
Final Report

Little Falls City School District

Management Review

For the Period

July 1, 2001 through September 30, 2002

SD-0802-2

September 8, 2003

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





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

Michael Abbott, CPA
Director
Office of Audit Services
Tel. (518) 473-4516
Fax (518) 473-0259
E-mail: www.mabbott@mail.nysed.gov

September 8, 2003

Mr. Scott Tooley
Board President
Little Falls City School District
15 Petrie Street
Little Falls, New York 13365

Dear Mr. Tooley:

The following is our final report (SD-0802-2) for the Little Falls City School District for the period July 1, 2001 through September 30, 2002. The review was conducted pursuant to Sections 305 and 1950 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: R. Cate, J. Kadamus, R. Bullis, B. Porter, T. Sheldon, C. Szuberla, C. Foster (DOB), J. Dougherty (OSC), W. Gokey, Superintendent, Dr. Geoffrey H. Davis, Interim District Superintendent

Executive Summary

Background and Scope of Work

The Little Falls City School District (District) served about 1,200 students in three schools and spent approximately \$13.3 million in general fund expenditures for the 2001-02 school year. The District's average cost per student for the 2000-01 school year was \$1,000 less than the statewide average and its school performance generally compared favorably to State standards.

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 controls and reviewed practices, records, and documentation for the period July 1, 2001 through September 30, 2002.

Review Results

The review found the District has most of the necessary management controls in place. However, improvement opportunities exist in the following areas:

- Governance and planning - budget development and budget administration, staffing, policies and procedures, and monitoring controls.
- Accounting and reporting - financial condition, the financial accounting system, and financial reporting.
- Revenue and cash management - separation of duty and record keeping for investments.
- Purchasing and expenditures - the purchasing and payment practices, and payroll and personnel.
- Facilities and equipment activities - equipment replacement plans and inventory controls.
- Student services - student transportation, extraclassroom activity funds, and safety and security.

The improvement opportunities are described in more detail in the body of this report. The 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 generally agree with the recommendations and have already made improvements in some areas.

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INTRODUCTION

Background

The Little Falls City School District's (District) mission is to be educationally affective and academically effective; and to provide, enhance and encourage: quality education, positive environment, self-esteem, and lifelong learning. The District, located in Herkimer County, is a small city school district. It served about 1,200 students in three schools and spent approximately \$13.3 million in general fund expenditures for the 2001-02 school year. For the 2000-01 school year, on average, the District spent \$10,871 per student, which is 8.4 percent or \$1,000 per student less than the statewide average.

The District's student performance generally compared favorably to State standards. The New York State Education Department's (Department) School Accountability System shows the District's student performance for the 2001-02 school year was at or above the State standard and each school made adequate yearly progress under the No Child Left Behind Act.

The District experienced some fiscal stress during the 1999-2000 and 2000-01 school years and ended the 2000-01 school year with a \$147,357 negative fund balance. During the 2001-02 school year, the District carefully monitored its financial condition and was able to end the year with a positive fund balance of \$245,084. However, the amount was not adequate to cover the total amount of fund balance the District set aside for future expenditures.

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

- *Statistical Profiles of Public School Districts* published June 2002 and 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>

Scope, Objectives, and Methodology

The Office of Audit Services (OAS) reviewed selected management practices, records, and documentation for the period July 1, 2001 through September 30, 2002. 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 the District has most of the necessary management controls in place. However, improvement opportunities exist in the following areas:

- Governance and planning - budget development and budget administration, staffing, policies and procedures, and monitoring controls.
- Accounting and reporting - financial condition, the financial accounting system, and financial reporting.
- Revenue and cash management - separation of duty and record keeping for investments.
- Purchasing and expenditures - the purchasing and payment practices, and payroll and personnel.
- Facilities and equipment activities - equipment replacement plans and inventory controls.
- Student services - student transportation, extraclassroom activity funds, and safety and security.

The improvement opportunities are addressed in more detail in the body of this 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 generally agree with the recommendations and have already made improvements in some areas.

GOVERNANCE AND PLANNING

A school board 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, policies and procedures, compliance with legal requirements, fiscal oversight, staffing, monitoring controls, strategic planning, budget development and budget administration. However, the Board could make improvements related to budget development and budget administration, staffing, policies and procedures, and monitoring controls.

Budget Development and Budget Administration

The budget is a district's fiscal plan for the year and must be carefully developed and administered to ensure the district's finances are adequately controlled. The Board has implemented many of the necessary controls related to budgeting including the use of a budget calendar, preparation of a "plain language" budget, mass encumbering of known obligations, preparation of periodic reports, and fund balance projections. However, the District could improve its budgeting in certain areas as follows.

Recommendation 1: Ensure that appropriations are available before expenditures or encumbrances are made as required by Section 1718(1) of Education Law.

Both the Education Law (§1704) and Commissioner's Regulations (§170.1 (f) and §170.2 (k)) specifically prohibit a board from authorizing or permitting expenditures to be made that exceed appropriations or available funds. Districts should have procedures in place to prohibit incurring an expense or issuing a purchase order if it will result in overspending an account. The District's budget status report dated September 30, 2002 showed several budget account codes had negative balances. Overspending account codes makes monitoring the budget more difficult and increases the risk that the legally authorized amount will be exceeded. Some of the overspent accounts may be due to the District's policy not to make transfers until year-end.

Recommendation 2: Provide periodic budget status reports to individuals responsible for controlling appropriations for specific buildings or programs.

Budget status reports should be provided to the key managers (principals, department heads, etc.) for monitoring the fiscal status of accounts, the availability of funds, and the accuracy of charges to their programs. This enhances controls and provides for better accountability over the funds. The District needs to routinely provide the reports to the responsible individuals.

Recommendation 3: Develop formal budgetary priorities to inform both administrators and the community about the Board's most important goals.

Budget priorities inform the administrators and the community about the Board's priorities. The priorities may include such things as smaller class sizes, increased use of technology, full-day kindergarten, or other such purposes. This is particularly important when resources are scarce and difficult decisions must be made. The Board needs to establish formal budget priorities.

Staffing

Districts are required to appoint certain officers and individuals to administer the District's affairs. The Board has appointed most of the required officers such as the treasurer and the board clerk. However, the Board could improve controls by making the following appointments.

Recommendation 4: Appoint an individual with the responsibility for supervising the keeping of the attendance register as required by section 104.1(f) of the Regulations of the Commissioner.

The Regulations require each district to appoint an individual responsible for supervising the keeping of the attendance register. The individual should help ensure that attendance record keeping policies, procedures, and practices result in complete and accurate records. The District needs to assign this responsibility to an individual.

Recommendation 5: Consider the appointment of an internal claims auditor or require each member of the Board to review

claims for expenditures prior to payment to comply with Education Law Section 1724.2.

Education Law requires a board of education or its internal claims auditor, if appointed, to audit all claims for payment. However, the Board has chosen to use a “finance committee” made up of two board members to review and approve all claims. Appointment of an internal claims auditor can save time for the Board, help ensure prompt payment of the bills, and allow the District to take advantage of any discounts offered for prompt payment.

Policies and Procedures

Written policies and procedures help ensure employees understand their responsibilities, help hold staff accountable, and also aid with any staff turnovers. 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 intended objectives of the district. The Board has established many policies and procedures for the District as required by Education Law Section 2503(2). However, our review identified opportunities for the District to improve its policies and procedures in certain areas as follows.

Recommendation 6: Establish all written policies and procedures required by Law, Regulations, and good business practice.

Districts should ensure they have all the required policies and procedures. However, the review determined the District needs to develop written policies and procedures for the following areas: collecting, summarizing, and reporting student performance information; the payroll process, the recruitment and hiring process, and the time and attendance system; the purchasing process as required by section 104-b (1) (4) of General Municipal Law; and for certain other areas including claiming State aid, accounts payable, board travel and conferences, the provision of food and beverages at school meetings, and building operations and maintenance.

Resources to help the District develop policies and procedures include the model purchasing policy provided by the Office of the State Comptroller (OSC) in Section 8.3100 of its *Local Government Management Guide*, and a list of policies provided

by the New York State School Boards Association at www.nyssba.org.

Monitoring Controls

Districts should have a procedure in place to periodically verify their controls are working as intended, are still needed, and are cost effective. District management did periodically verify the adequacy and necessity of certain controls; however, the District could make improvements related to verification of computer controls.

Recommendation 7: Periodically review controls over access to the District's information systems to ensure only necessary individuals are authorized to access sensitive information.

Districts should periodically review access controls over its computer systems to help ensure the integrity of transactions and the data. The District needs to routinely review its access controls.

Comments of District Officials

District officials generally agreed with these recommendations, except for recommendation 2. The District believes that its current practice of not providing periodic budget status reports to building administrators prevents the expenditure of funds based on their simple availability.

ACCOUNTING AND REPORTING

Districts must have adequate accounting and reporting systems in place to ensure 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 accounting and reporting 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, financial accounting system, and financial reporting as follows.

Financial Condition

A board of education has the responsibility to monitor the financial condition of its district. To ensure fiscal stability, districts need to carefully develop balanced budgets, ensure expenditures are within budgeted amounts, monitor the budgets, and amend them as necessary. Development and maintenance of a long-term (five-year) fiscal plan, a capital asset preservation plan, and the use of reserve funds should all be part of fiscal planning.

The District experienced some fiscal stress in 1999-2000 and 2000-01, but made some progress in 2001-02. Fiscal stress indicators include expenditures exceeding revenues (operating deficit) by \$446,686 in 1999-2000 and \$267,286 in 2000-01 along with negative fund balance (savings) of \$237,180 and \$147,357 in those respective years. While the District had an operating surplus of \$393,486 and a positive fund balance of \$245,084 for the 2001-02 year, it still did not have enough fund balance to cover the reserves of \$439,347 it established. The District should improve monitoring of its finances and strive to increase and cover its fund balance.

Recommendation 8: Closely monitor estimated revenues and expenditures to avoid an operating deficit.

Shortfalls in revenue (real property tax refunds and State aid) and unanticipated expenditures (contract settlements, BOCES services, special education, interest expenses, and health insurance premium increases) contributed to the District's poor financial condition in 1999-2000 and 2000-2001. After taking corrective actions, the District was able to improve its financial condition in the 2001-2002 school year. Nevertheless, the

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

Recommendation 9 - Manage the District's fund balance to increase the amount available for contingencies.

The fund balance is the accumulation of a district's operating surpluses and deficits; it reflects the net amount the 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

The 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 improvement opportunities for certain controls, including record keeping for bonds and notes, and the use of technology.

Recommendation 10: 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 districts to maintain a bond and note register and a complete record of each issuance of bonds or notes. The District maintained a debt service payment schedule for its bonds and notes. However, the District could improve its record keeping and accountability in this area by maintaining other required information. The District's treasurer should develop and maintain a complete record of each issuance 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.

Recommendation 11: Consider maximizing the use of all modules available in the District's accounting system.

A district should fully use its computerized accounting system to assemble, classify, analyze, record, and report its transactions and to maintain accountability for the related assets. The District used most aspects of its computerized accounting system to facilitate processing of transactions. However, the District should consider fully using the system's capabilities and also use technology to track other information.

Instead of relying on computerized accounting system, the District tracks accounts receivable, general ledger accounts, overtime, and employee leave accruals using manual systems. If these items were computerized, it could free some time for the limited office staff to perform additional tasks.

Financial Reporting

Districts are required to submit various reports and forms to the Department and others throughout the year. While the District has provided many of the required items on a timely basis, the District has an opportunity to improve the timeliness of some reports and required notices regarding its financial report as follows.

Recommendation 12: Consider using a monthly checklist to help ensure the District submits all required State aid and other forms and data in a timely manner.

The District did not submit all its State aid reports by the due date. For example, District administrators submitted their State aid forms on October 3, 2002 - over 30 days late. Failure to submit the reports by the due date may result in a delay or loss of State aid. However, the District did not experience a loss or delay in State aid in this case.

Recommendation 13: Submit the annual independent audit report to the Department by the October 1 due date as required by Section 170.2(r) of the Commissioner's Regulations.

The District has not submitted its annual audits to the Department by the due date for the past three years (years ending June 2000 through June 2002). The late submission of financial statements can, in some cases, delay State aid payments.

Recommendation 14: Publish the annual financial reports (ST-3) as required by Education Law and Regulation.

The District needs to publish information on its financial report as required by Section 2528 of the Education Law and Section 170.2 of the Commissioner's Regulations. The published notice should include summary statements for each of the funds and a notice of the availability of the financial report for review.

Comments of District Officials

District officials generally agreed with these 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 cash receipts and revenue, cash management and investments, and petty cash. However, the District could further improve its controls by separating duties for cash handling and by maintaining the required records for investments.

Separation of Duties

The Office of the State Comptroller's *Standards for Internal Control In New York State Government* defines separation of duties as the division of key tasks and responsibilities among the various employees and units of an organization. No one individual should control all the 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. The District could improve its separation of duties.

Recommendation 15: Improve controls by separating duties over cash receipts, where possible, or increase supervision and oversight of certain activities.

The District should consider separating duties for bank reconciliations, access to cash, and record keeping. Currently, the same individual deposits cash and reconciles bank statements, while another individual receives cash and is also responsible for accounts receivable billings. The lack of separation of duties for these two individuals 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 such as bank reconciliations and provide for increased supervisory oversight of high-risk areas.

Record Keeping for Investments

Section 11(7) of the General Municipal Law requires school districts to establish and maintain investment records to help track and monitor investment activities. The District maintained records to ensure the investments were secured with adequate collateral. However, the District could improve its record keeping by maintaining other required information for its investments.

Recommendation 16: Maintain a summary record for each investment showing the information required by Section 11(7) of the General Municipal Law.

General Municipal Law requires that a summary record be maintained for each of its investments showing the name of the security, the fund, location, and other relevant details related to acquisition and disposition, the amounts received from the investment, the market value, and the custodian. This should improve accountability over the investments and will also aid in allocating earned interest, where appropriate.

Comments of District Officials

District officials generally agreed with these recommendations.

Purchasing and Expenditures

A school district purchases thousands of products and services each year. It must have adequate controls 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, accounts payable and cash disbursements, payroll and personnel, and travel and conference expenses. However, the District could further improve its controls related to purchasing and payment practices, and payroll and personnel practices.

Purchasing and Payment Practices

Districts should generally follow standard steps in purchasing items and paying claims. The steps include 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. The District could improve its purchasing and payment practices by following its established purchasing steps, requiring two signatures on certain checks, and issuing checks once approved.

Recommendation 17: Implement procedures to ensure the District follows standard practices for processing a requisition, issuing a purchase order, verifying receipt of goods, approving claims for payment, and issuing payments in a timely manner.

Districts should establish and adhere to standard steps for purchasing goods and services. However, the District did not always do this. The review team judgmentally sampled nine paid claims and found:

- Six of the nine payments bypassed the purchase order process; instead, they were paid with claims. This weakens budgetary controls and may result in overspent budget accounts.
- A purchase requisition approved prior to issuance of the purchase order was not available to support one of the sampled transactions. Placing an order without the benefit of an approved purchase requisition may result in overspending or the purchase of unneeded items.

- Documentation for one of nine payments did not include a signature to show evidence of the receipt of the service. Without such a signature, there is less assurance the goods or services were actually received.
- Finally, the District did not take advantage of a discount for timely payment in one of two cases where a discount was available.

Additional guidance on purchasing can be found in OSC's *Local Government Management Guide* and the Department's Purchasing Handbook.

Recommendation 18: 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 over payments provides better assurance regarding the appropriateness of payments.

Recommendation 19: Mail checks without returning them to the individual involved in check preparation.

Once claims for payment are approved and the checks are signed, districts should issue the checks to the vendors. The District's practice was to have the treasurer sign the checks and return them to the accounts payable clerk for mailing. Better control would be maintained if the checks were not returned for mailing to anyone involved in the check preparation process. This minimizes the risk that the checks could be misappropriated or altered prior to payment.

Payroll and Personnel

Salaries and fringe benefits make up the single largest expense category of a district's budget. For this reason the payroll function should be clearly defined through policy and procedures and closely supervised. In addition, the personnel function should provide assurance that the 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 paying

employees at the beginning of the year and providing timely performance evaluations.

Recommendation 20: Avoid paying employees in advance of services rendered as required by Education Law.

Education Law Section 3015 expressly prohibits a board of education from paying employees in advance of service. However, the District pays its teachers in advance of services rendered at the start of school in September. For example, the first teachers' payroll on September 7, 2002 paid teachers for ten days after they had worked for only four days (September 4-7, 2002). Better control would be maintained if the District did not pay the teachers prior to the receipt of the services.

Recommendation 21: Ensure evaluations are provided for all employees, and a copy is provided to the employee and another placed in the employee's personnel file.

Good administrative practice requires each employee to be evaluated at least annually by an immediate supervisor. A written report should be prepared with 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 evaluated some, but not all employees. One file for a non-instructional employee, out of a judgmental sample of four files, did not have current evaluations in it. District officials informed us evaluations for most non-instructional staff have not been completed for more than two years.

Comments of District Officials

District officials generally agreed with these recommendations.

FACILITIES AND EQUIPMENT

Districts must provide adequate facilities and equipment for educating its 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.

The District has many of the controls related to facilities maintenance, construction and inventory, including long-range planning for educational facilities and inventory records for the District's assets. However, the District can improve its planning for equipment purchases and its inventory records.

Equipment Replacement Plans

Good business practices require districts to develop long-range equipment replacement plans. The District could improve its planning in this area.

Recommendation 22: Develop a long-range equipment replacement plan.

Districts should develop plans showing equipment needs, the remaining useful life for equipment owned, and costs for new equipment. Such plans can help ensure districts have the equipment needed and can also help establish budgetary needs. The District needs to develop a plan showing the timeframe for equipment purchases.

Updated Inventory Record

Districts must implement inventory controls to safeguard assets against loss, establish effective utilization, identify amounts for insurance coverage, determine needs, and identify surplus items. In addition, districts must keep their inventory records up-to-date. The District needs to ensure its records are accurate.

Recommendation 23: Establish and implement procedures to update inventory records in a timely manner.

The District has written policies and procedures for inventory, and many of the necessary inventory controls. However, the District can improve controls over changes to the inventory

records. The inventory records were not accurate or up-to-date. Certain items were missing from the inventory record, while other items were not in the location described in the record. For example, a conference table tagged with the District's decal was not listed on the inventory listing and the table that was listed as being in the conference room had been moved to another location. Keeping the records up-to-date will help improve controls over assets.

Comments of District Officials

District officials generally agreed with these recommendations.

STUDENT SERVICES

School districts provide various services for its 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. Our review found the District generally complied with laws, regulations, and good business practices for its transportation and food service operations. The review also found the District provided its students with learning experiences in business procedures through its extraclassroom activities. The District also generally complied with laws and regulations concerning school safety and security. However, the District could make some improvements related to student transportation, extraclassroom activity funds, and school safety plans.

Student Transportation

School districts are required to establish a student transportation policy and must adhere to certain requirements related to transported students, contract bidding, driver qualifications, bus safety, and transportation aid claims. The District generally adhered to the requirements associated with student transportation. However, it could make improvements related to board policy and reporting mileage for certain students.

Recommendation 24: Ensure the District complies with its transportation policy or obtain voter approval for a change in policy.

Districts should adhere to the transportation policies established by their respective boards. The District's Board established a policy to provide for the transportation of students living more than one mile from the school. However, the policy is not being followed. The District is transporting students who live within $\frac{3}{4}$ of a mile of the school they attend. As a result, the District is not in compliance with its own policy.

Recommendation 25: Revise the Non-Allowable Pupil Decimal worksheet to include all students transported less than 1.5 miles from the school they attend as non-allowable pupils for transportation aid purposes.

With voter approval, a district can provide transportation for students living within the 1.5 mile limitation, but the district is not eligible for transportation aid for the cost of the services. Districts must report the mileage for these students on the non-allowable pupil decimal (NAPD) worksheet and this information is used in the calculation of aid. The District did not correctly report the non-allowable pupils on its NAPD worksheet. The District only reported students transported between $\frac{3}{4}$ of a mile and 1 mile as non-allowable pupils on its NAPD worksheet and left out those students transported between 1 mile and 1.5 miles. As a result, the District incorrectly reported this data and may be receiving more transportation aid than it is entitled to receive.

Extraclassroom Activity Funds

Section 172 of the Regulations of the Commissioner requires a board of education to make rules and regulations for the establishment, conduct, operation, and maintenance of extraclassroom activities and for the safeguarding, accounting, and auditing of all moneys received. The extraclassroom activity funds should be established for appropriate activities and should be operated by the students. The District could make improvements related to the types of accounts it maintains.

Recommendation 26: Close all non-student extraclassroom activity funds and account for the revenues and expenditures of these activities in other District funds or accounts.

Districts are authorized to establish extraclassroom activity funds for activities that are conducted by students. The District has several questionable extraclassroom activity funds that do not appear to be run by students. These funds include a Utility Fund and a Nursing Fund at each of its three schools. The District should take action to ensure all its extraclassroom activity funds are appropriate.

Safety And Security

A school district should provide for a safe and orderly environment. The schools should be secure from outside intruders, quiet, orderly, clean, well lit, well ventilated, and well maintained. The District generally adheres to the safety and security laws and regulations, and provides a safe school

environment in its three buildings. However, the District could improve its planning in this area.

Recommendation 27: Prepare district-wide and building level emergency management plans and update them annually.

Section 155.17 of the Regulations requires every district to review and update, as needed, its emergency management plan. The District has an emergency management plan; however it was prepared in 1995 and last updated in 1997. An updated plan should help ensure the safety and security of the District's schools.

Comments of District Officials

District officials generally agreed with these 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 district needs to have adequate policies and procedures in place to ensure the data is 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 in this area to accurately account for and report attendance and student performance data. However, the review determined the District incorrectly reported a student as a dropout twice in the same school year. However, the error was not significant. In addition, the Department's new reporting system should minimize the chance the error will recur.

Little Falls City School District
Contributors to the Report

- Michael Abbott, CPA, Audit Manager
- Nancy Taylor, CPA, Auditor-in-Charge
- Sandra Schleicher, Senior Auditor

Comments of District Officials

The Little Falls City School District welcomes opportunities for improvement. On an annual basis the District works closely with its independent auditors to ensure accurate financial reporting and responsible financial management and planning. The Board of Education strives to make our school system “the best school district in the area.” We, as an organization, recognize that it is only through regular review and assessment that areas for improvement can be identified and progress achieved.

Our recent visitation by representatives of the Office of Audit Services (OAS) provided another objective overview of District management practices and procedures. The school administration feels this was a healthy and beneficial exchange of ideas as evidenced by the fact that several of the recommendations contained in the resulting report have already been implemented.

The District is appreciative of the chance to offer the following comments about the findings contained in the report.

Budget Development and Budget Administration

Recommendation 1: Ensure that appropriations are available before expenditures or encumbrances are made as required by Section 1718(1) of Education Law.

Response: Budgetary management and supervision is a top priority of the District. Procedures are in place to control and monitor spending, however these are never 100% effective. In addition, the budget must provide a degree of flexibility to meet changing needs. The encumbrance process will continue to be emphasized strongly in an effort to minimize overspending in account codes. Budget transfers will also be made on a more regular basis.

Recommendation 2: Provide periodic budget status reports to individuals responsible for controlling appropriations for specific buildings or programs.

Response: This finding relates to the District’s practice of not openly sharing with building administrators the availability of appropriations. The District has maintained a very centralized control over spending but this has not discouraged administrators from submitting requisitions, and generally all requests are processed upon verifying the availability of funds. It is believed that the current practice prevents the expenditure of funds based on their simple availability.

Recommendation 3: Develop formal budgetary priorities to inform both administrators and the community about the Board’s most important goals.

Response: The Board of Education and Administration begin the budget development process in January of each year and devote considerable thought and discussion to what

the objectives of the budget should be. Unfortunately it is difficult, if not impossible, to develop program priorities when the availability of financial resources from the state is unknown. The Board of Education struggles with the balance between what the community can afford and what the students need. Even in an environment of financial uncertainty the District has made tremendous progress over the past several years in reducing class size, ever increasing the use of technology and improving our school facilities.

Staffing

Recommendation 4: Appoint an individual with responsibility for supervising the keeping of the attendance register as required by Section 104.1(f) of the Regulations of the Commissioner.

Response: The District has made significant improvement over the past three years in ensuring the accuracy of attendance data by implementing the WINSCHOOL student management system. The District will pursue the appointment of an individual directly responsible for supervising this function.

Recommendation 5: Consider the appointment of an internal claims auditor or require each member of the Board to review claims expenditures prior to payment to comply with Education Law Section 1724.2.

Response: The District has historically used a Finance Committee of the Board to review claims prior to formal Board approval and payment. Having each member of the Board review claims would not be practical. Therefore the District will investigate the establishment of an internal claims auditor as part of the 2004-05 budget development process.

Policies and Procedures

Recommendation 6: Establish all written policies and procedures required by Law, Regulations, and good business practice.

Response: The Board of Education, in the past, has devoted considerable time and resources to reviewing, editing and updating its policies and procedures. Just recently, at the July School Board reorganizational meeting, it was suggested by Commissioner Mihevc that on a monthly basis specific attention should be directed to reviewing existing policies.

Monitoring Controls

Recommendation 7: Periodically review controls over access to the District's information systems to ensure only necessary individuals are authorized to access sensitive information.

Response: When the district's information systems were implemented controls were put in place to protect data access and maintain confidentiality. The District will review present controls with representatives of the Regional Information Center on an annual basis or when needed (i.e., when an employee with access to these systems leaves the district).

Financial Condition

Recommendation 8: Closely monitor estimated revenues and expenditures to avoid an operating deficit.

Response: The fiscal stress experienced by the District in 1999-00 and 2000-01 has been closely examined by the school administration and the reasons contributing to the financial difficulty identified. This was the first step in a three-year plan to erase the deficit and re-establish a sound financial footing for the District. The factors leading to the deficit (overestimated state aid, sky rocketing health insurance costs, and unanticipated special education placements) were avoided or addressed in the development of the 2001-02 budget. As a result the deficit was reduced by 67% and it is anticipated that an operating surplus and a positive fund balance will be realized at June 30, 2003.

As recommended, the District has been, and will continue to be, extremely attentive in monitoring estimated revenues and expenditures as part of its overall financial management.

Recommendation 9: Manage the District's fund balance to increase the amount available for contingencies.

Response: The District's first objective is to eliminate the current operating deficit. Once accomplished future financial planning will focus on increasing the district's fund balance to a healthy level.

Financial Accounting System

Recommendation 10: Maintain a bond and note register to provide a complete record of each issuance of bonds or notes as required by Local Finance Law.

Response: The above recommendation will be implemented.

Recommendation 11: Consider maximizing the use of all modules available in the district's accounting system.

Response: The District currently employs the FAME financial system supported through the Regional Information Center. The Little Falls City School District was the first to pilot the FAME system when it was initially introduced (approximately ten years ago).

Although FAME provides for a completely integrated financial system its output reports are not formatted in a manner easily interpreted by someone not familiar with the system. When first implemented a significant amount of time was expended in tracking and explaining to our independent auditors various transactions. Because of this lack of "accounting friendly" reporting the District chose to maintain its own internal systems which were developed using a generally accepted accounting format. These systems are admittedly more time consuming but do produce clear and understandable output reports.

During the 2003-04 school year the district will be considering a change to Finance Manager as its accounting system. Preliminary investigations indicate that many of the deficiencies inherent in FAME (as alluded to above) have been addressed in the development of Finance Manager.

Recommendation 12: Consider using a monthly checklist to help ensure the District submits all required State aid and other forms and data in a timely manner.

Response: The District acknowledges that it has not met all established deadlines in the past. However, as discussed at length with the OAS representatives, this is primarily due to limited staff and overlapping reporting requirements. With limited office staff, the reporting responsibility falls almost entirely on the District Business Manager. The completion of the ST-3, SA-100, all final cost reports for Special Aid projects, along with the weeklong process of hosting the annual independent audit are all scheduled for submission within the same time frame. The District believes that accuracy in these various reports is a priority over their timely submission.

The district will continue to strive to satisfy submission requirements. With the recent completion of nearly ten continuous years of ongoing capital construction projects more time should be available to devote to this issue.

Recommendation 13: Submit the annual independent audit report to the Department by the October 1 due date as required by Section 170.2(r) of the Commissioner's Regulations.

Response: As discussed above, the District strives to meet established due dates. The annual independent audit is scheduled following the completion of the ST-3. In addition the availability of the audit firm is subject to their other commitments but their work is generally finished in the month of September. The actual published audit report typically is received and accepted by the Board of Education in October or November.

The District will continue to work on meeting the October 1 due date. However, since this is an apparent difficulty many school districts face consideration should be given to changing the submission date.

Recommendation 14: Publish the annual financial reports (ST-3) as required by Education Law and Regulations.

Response: The District was unaware of this requirement involving the ST-3. In the past the District has published legal notices informing the public of the Board's acceptance of the annual independent audit report. With the 2002-03 fiscal year the correct publication requirement will be followed.

Separation of Duties

Recommendation 15: Improve controls by separating duties over cash receipts, where possible, or increase supervision and oversight of certain activities.

Response: The separation of duties is an annual topic reviewed with our independent auditors. Given our limited staff, the District makes every attempt to ensure against any potential for wrongful acts. Although the two individuals referred to in the report do have overlapping duties the individual primarily responsible for accounting and record keeping is the Business Manager. As such, the Business Manager provides a strong supervisory role over the District Treasurer and Account Payable Clerk. The District will continue to review this important financial concern with its auditors and implement any practical suggestions.

Recommendation 16: Maintain a summary record for each investment showing the information required by Section 11(7) of the General Municipal Law.

Response: The recommendations discussed with the OAS representatives have been implemented in the format of the monthly Treasurer's Report to the Board of Education.

Recommendation 17: Implement procedures to ensure the District follows standard practices for processing requisitions, issuing a purchase order, verifying receipt of goods, approving claims for payment, and issuing payments in a timely manner.

Response: The District maintains what it considers to be very clear procedures surrounding the purchasing practice. This however does not mean that some items slip through, or are not subject to the purchase order process (e.g., payment of athletic officials – although encumbered). Purchasing procedures need to be constantly reinforced with staff and administration to prevent the development of lax attitudes. The District will continue to strive for improvement in this area.

Recommendation 18: Require two signatures on checks over a predetermined threshold amount.

Response: The District will review this recommendation with its auditors to determine what the appropriate threshold amount should be.

Recommendation 19: Mail checks without returning them to the individual involved in check preparation.

Response: This recommendation has been easily implemented.

Payroll and Personnel

Recommendation 20: Avoid paying employees in advance of services rendered as required by Education Law.

Response: Effective in September of 2003 teachers will no longer be paid in advance of service.

Recommendation 21: Ensure evaluations are provided for all employees, and a copy is provided to the employee and another placed in the employee's personnel file.

Response: The District strives to have annual performance evaluations completed for its employees. The instance cited in the report involved an employee in the operation and maintenance department. The Superintendent of Buildings and Grounds, who is responsible for evaluating his staff, has been deeply involved over the past several years with our capital projects. With these projects now complete he will have the necessary time to devote to this very important employee supervising function.

Recommendation 22: Develop a long-range equipment replacement plan.

Response: The District recognizes the need for long range planning in all areas and does attempt to do so in regards to equipment, for instructional purposes as well as daily operations. This planning process for equipment replacement generally comes to a halt when schools encounter limited financial resources combined with higher priorities. We are somewhat fortunate that over the past several years we have been able to address much of our equipment needs through capital projects. However, we remain aware of the need to plan on replacing several large pieces of equipment in the near future.

The District has demonstrated long range planning in this regard when it established a Transportation Reserve Fund with the intended purpose of providing the necessary resources for the regular replacement of our school buses.

Updated Inventory Record

Recommendation 23: Establish and implement procedures to update inventory records in a timely manner.

Response: The District has had in place an inventory control program which has been updated on an annual basis through the use of an outside professional service provider. An on sight inventory was just recently completed (August 2003) inclusive of tagging of all items with a value of \$500 or more. Efforts will be made to better monitor the movement of assets within the district.

Student Transportation

Recommendation 24: Ensure the District complies with its transportation policy or obtain voter approval for a change in policy.

Response: The District's transportation policies were established approximately forty years ago at the time the "new" high school was constructed outside of the city limits. Since that time changes have apparently evolved without reference to the original policy. The policy will be reviewed and amended to conform with the Board of Education's intentions.

Recommendation 25: Revise the Non-Allowable Pupil Decimal worksheet to include all students transported less than 1.5 miles from the school they attend as non-allowable pupils for transportation aid purposes.

Response: This recommendation was implemented with the submission of the 2003-04 SA-100 state aid data.

Extraclassroom Activity Funds

Recommendation 26: Close all non-student extraclassroom activity funds and account for the revenues and expenditures of these activities in other District funds or accounts.

Response: The District will identify those accounts presently recorded as part of the extraclassroom activity fund that are not directly related to student activities and transfer them to the Agency Fund.

Safety And Security

Recommendation 27: Prepare district-wide and building level emergency management plans and update them annually.

Response: The OAS report states that "the District generally adheres to the safety and security laws and regulations, and provides a safe school environment in its three buildings." The office of our Superintendent of Buildings and Grounds contains the following documents related to safety and security:

- Five Year Structural Safety Inspection
- School Facility Report Card
- Fire Safety Inspections Reports
- AHERA Inspection Report
- Certificates of Occupancy
- Herkimer County Emergency Management Plan
- LFCSD Emergency Management Plan
- SED Building Condition Survey Report
- Daily Playground Maintenance Safety Inspection Reports

In addition, over the past several years the District has spent considerable time and effort in developing its Project SAVE program as well as its No Child Left Behind plan, both of which address student safety and wellbeing.

In closing, the District would like to acknowledge the cordial and professional staff of OAS who worked with us in this Management Review. Audits are typically thought of as a tense and uncomfortable occurrence. Mr. Michael Abbott, Mrs. Nancy Taylor and Miss Sandra Schleicher made this a productive learning experience that will have long term benefits to the Little Falls City School District.

LITTLE FALLS CITY SCHOOL DISTRICT