
Final Report

Liberty Central School District

for the Period

July 1, 2001 through May 30, 2003

SD-0403-5

December 1, 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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December 1, 2003

Mr. Philip Olsen
Board President
Liberty Central School District
115 Buckley Street
Liberty, New York 12754

Dear Mr. Olsen:

The following is our final report (SD-0403-5) for the review of the Liberty Central School District for the period July 1, 2001 through May 30, 2003. 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

cc: T. Savo, T. Sheldon, B. Porter, J. Kadamus, C. Szuberla, R. Bullis, C. Foster (DOB), J. Dougherty (OSC), L. Clarke, Superintendent, M. Handler, District Superintendent

Executive Summary

Background and Scope of the Audit

The Liberty Central School District (District) served about 1,700 students in four schools and spent approximately \$24.6 million in the 2001-02 school year. The District's average cost per student for the 2000-01 school year was about \$1,565 more than the statewide average. The District experienced some fiscal stress over the past few years and had a negative fund balance of \$1,074,769 as of June 30, 2002. The District's student performance in the elementary level compared favorably to State standards, but improvement is needed at the middle school and high school levels.

The objective of the review was to assess the adequacy of the District's management 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 management practices, records, and documentation for the period July 1, 2001 through May 30, 2003.

Review Results

The review found that the District has many of the necessary management controls in place; however, improvement opportunities exist in the following areas:

- Governance and planning - policies and procedures, staff appointments, and budget development and budget administration.
- Accounting and reporting - financial condition, record keeping for debts, and financial reporting.
- Revenue and cash management – cash collections and petty cash.
- Purchasing and expenditures – purchasing procedures and payment practices, and payroll and personnel practices.
- Facilities and equipment activities – inventory controls and long-range planning.
- Student services - extraclassroom activity funds.
- Student related data – dropout reporting, and security and reliability of student performance data.

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

Comments of District Officials

District officials' comments about the findings were considered in preparing this report and are included as Appendix B. District officials agree with the recommendations and have implemented several.

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Introduction

Background

The mission of the Liberty Central School District (District) is “to inspire all students to pursue their dreams and to contribute and thrive in a diverse community.” The District, located in Sullivan County, is a high need rural district. It served about 1,700 students in four schools and spent approximately \$24.6 million in the 2001-02 school year. For the 2000-01 school year, the District spent \$13,436 per pupil, or 13 percent more than the statewide average.

The District’s student performance at the elementary level generally compared favorably to State standards. There has been an upward trend over the past three years in the number of students meeting or exceeding the standards in English Language Arts, Mathematics and Science at the elementary level. School performance at the middle school level was below the State standard for both Grade 8 English Language Arts and Grade 8 Mathematics for the past three years, although there was some improvement. This performance has resulted in the school being identified as one requiring academic progress and is subject to school improvement planning requirements under State regulations. At the high school level, the school met the State standards for English Language Arts and Mathematics for 1999-2000 and 2000-01, but fell below the State standards for 2001-02.

The District continues to experience some fiscal stress that began in the school year ending June 30, 1999. Expenditures have exceeded revenues for the past three years, the most significant of which was during the school year ending June 30, 2002, where the operating deficit was \$1,489,061. In addition, the District had a negative fund balance of \$1,074,769, and overspent its General Fund budget by \$437,318 for the year ended June 30, 2002. The District has taken some measures to address this issue and seeks to use deficit financing legislation to stabilize its financial condition. The contingency budget in place for 2002-03 forced the District to reduce staff and discontinue various programs.

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.emsc.nysed.gov/irts/ch655_2002/home.html
- *The New York State School Report Card* (Report Card) published March 2003 and available online at <http://www.emsc.nysed.gov/irts/reportcard/home.html>

Objectives, Scope and Methodology

The State Education Department's (Department) Office of Audit Services (OAS) reviewed selected management practices, records, and documentation for the period July 1, 2001 through May 30, 2003. 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 management 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 that the District has many of the necessary management controls in place; however, improvement opportunities exist in the following areas:

- Governance and planning - policies and procedures, staff appointments, and budget development and administration.
- Accounting and reporting - financial condition, record keeping for debts, and financial reporting.
- Revenue and cash management – cash collections and petty cash.
- Purchasing and expenditures – purchasing procedures and payment practices, and payroll and personnel practices.
- Facilities and equipment activities – inventory controls and long-range planning.
- Student services - extraclassroom activity funds.
- Student related data – dropout reporting, and security and reliability of student performance data.

The improvement opportunities are addressed in more detail in the body of the report. The District's Board of Education (Board) should give careful consideration to the recommendations to further improve the operation and management of the District.

Comments of District Officials

District officials' comments about the findings were considered in preparing this report and are included as Appendix B. District officials agree with the recommendations.

GOVERNANCE AND PLANNING

A board of education is responsible for the education of the children residing in its school district and must provide for the governance and oversight of the school 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, staffing, and strategic planning. However, the Board could make improvements related to policies and procedures, staff appointments, and budget development and budget administration.

Policies and Procedures

Written policies and procedures help ensure employees understand their responsibilities and help hold staff accountable. They also aid in any staff transitions, which would have been useful for the District in light of the quick staff turnover in the business office. Written policies and procedures should be distributed and made readily available to the appropriate employees and should be reviewed annually and updated as necessary to reflect the expected practices of the District. The District had some policies and procedures as required by Education Law Section 2503(2), and made them available to appropriate staff. However, the District needs to establish policies and procedures in some other important areas.

Recommendation 1: Establish all written policies and procedures required by law, regulations, and good business practice.

The review determined that the District needs to develop written policies and procedures for cash receipts and disbursements, accounts payable, billing, use of credit cards, food and beverages for employees, and fixed assets. In addition, there are no formal procedures for purchase requisitions, payment of claims, time and attendance, payroll, or hiring.

During the exit conference, additional policies were provided to the auditors, the majority of which have not

been presented and approved by the Board. To be considered official Board policy, they should be presented and approved by the Board during a meeting and made available to all District employees.

Staff Appointments

School districts are required to appoint certain officers and individuals to administer the school district's affairs. The Board has appointed the required officers, such as the treasurer and the board clerk; however, the Board could improve controls over processes by appointing an internal claims auditor.

Recommendation 2: Appoint an internal claims auditor or require the entire Board to review claims for expenditures prior to payment to comply with Education Law Section 1724.2.

Education Law requires a board of education to audit and approve each claim for payment except contracted wages and debt service. No claim against the school district shall be paid unless it has been audited and approved by the board of education. Rather than having the board of education audit and approve each claim, Section 1709.20 (a) of the Education Law authorizes a board of education to adopt a resolution to appoint an internal claims auditor to perform this important function.

The Board has not appointed an internal claims auditor and also has not audited each claim. Instead, an abstract of the claims is drawn in the form of a warrant and presented to the Board during its meeting for approval. This does not accomplish the intent of the law as individual claims are not properly scrutinized to ensure validity, appropriateness, and accuracy.

Budget Development and Budget Administration

A school district's budget is critical to its operation. It provides a framework for school 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 school 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 Board performs many of its responsibilities; however, the Board could make improvements related to development, planning, monitoring, and compliance with legal requirements.

Recommendation 3: Develop a long-term financial plan that includes major aspects of expenditures and revenue projected for at least five years.

Long-term planning can help ensure continuity of services, facilitate the annual budget process, aid in planning and financing capital purchases, and help managers to better anticipate and prepare for the future. The plan needs to take into account enrollment projections, increases in salary and fringe benefit costs, changes in student-teacher ratios, supplies and equipment needs, building maintenance costs, capital needs, debt service needs, and other needs. The plan also needs to take into account real property tax revenue, State aid projections, Medicaid revenue, federal aid, other revenue, investments, and fund balance.

The District's long-term financial plan provides a five-year projection of major expenditure items, but lacks some important information such as effect of future enrollment on staffing needs and projected costs, the impact of change in teacher-pupil ratios, an assessment of the impact of future debt service, and a planned program of building maintenance and capital replacements. In addition, the long-term financial plan does not project revenues. Without this information, the District is in less of a position to adequately project and control its financial position.

Recommendation 4: Include all information required by Education Law Section 1716 in presenting the budget to the public.

The budget is a school district's fiscal plan for the year and must be carefully developed and presented to the public. Education Law Section 1716 (3) requires the budget to include a complete, accurate, and detailed written statement of estimated revenues, including payments in lieu of taxes, and property tax refunds from certiorari proceedings. Categories of expenditures and fund balance information, as well as comparison data from the prior year's budget, must also be included and set forth in such a manner as to best

promote comprehension and readability. Education Law Section 1716(5) requires the board of education to include a detailed statement of the total compensation to be paid to the superintendent of schools and other school officials earning in excess of \$85,000 per year. The District's budget, presented to the public, did not include estimated revenues or the required salary information.

Recommendation 5: Ensure that appropriations are available before encumbrances or expenditures are made.

Recommendation 6: Ensure budget transfers are made during the year to prevent overspending any budget codes.

Education Law Section 1704 and the Regulations of the Commissioner of Education (Regulations) Sections 170.1 (f) and 170.2 (k) specifically prohibit a board of education from authorizing or permitting expenditures to be made that exceed appropriations or available funds. School districts should have a procedure in place to prohibit incurring an expense or issuing a purchase order if it will result in overspending the account. The District's budget status report, dated May 14, 2003, showed over 100 budget account codes overspent resulting in negative balances. While the District's system has controls in place to prevent the encumbrance of accounts with insufficient balances, authorized staff can override this feature of the system which allows the District to continue to encumber or charge expenditures to budget account codes with an insufficient balance. The overspent account codes make monitoring the budget more difficult and increase the risk that the legally authorized amounts will be exceeded. The District's practice was to make the budget transfers at the end of the year in order to track the particular budget codes that are exceeding the appropriation.

Recommendation 7: Provide the Board with the budget status report for all the funds of the District.

Section 170.2 of the Regulations requires the treasurer to provide the board of education with the budget status report for each fund on at least a quarterly basis, or monthly if transfers have been made since the last report. The District's treasurer provides the budget status report to the Board on a monthly basis for all funds except the Capital Fund. Without the budget status report for the Capital Fund,

the Board cannot effectively monitor the District's \$4.7 million in appropriations for building projects.

Recommendation 8: Make routine fund balance projections for presentation to the Board and other District officials.

One aspect of good budget administration is to periodically project year-end fund balance. The amount of fund balance at year-end is affected by the ability of school district officials to keep the level of expenditures below the available revenues. The projection is particularly valuable to the board of education and the administration when making final decisions about the upcoming budget, including the amount of taxes to be levied. Fund balance projections should begin in January of each year and should be revised each month to reflect actual results and other foreseeable changes. The District does not routinely make fund balance projections. Without this information, the District was not in a position to assess the impact of the projected fund balance on the budget.

Comments of District Officials

District officials agree with the recommendations.

ACCOUNTING AND REPORTING

School 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 of education, 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 its financial condition, record keeping for debt instruments, and financial reporting.

Financial Condition

A board of education has the responsibility to monitor the financial condition of its school district. To ensure fiscal stability, school districts need to carefully develop balanced budgets, ensure expenditures are within budgeted amounts, monitor the budgets, and amend them as necessary. The District has experienced a worsening financial condition over the last several years. Expenditures have exceeded revenue for each of the prior three years and fund balance decreased to a negative \$1,074,769. The District should improve monitoring of its finances and strive to increase its fund balance.

Recommendation 9: Closely monitor estimated revenues and expenditures to avoid an operating deficit.

The District's expenditures exceeded revenues by \$747,364, \$603,197, and \$1,489,061, for years 1999-2000, 2000-01, and 2001-02, respectively. In addition, the District had a negative fund balance of \$1,074,769, negative unreserved undesignated fund balance of \$1,129,655, a current ratio of less than one to one, and an overspent General Fund budget of \$437,318 for the year ended June 30, 2002. The School Lunch Fund had negative fund balances for the past two years (school year ending 2001 and 2002) of \$92,482 and \$145,569, respectively.

Using the available fund balance, overestimating revenues and underestimating expenditures contributed to the District's deteriorating financial condition. In the 2002-03

year, the District increased taxes and cut expenses to ensure its budget was balanced.

The District also sought legislative authorization to finance and liquidate the General Fund deficit over a period of ten years through the issuance of serial bonds. Deficit financing will place additional stress on the District's annual operating budgets in future years and will also result in putting the District's budget process under the scrutiny of a number of State agencies. The District needs to determine the impact of debt service on its budgets and assess how it will pay its obligations and maintain the quality of its programs.

The District needs to carefully prepare its budgets and to be on guard to ensure its budgets are balanced and that timely revisions are made to reflect any changes to estimated revenues and expenditures.

Recommendation 10: Manage the District's fund balance to increase the amount available for contingencies.

The fund balance is the accumulation of a school district's operating surpluses and deficits; it reflects the net amount a school district has in savings or owes, taking into account its assets and liabilities. The District should closely monitor its revenues and expenditures with the aim of managing its fund balance and increasing the amount of reserved and unreserved fund balance.

Financial Accounting System

A school 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 of education and the State. The District's accounting system generally met those requirements. However, the review identified an improvement opportunity related to record keeping for bonds and notes.

Recommendation 11: Maintain a bond and note register to provide a complete record of each issuance of bonds or notes as required by Local Finance Law.

Section 163 of the Local Finance Law requires school districts to maintain a bond and note register and a complete record of each issuance of bonds or notes. The District has not maintained a bond and note register and files are not kept in one central location. According to a District official, due to the high turnover of staff in the business office, records are in the custody of various individuals.

The District's treasurer should develop and maintain a complete record of each issue of bond or note authorized including the type, amount, number of obligations in the issue, interest rate, date of issue, date of maturity, and date of adoption of the resolution authorizing the obligation. This should improve accountability with bonds and notes.

Financial Reporting

School districts are required to submit various reports and forms to the Department and make information available to the public. While the District has provided many of the items on a timely basis, it has an opportunity to improve the timeliness of some reports and required notices regarding its financial report.

Recommendation 12: Publish the annual financial reports (ST-3) and notice thereof as required by Education Law and the Regulation.

Recommendation 13: Publish the notice of availability of the audited financial statements as required by General Municipal Law.

Education Law Section 1721 requires central school districts to publish their annual financial report during the months of July or August. It should consist of summary reports and a notice of the availability of the report in its entirety for public inspection. In addition, General Municipal Law Section 35(2) also requires publication of a notice that the independent audit report is available as a public record for inspection by all interested persons. The District did not publish this information or notice of availability of its

annual financial report and independent audit report. According to District officials, the last time financial reports were published was in 1991.

Recommendation 14: Submit the ST-3 annual financial report to the Department by the September 1 due date and the independent audit report to the Department by the October 1 due date as required by Section 170.2(r) of the Regulations.

The ST-3 is due to the Department on September 1, whereas the independent audit report is due on October 1. The ST-3 is used as the basis for State aid calculations and reporting fiscal data to the public. Late submission of these reports could result in the withholding of aid or, in some cases, reduction in aid. The District has not filed these reports by the due date in the past three years, with the lateness ranging from 2 to 54 days. The District should strive to improve its processes to ensure the timely submission of these reports.

Comments of District Officials

District officials agree with the recommendations.

REVENUE AND CASH MANAGEMENT

School districts collect and invest millions of dollars in revenue each year. The school 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 Collections

School districts must establish strong internal controls over cash collections to prevent mishandling and to safeguard against loss. The District established many of the necessary controls over cash collections, but it could make improvements related to separation of duty, bonding of employees, and following up on accounts receivables.

The Office of the State Comptroller's *Standards for Internal Control in New York State Government* states separation of duties is the division of key tasks and responsibilities among the various employees and units of an organization. No one individual should control all key aspects of any transaction or event. By separating key tasks and responsibilities, such as receiving, recording, depositing, securing, and reconciling assets, management can reduce the risk of error, waste, or wrongful acts occurring or going undetected.

Recommendation 15: Improve controls over cash collections by separating key duties or by increasing supervision and oversight of certain activities.

Recommendation 16: Consider requiring the supervisor of the Latchkey program to remit revenue to the treasurer on a more frequent basis.

The supervisor of the District's Latchkey program is responsible for both billing participants and collecting fees for the program with little or no supervision or oversight from other District staff. Collections, which include cash, are remitted to the treasurer every two weeks. The lack of separation of duties increases the risk of errors and

misappropriations. While ideal separation of duty is not always possible in a small office, the District should strive to separate key functions and provide for increased supervisory oversight over high-risk areas. Also, keeping cash on hand for up to two weeks increases the risk the funds may be lost or stolen.

Recommendation 17: Restrictively endorse checks upon receipt.

Recommendation 18: Establish a record or list of all cash and checks received to improve accountability.

Good business practices and sound internal control require that someone independent of other cash and record keeping functions should open the mail, restrictively endorse all checks, and establish a record of all funds received. The checks should be turned over to the business office for deposit and someone independent of the record keeping function should verify the funds were in fact deposited into the bank. Restrictively endorsing checks upon receipt helps minimize the chance of misappropriation. Many school districts use a rubber stamp to endorse checks “for deposit only” in the name of the district. The review found that the person opening the mail does not restrictively endorse checks or establish a list of all funds received.

Petty Cash Fund

The Regulations authorize school districts to establish petty cash funds for the payment of certain materials, supplies and services. The District can improve controls over petty cash by limiting the amount of the funds to the legally authorized level and by reassigning responsibilities.

Recommendation 19: Ensure that the balance in each petty cash fund does not exceed the \$100 maximum established by the Regulations.

Section 170.4 of the Regulations requires that the petty cash balance on hand in each fund shall not exceed \$100 at any time. The District has two petty cash funds under the responsibility of two cafeteria workers. Each of these funds was established at \$150, which is \$50 more than the maximum amount allowed.

Recommendation 20: Reassign responsibility for the petty cash fund to an individual who does not have duties related to receipt of cash.

Good business practices dictate that the individual responsible for the petty cash fund should not have any other duties related to cash receipts. However, the District assigned the treasurer the responsibility for both petty cash funds and cash receipts for all other funds. By limiting access to any other cash receipts and requiring separate accounting for each fund, the District could minimize the risk that an individual could commingle funds or substitute cash received for misappropriated petty cash funds.

Comments of District Officials

District officials agree with the recommendations.

Purchasing and Expenditures

A school district purchases thousands of products and services each year. Purchasing in a school district 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. Controls can also help ensure that purchases are made in compliance with the law and school district policy. The District has many of the necessary controls related to purchasing and expenditures, but improvements can be made related to its purchasing and payment practices, and payroll and personnel practices.

Purchasing Procedures and Payment Practices

School districts should establish written procedures for the purchase and payment processes. The procedures should identify the steps in processing a purchase requisition, issuing a purchase order, verifying receipt of the goods or services, approving the claim for payment, and paying for the goods or services in a timely manner. Each of the steps must be adequately documented, including the approval or authorization of the transaction by a school district official such as the purchasing agent. The purchasing agent is the only district official who is authorized to initiate a contract between the vendor and the district and the only person who can obligate the district to a purchase.

One of the typical payments made by a school district is the reimbursement of employees' expenses incurred in the normal course of performing their duties. The cost of meals for employees conducting school district business may be paid by the school district provided that the claim for reimbursement states the names of the guests and the nature of the business discussed. If it is determined that a lunch or dinner meeting with guests will promote a valid school district purpose, the costs of the meals would be an appropriate school district expense.

The District has established some purchasing policies and procedures, but not others. Controls will be improved if the District implements standard procedures for processing claims, maintains supporting documentation of competitive

bidding, develops and uses a purchasing calendar, and considers requiring two signatures for certain payments.

Recommendation 21: Implement procedures to ensure the District follows standard practices for processing a requisition, issuing a purchase order, approving claims for payment, using credit cards, and issuing payments in a timely manner.

Districts should establish and adhere to standard steps for purchasing goods and services. These steps should include using purchase requisitions and purchase orders, processing claims in a timely manner ensuring claims are supported with adequate documentation, and ensuring claims do not exceed the purchase order amount. Based on a sample test of expenditures, the following conditions were found:

- Purchases, including credit card purchases, bypassed the requisition process. Placing an order without an approved purchase requisition weakens the control of the administrator responsible for approving requisitions. It may also result in the purchase of unneeded items.
- Purchases, including credit card purchases, were made without issuing purchase orders. This weakens budgetary control because the purchases were not encumbered and may result in overspent budget accounts. Moreover, these purchases were not initiated by the purchasing agent, the only person authorized to purchase for the District.
- Payments were made for claims without invoices. For example, one payment was made based on a claim submitted by the vendor. This increases the risk of inappropriate payments.
- Late credit card payments resulted in finance charges being incurred.
- Payments were made for credit card charges for meals without documentation to demonstrate the expense related to District business or the individuals in attendance.
- Payments were made for credit card charges include lodging without supporting documentation to show who stayed in the rooms and the purpose of the trip.
- Some payments exceeded the amount of the purchase order. This also weakens budgetary control and may result in overspent budget accounts.

Recommendation 22: Maintain documentation to show competitive bidding was used, or if exempted the reason for such exemption and all relevant information.

General Municipal Law Section 103(1) requires that all purchase contracts in excess of \$10,000 and all public works contracts in excess of \$20,000 be awarded to the lowest responsible bidder. School districts must adhere to this requirement and should maintain complete and accurate documentation to support competitive bidding.

The review sampled purchases that are subject to competitive bidding and found that five purchases did not have documentation to show whether it was competitively bid or exempt from the bidding requirements. Without adequate supporting documents, the review could not determine whether the District complied with the requirements of General Municipal Law Section 103(1) or if the District obtained the lowest price.

Recommendation 23: Develop and utilize a purchasing calendar.

It is a good business practice to maintain a purchasing calendar and a purchasing schedule. A purchasing calendar establishes dates on which certain classes of items will be purchased. This helps coordinate the purchasing cycle on a weekly, monthly, and yearly basis. The purchasing calendar should also include a weekly purchasing schedule that will allow for the processing of requisitions, encumbering of funds, and issuing purchase orders on specific days. This will more evenly distribute the office workload and encourage the combining of small orders.

In addition, the purchasing calendar can result in savings to school districts if purchasing is scheduled during times of the year when suppliers can be the most competitive. Use of a purchasing calendar can also result in fewer purchase orders, more accurate accounting records, adherence to the bidding process, and timely receipt of goods and services. However, the District's purchasing agent has not established a purchasing calendar.

Recommendation 24: Require two signatures on checks over a predetermined threshold amount.

A control requiring two signatures on a check for payments over a certain dollar amount can help ensure the appropriateness of payments for goods and services. The District's policy was to require only one signature on all checks. While law or regulation does not require two signatures, such a control provides better assurance regarding the appropriateness of payments.

Payroll and Personnel Practices

Salaries and fringe benefits make up the single largest expense category of a school district's budget. As such, the payroll function should be clearly defined through policy and procedures and be closely supervised. The personnel function should provide assurance that a school 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 related to providing timely evaluations to its employees and monitoring time and attendance.

Recommendation 25: Ensure evaluations are completed for all employees and a copy is provided to the employee and another copy placed in the employee's personnel file.

Good administrative practices require each employee to be evaluated at least annually by an immediate supervisor and 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. According to a District official, employees in the business office have not been evaluated on a regular basis.

Recommendation 26: Ensure that all time sheets have been completed and signed by employees.

Good business practices require that employees complete and sign periodic time sheets attesting to the hours worked. The District's procedure is for custodial and cafeteria workers to submit a signed weekly time sheet to supervisors for approval. However, a review of 13 time sheets showed that 2 time sheets were not signed by the employees. This weakens the control in the payroll process and increases the risk of paying employees for time that was not worked. When this condition was discussed with District officials, a

memo was sent to all pertinent employees to remind them that a completed and signed time sheet is required.

Comments of District Officials

District officials agree with the recommendations.

FACILITIES AND EQUIPMENT

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

The District has many of the controls related to facilities and equipment. However, the District can make some improvements related to its inventory controls and long-range planning for educational facilities and equipment replacement.

Inventory Controls

School districts have a substantial investment in their assets including land, buildings, and equipment. As such, school districts should establish controls that safeguard property against loss, ensure effective utilization, evaluate needs, and identify surplus items. Adequate controls include the maintenance of complete and accurate records, identification of assets with ownership tags, and the periodic conduct of physical inventories.

The District's financial statements show the District has assets totaling more than \$39.0 million including land, buildings, and equipment. The District had many of the necessary controls over these assets, but could improve controls in this area by conducting an annual physical inventory and securing its computers.

Recommendation 27: Ensure that an annual physical inventory is conducted and the list is kept up-to-date throughout the year reflecting any movements, relocations, or additions of assets.

Districts must keep the inventory record up-to-date to accurately report fixed assets in the financial statements. An effective control over these assets is an annual physical inventory. The Office of the State Comptroller recommends that an annual physical inventory should be conducted and the results of the inventory should be reconciled with the property records on file. In order to comply with the

requirements of GASB 34, the District conducted a physical inventory in December 2002. However, prior to this, the District's last physical inventory was done in 1999. Better control over the assets is maintained if the District conducts a physical inventory on an annual basis.

Recommendation 28: Store computers and other movable equipment in a secured location.

All assets should be safeguarded against loss by keeping the items in a secure location with limited access to the extent possible. The review found that the District had some computers that are not stored in secured locations. The computers were being stored in common areas near the entrances in the central administration building pending installation. As a result, there is a greater chance of loss and unauthorized use.

Long-Range Planning

School districts should develop long-range plans for educational facilities and equipment replacement. The written plans can help a school district anticipate future needs, serve as a goal, and provide a school district with tools to measure yearly accomplishment.

Recommendation 29: Develop a written long-range plan for educational facilities and equipment replacement purchases.

Section 155.1 of the Regulations requires each school district to prepare and keep on file a comprehensive long-range plan pertaining to educational facilities. In addition, each school district must prepare a five-year capital facilities plan to identify critical maintenance needs and evaluate the safety and health conditions in school facilities. The plan should be reviewed annually and updated as needed.

In addition, it is also a good business practice to plan major purchases over time, considering the school district's needs and the useful life of major pieces of equipment, to ensure the school district has the necessary equipment in working order and to help keep the equipment budget fairly level each year. However, the District does not have a formal long-range plan for educational facilities and equipment replacement purchases.

Comments of District Officials

District officials agree with the recommendations.

STUDENT SERVICES

School districts provide various services for their students including student transportation, food service, and extraclassroom activities. In addition, school districts should provide students with a learning environment that is safe and secure. The review found that the District generally complied with laws, regulations, and good business practices for its transportation and food service 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 extraclassroom activity funds.

Extraclassroom Activity Funds

Section 172 of the Regulations requires a school district to establish policies and procedures for the establishment and operation of extraclassroom activities, and for the safeguarding, accounting, and auditing of the funds. The Regulations also require that a record of the revenues and expenditures be maintained and reports be made at least quarterly to the board of education. The extraclassroom activity funds should be established for appropriate activities and should be operated by the students.

Recommendation 30: Submit a report to the Board on the activity of the extraclassroom activity fund on at least a quarterly basis.

Boards of education have fiduciary responsibility to monitor the transactions of the extraclassroom activity funds. However, as of May 2003, the Board had not received a report on the revenues and expenditures of the extraclassroom activity fund for the school year. Without periodic reports, the Board cannot effectively monitor the transactions or meet its fiduciary responsibility.

Recommendation 31: Ensure that a regular reconciliation of the extraclassroom activity funds bank statement is being performed.

School districts should reconcile the bank statements to the accounting records on a monthly basis to establish the actual cash balance and to identify and correct any errors. This is

an essential control over a school district's revenues and expenditures. However, the extraclassroom activity funds have not been reconciled for the year as of May 2003. The accounts should be reconciled immediately to establish accountability over the estimated \$80,000 in the accounts.

Recommendation 32: Close all non-student extraclassroom activity funds and account for the revenues and expenditures of these activities in other District funds or accounts.

School districts are authorized to establish extraclassroom activity funds for specific student activities conducted by students. The District has several extraclassroom activity funds that do not appear to be for student activities and are not being operated by students. These funds included an elementary reserve fund and a student reserve fund. The District should take action to ensure all of its extraclassroom activity funds are appropriate.

Comments of District Officials

District officials agree with the recommendations.

STUDENT RELATED DATA

School districts are required to collect and report data on student attendance and student performance including dropout, cohort, enrollment, and test scores. A school district needs to have adequate policies and procedures and controls 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 many of the necessary controls to accurately account for and report attendance and student performance data. However, the District could make improvements related to reporting dropouts and developing a procedures manual for tracking and reporting student data.

Dropouts

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 a dropout rate that is published in the Report Card for each school district and can be used to compare performance among school districts. However, the District did not accurately report the number of dropouts.

Recommendation 33: Ensure that the number of reported dropouts includes all students who left school prior to graduation for any reason, except death, and did not enter another school or approved high school equivalency preparation program.

Recommendation 34: Track students who have left the District to determine whether they have entered another school or approved high school equivalency preparation program.

School districts should adhere to the Department's reporting requirements and definition for dropouts. This helps ensure accuracy and consistency among school districts' data. However, the District did not count students under 16 years

of age as dropouts even if they did, in fact, drop out. The District's system showed these students as transfers until they turned 16 years old, resulting in under reporting the number of dropouts. In fact, the Report Card for 2001-02 indicates that the District did not have any dropouts for the year. Our review of a list of high school students who "transferred" from the District during 2001-02 showed 16 students coded as dropouts and an additional 4 who could not be accounted for. Another list shows 71 students in grades 5 through 7, who left the District during the same year.

Security and Reliability of Student Performance Data

School districts must implement the necessary controls over their systems to track and report student performance data. Effective controls can help ensure student performance data are complete, accurate, and submitted on a timely basis. The District could improve controls over its system to track and report student performance data by developing written procedures.

Recommendation 35: Develop written procedures showing the controls implemented to ensure security over data and files, data input reliability, and output accuracy.

To ensure the integrity of student performance data, school districts should establish systems, processes, and controls to document, track, and report these data. There should be controls over data entry, including checks and balances, and periodic reviews of output reports. These controls and processes should be in writing and made available to all pertinent users of the system. However, the District does not have written procedures for computer or system controls. This would help ensure the accuracy and reliability of the data.

Comments of District Officials

District officials agree with the recommendations.

Contributors to the Report
Liberty Central School District

- James A. Conway, Manager
- Maria Castro, Auditor-in-Charge
- Jean Stone, Senior Auditor

LIBERTY CENTRAL SCHOOL DISTRICT

OFFICE OF THE SUPERINTENDENT

115 Buckley Street
Liberty, NY 12754-1600**LAWRENCE A. CLARKE**
Superintendent of SchoolsPhone: 845-292-6990
FAX: 845-292-1164E-mail: clarkelaw@libertyk12.org

November 7, 2003

Mr. James Conway
State Education Department
Office of Audit Services
The University of the State of New York
Albany, NY 12234**Re: Response to Draft Report of SED Audit (SD-0403-5)**

Dear Mr. Conway:

In response to the recommendations made in the preliminary draft report of the audit of the Liberty Central School District for the period July 1, 2001 through May 30, 2003, please be advised of the following:

- #1: This recommendation will be implemented by 2/04. Tom Goskoski, School Business Administrator, has been charged with researching and finding model policies and procedures, selecting one and reviewing it with our Board of Education, then working with them through the process of adopting and implementing it.
- #2: Tom Goskoski will work with Willam Trainor, our auditor, to develop a process for the selection and training of an internal auditor. He will then work with our Board of Education to implement this.
- #3: Tom Goskoski will upgrade the five-year plan developed by Ed Rhine and will update it to create a viable tool for this District. This will be accomplished by 2/04 and will provide special emphasis on such items as the affect of future enrollment on staffing needs, projected costs, the impact of change in teacher/pupll ratios, the impact of future debt service and a planned program of building maintenance and capital replacements.

#4: The District will include all information required by Education Law 1716 in presenting the budget to the public. Tom Goskoski will provide a list of those elements needed to provide a detailed statement of the total compensation paid to the Superintendent of Schools.

#5: We will ensure that appropriations are available before encumbrances or expenditures are made.

#6: According to Tom Goskoski we are now doing monthly transfers consistent with this recommendation. Budget transfers will be made during the year to prevent overspending any budget codes.

#7: We will regularly provide the Board with the budget status report for all the funds of the district.

#8: According to Tom Goskoski we will make routine monthly fund balance projections for presentation to the Board and other District officials, commencing in 12/03.

#9: We are committed to carrying forward a 2% fund balance in 6/04. Responsibility for this will be shared by Tom Goskoski, Lorine Lamerand, and Superintendent Clarke, as well as the Board of Education.

#10: The Superintendent, Business Administrator, and Board of Education will manage the District's fund balance to increase the amount available for contingencies.

#11: Tom Goskoski and Lorine Lamerand will construct a bond and note register to provide a complete record of each issuance of bonds or notes as required by Local Finance Law by 2/04.

#12: We will publish the annual financial reports (ST-3) and notice thereof as required by Education Law and Commissioner's Regulation. This will be Tom Goskoski's responsibility.

#13: We will publish the notice of availability of the audited financial statements as required by General Municipal Law. This will be Tom Goskoski's responsibility.

#14: This was not done on time for the 9/1/03 deadline. The ST-3 was completed 10/25/03 and the Audit Report was done on 10/31/03. These will be done on time for the 2004-05 school year, per Tom Goskoski.

#15: We will improve controls over cash collections by separating key duties, or by increasing supervision and oversight of certain activities, per Tom Goskoski.

#16: We will require the supervisor of the Latchkey program to remit revenue to the Treasurer on a more frequent basis, per Tom Goskoski.

#17: We now restrictively endorse checks upon receipt. This is being done by Mary Kortright, per Tom Goskoski.

#18: We will establish a record or list of all cash and checks received to improve accountability. This will be in effect by 12/1/03 by Mary Kortright, per Tom Goskoski.

#19: We will ensure that the balance in each petty cash fund does not exceed the \$100 maximum established by the Regulations. This will be done by 12/1/03, per Tom Goskoski.

#20: WE have reassigned responsibility for the petty cash fund to an individual who does not have duties related to receipt of cash. This was done as of 8/03 by Audra Santillo, per Tom Goskoski. We will establish written procedures for purchase and payment processes by 1/1/04, per Tom Goskoski.

#21: We will implement written procedures to ensure the District follows standard practices for processing a requisition, issuing a purchase order, approving claims for payment, using credit cards, and issuing payments in a timely manner by 1/1/04. Tom Goskoski will contact William Trainor for recommendations, which he will process and forward to the Board of Education in 12/03.

#22: We now maintain documentation to show competitive bidding was used, or if exempted, the reason for such exemption and all relevant information. This is presently being done by both Tom Goskoski and Gary Sawyer.

#23: We will develop and utilize a purchasing calendar, as recommended, by 2/04. Tom Goskoski and Gary Sawyer will share responsibility for this.

#24: Tom Goskoski will change our procedure so that it will require two signatures on checks over a predetermined threshold amount. He will seek William Trainor's recommendation as to what that threshold should be. The two signatures will be Lorine Lamerand's and Lawrence Clarke's.

#25: Tom Goskoski will complete evaluations on all Business Office employees by 6/30/04, and annual evaluations by June of every year thereafter. A copy will be provided to the employer and another copy will be placed in the employee's personnel file.

#26: We will ensure that all timesheets have been completed and signed by employees.

#27: Tom Goskoski will ensure that an annual (physical) inventory is conducted and the list is kept up-to-date throughout the year reflecting any movements, relocations, or additions of assets. William Trainor will recommend the best month to do this.

#28: We currently store computers and other movable equipment in a secured location, per Tom Goskoski.

#29: We will develop a written long-range plan for educational facilities and equipment replacement purchases. This will be done and updated annually by the architect, with the assistance of our Buildings and Grounds Committee, by 6/30/04. Responsibility for this will be shared with Tom Goskoski and Gary Sawyer as well.

#30: 12/03 will be the date of the first quarterly report of extraclassroom activities, followed by reports in March, June and September. Responsibility for doing this will be shared by Tom Goskoski and Lorine Lamerand.

#31: We will ensure that a regular reconciliation of the extraclassroom activity funds bank statement is being performed. This will be done monthly with reports to Lorine Lamerand commencing 11/30/03. Responsibility will be shared by Tom Goskoski and Lorine Lamerand.

#32: We will close all non-student extraclassroom activity funds and account for the revenues and expenditures of these activities in other District funds or accounts by 12/03. This responsibility will be shared by Tom Goskoski and Lorine Lamerand.

#33: We will ensure that the number of reported dropouts includes all students who left school prior to graduation for any reason, except death, and did not enter another school or approved high school equivalency preparation program. The responsibility for this will be shared by Tom Goskoski, building principals, guidance offices, Judy Brink, and Barbara Blakey. Final corrections and updates will be done by 2/04.

#34: We will track students who have left the District to determine whether they have entered another school or approved high school equivalency preparation program. The responsibility for this will be shared by Tom Goskoski, building principals, guidance offices, Judy Brink, and Barbara Blakey. Final corrections and updates will be done by 2/04.

#35: We will develop written procedures showing the controls implemented to ensure security over data and files, data input reliability, and output accuracy. Responsibility for this will be shared by Tom Goskoski, Judy Brink, building principals, and the guidance department. This will be completed by 5/04.

You indicate that the District's average cost per student is \$1,565 more than the statewide average. Is this a function of our geographic area?

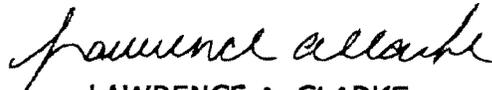
Later in the document you also indicate that the District spent \$13,436/pupil = 13% more than the statewide average. To what do you attribute this?

SUMMATIVE STATEMENT:

There were a number of recommendations made as a result of this audit that highlighted significant areas of concern. By complying with the recommendations provided in this report, I believe the Liberty Central School District is well on its way to stabilizing its situation, and enabling it to better serve the needs of its students.

Thank you for your support in this process. I look forward to working with you.

Sincerely yours,


LAWRENCE A. CLARKE
Superintendent of Schools

LAC/te

cc: Thomas Goskoski
Lorine Lamerand
Building Principals
Barbara Blakey
Mary Scheutzow
Board of Education
Gary Sawyer

mww/AUDIT/Audit Response SD-0403-5 October 8, 2003