirements, the Department developed the STEP system. All districts in the State are required to use the STEP system and report individualized student data. The data are used to meet federal and State requirements, evaluate the impact of new graduation standards, provide detail for policy analysis, and improve student achievement.

To ensure that the goals of the STEP system are realized, it is important for districts to submit reliable data to the Department. Superintendents are required to certify the accuracy of the data prior to submission. District officials should ensure the raw data and the system's verification reports are reviewed and that all errors are corrected.

A review of the District's 2002-03 STEP file and source documents, such as student records, found that the District generally reported accurate assessment and demographic data. However, some data were incorrect, particularly that related to students who left the District. The following are examples of inaccurate data that were reported to the Department through the STEP system.

- The District reported that 31 students graduated and received Regents diplomas with honors. Though the 31 students graduated with Regents diplomas, none received the honors designation.
- The District reported that 162 students graduated and received local diplomas with a Career and Technical Education endorsement (CTE). None of the students received the CTE endorsement and three of the students

did not graduate. One of the reported graduates transferred to a General Educational Development (GED) program, one transferred to a special placement setting, and the whereabouts of another were unknown.

- The District reported that about 200 students transferred to other districts within the State. The records of a sample of those students were reviewed and showed six were incorrectly coded in STEP. A few were dropouts, and one was a third grade student whose date of birth was incorrectly entered into the District's database.
- The District reported over 70 students left the country. The records of a sample of these students were reviewed and showed six of the students had moved out of the State, but not the country, and the whereabouts of two others were unknown.
- The District reported that 11 students transferred to GED programs. The records of four of those students were reviewed and showed one of the students transferred to another district on Long Island and one student's departure was not sufficiently documented to determine their actual whereabouts.
- The District reported that 10 students left the District because they were 21 years of age or older. However, the demographic data in the STEP file indicated that five of the students were 17 years of age or younger. The records of three of the underage students were reviewed and showed two left the country and one moved to Florida.

Some of the above errors may be attributed to the conversion of the student database from the old system to a new software system and its translation to the STEP report. However, the District had not developed adequate procedures to ensure the accuracy of the data or formal procedures for transferring data from the local database to the STEP system and reviewing the data prior to submission to the Department.

Comments of District Officials

District officials agree with the recommendations.

Auditor's Note

The District, in response to recommendation 30, indicated a plan has been implemented to ensure all permanent student records are properly secured and maintained for a fixed period of no less than five years. The Records Retention and Disposition Schedule ED-1 establishes the requirements for retaining student records. Some student records are required to be maintained permanently. The District should review all requirements and amend its plan as needed.

Contributors to the Report
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- Maria Castro, CPA, Associate Auditor
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May 20, 2005

Mr. Michael Abbott, CPA
Director
Office of Audit Services
State Education Department
Albany, NY 12234

Dear Mr. Abbott,

Enclosed please find my comments to the draft report (SD-1003-2) for the Hempstead Union Free School District for the period July 1, 2002 through March 31, 2004. These comments are provided to meet our agreed upon due date of May 20, 2005.

Recommendation 1: The Board should provide appropriate oversight, but leave the management of the District to the Superintendent and administrators.

Response 1: This recommendation is reasonable and fair and requires effort on the part of the Hempstead Board of Education to adhere to this recommendation. Each Board member must make a concerted effort to adhere to this recommendation.

Recommendation 2: Board members should attend training programs on board governance and board effectiveness.

Response 2: The Board members are being encouraged to attend their State, National and Regional conferences regarding board governance and board effectiveness. Also, tapes are available from their own meetings for review and self improvement. The Board members attended a retreat entitled "Governance Team Leadership: Roles and Responsibilities" facilitated by Edward T. Joyner, Ed.D. Executive Director, School Development Program, Yale University.

Recommendation 3: Maintain the full number of Board members at all times.

Response 3: This recommendation is reasonable and fair and the Hempstead Board of Education will make every effort to maintain the full complement of board members. The full complement of board members has been in place since March 2004.

Recommendation 4: Appoint an individual as the internal claims auditor who is not directly involved in any accounting or purchasing function or prohibited by law from holding such office.

Response 4: The Hempstead School District has retained the services of a CPA firm to serve as the internal claims auditor for the district. This is directly in-line with the district moving toward New York States' goal of financial accountability in schools.

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Recommendation 5: Develop a long-term financial plan that includes major aspects of expenditures and revenue projected for the next five years.

Response 5: The Hempstead School District will develop a Five Year financial plan that will include revenue and expenditure projections. The plan will include anticipated enrollment projections, salary and fringe benefit costs as well as short-term and long term capital needs.

Recommendation 6: Examine all aspects of the food service operation to determine the cause of the operating deficits and establish a plan to eliminate the negative school lunch fund balance.

Response 6: The Hempstead School District has begun to thoroughly review the School Nutrition program. The district has retained the services of a consultant to immediately implement health, nutritional and management changes.

Recommendation 7: Maintain a bond and note register to provide a complete record of each issuance of bonds or notes as required by Local Finance Law and the Regulations.

Response 7: The Hempstead School District will maintain a bond and note register as required by Local Finance Law.

Recommendation 8: Ensure that all Medicaid billings are current.

Response 8: The Hempstead School District has begun to implement the appropriate management structures that will ensure all Medicaid related data is complete and available for billing. The school district has implemented a quarterly billing cycle. To date all Medicaid billing through February 2005 has been submitted.

Recommendation 9: Develop a written procedure to streamline the Medicaid billing process.

Response 9: The Hempstead School District will develop and implement written procedures to streamline the Medicaid billing process.

Recommendation 10: Use pre-printed, pre-numbered cash receipt forms for all cash receipts.

Response 10: The Hempstead School District will purchase and supply pre-printed, pre-numbered cash receipt forms to every school/site in the district for use in cash receipts.

Recommendation 11: Use a standard voucher form for each petty cash disbursement.

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Response 11: The Hempstead School District will use a standard voucher form for petty cash disbursement if and when petty cash disbursement is reinstated.

Recommendation 12: Periodically audit the petty cash funds to ensure that the correct amount of cash and receipts are on hand and that funds are being used in accordance with policy and procedures.

Response 12: The Hempstead School District has ceased and desist the use of petty cash funds at all levels of operation in the organization.

Recommendation 13: Ensure competitive bidding requirements are adhered to for purchases in excess of \$10,000.

Response 13: The Hempstead School District will adhere to competitive bidding requirements for all purchases in excess of \$10,000.

Recommendation 14: Ensure there is a written contract for all consultant services, signed by both parties, agreeing on the details, dates and costs of services provided.

Response 14: In all future use of consultant services, the Hempstead School District will ensure that there is a written contract for services provided that will include details, dates, costs of services and expected deliverables.

Recommendation 15: Evaluate the cost-effectiveness of continuing to use temporary personnel services.

Response 15: The Hempstead School District has discontinued the use of temporary personnel services and will look at other means of providing the required services.

Recommendation 16: Establish procedures whereby the person who prepares the checks is not involved in mailing the checks.

Response 16: The Hempstead School District is committed to the process of separation of duties. We will separate the key tasks and responsibilities of the payable process.

Recommendation 17: Establish a policy to ensure that amounts spent on meals and refreshments are reasonable and necessary.

Response 17: The School Board Assistant for the Hempstead School District who serves as the Policy Compliance Officer for the Board of Education will update current policy to ensure that amounts spent on meals and refreshments are reasonable and necessary.

Recommendation 18: Ensure reimbursement claims for meals show the names of the guests, the purpose of the lunch/dinner meeting, and the topics discussed.

Response 18: The Hempstead School District will require all reimbursements for meals submitted to provide a list of guests and an agenda for the meeting.

Recommendation 19: Develop formal written procedures for hiring staff.

Response 19: The Hempstead School District will formalize its hiring procedures. These procedures will be written and disseminated.

Recommendation 20: Ensure evaluations are completed for all employees.

Response 20: The Hempstead School District will require all supervisors to submit an annual evaluation for all staff. The due date for submissions for the 2004 – 2005 school year has already been set and will be accompanied by appropriate follow-up.

Recommendation 21: Ensure that all credit card charges submitted to the business office have sufficient documentation including the name(s) of the traveler(s), the purpose, and the destination.

Response 21: The Hempstead School District requires the name of traveler(s), purpose and destination for all credit card charges.

Recommendation 22: Ensure that each claim contains sufficient detail to permit a full audit.

Response 22: The Hempstead School District has put into place a process which requires each claim to be accompanied by all related documentation inclusive of: pre-approval, rational and itemized expense receipts.

Recommendation 23: Follow the Board policy on Board and Superintendent travel and conference attendance.

Response 23: The Superintendent will abide by the Board policy to provide a summary of travel/conferences attended during the Superintendent's Report at public Board Meetings.

Recommendation 24: Develop a written comprehensive plan for educational facilities, which includes addressing both the short- and long-term facility deficiencies. Provisions for this plan must be provided for in the District's budget.

Response 24: The Hempstead School District will develop a written comprehensive plan for our educational facilities that will address both short- and long-term goals. All provisions for this plan will be provided for in the District's budget appropriately.

Recommendation 25: Establish a procedure that would keep the fixed asset inventory updated and ensure all District equipment has a tag identifying it as District property.

Response 25: The Hempstead School District has identified staff on the building and district level to assure an accurate inventory of all District equipment with the accompanying tag identification on all District property. This team will adhere to District procedure in this area.

Recommendation 26: Assign a staff person who will be responsible for maintaining and updating the asset inventory and will act as a liaison to the company performing the inventory.

Response 26: The Hempstead School District has identified an administrator who has assumed the responsibility for maintaining and updating the asset inventory and will act as a liaison to the company performing the inventory.

Recommendation 27: Upgrade facilities to comply with safety requirements.

Response 27: The Hempstead School District has begun to address the safety related deficiencies in the district. We have dollars set allocated in the FY 2005 – 2006 for both emergency repair and maintenance facilities. In addition, dollars were allocated in the FY 2004 – 2005 budget for both emergency repair and maintenance facilities.

Recommendation 28: Develop a process to verify that all individuals working within the District comply with fingerprinting and background check requirements.

Response 28: The Hempstead School District has in place a process to verify that all individuals working within the District comply with fingerprinting and background check requirements.

Recommendation 29: Maintain the required permanent student records for all students.

Response 29: The Hempstead School District maintains the required permanent student records for all students on a primary computerized program (SASI) with a CD back-up.

Recommendation 30: Ensure all permanent student records are properly secured.

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Response 30: The Hempstead School District has implemented a plan to ensure that all permanent student records are properly secured and maintained for a fixed period of no less than five years.

Recommendation 31: Develop written procedures for collecting, entering, and reviewing data that are transferred from the local database to the STEP system, and define the particular responsibilities of the staff members involved.

Response 31: The Hempstead School District has developed written procedures for collecting, entering and reviewing data that are transferred from the local database to the STEP system. The staff members have been identified and trained.

Recommendation 32: Ensure that all data in the STEP report are internally reviewed and accurate prior to the Superintendent's certification and submission to the Department.

Response 32: A monitoring system has been instituted to ensure the accuracy of all data in the STEP report are internally reviewed prior to the Superintendent's certification and submission to the Department.

If you have any questions and/or concerns regarding the above information, please contact me at (516) 292-7111 extension 1010.

Sincerely,


Susan Johnson
Superintendent of Schools

XC: Commissioner Mills
Terry Savo
Kathy Ahearn
James Kadamus
Renee Bullis
James Butterworth
James Conway
Burt Porter
Linval Foster