
Audit Report

Lynbrook Union Free School

Special Review

SD-1099-2

March 2, 2000

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





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

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March 2, 2000

Mr. Harry Leonard
Board President
Lynbrook Union Free School District
111 Atlantic Avenue
Lynbrook, New York 11563

Dear Mr. Leonard:

The following is our final review report (SP-0698-3) on the Lynbrook Union Free School District. 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."

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from the issuance of final audit report. Appendix B describes the process to be followed in the event of such disagreement.

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

Sincerely,

Daniel Tworek

Enclosure

cc: R. Cate, G. Illenberg, J. Kadamus, E. O'Grady Parent, T. Sheldon, C. Szuberla,
C. Foster (DOB), H. Hoffman (OSC), J. Schiveley (District Superintendent), W. Metkiff
(Superintendent), F. Quigley, Jr. (Nassau County Assistant District Attorney)

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Introduction

The Nassau County Office of the District Attorney referred information to the State Education Department (Department) regarding allegations of improprieties by officials of the Lynbrook School District (District). The allegations, which were made by two individuals from the Lynbrook community, include improper accounting and use of capital project funds, inappropriate use of District funds for travel and conference expenses, and questionable check writing practices.

To assess the validity of the allegations, the Office of Audit Services completed a desk review and contacted District officials to obtain clarification and additional documentation. Based on the explanations provided by District officials and information reviewed, we concluded the District has several opportunities to make improvements related to the Capital Project fund, travel and conference expenses, and check writing.

Capital Project Fund

Several allegations were made related to the Capital Project fund. It was alleged that funds were used inappropriately for payroll and school repairs, and Capital Project funds were inappropriately commingled with General funds. To address these issues, we reviewed documentation to support a sample of expenses charged to the Capital Project fund, interviewed District officials regarding policies and practices, and reviewed other documentation. The review did not find any indication Capital Project funds were inappropriately spent or commingled with General funds. However, we did find several opportunities for the District to improve its policies and procedures related to this fund.

Use of Funds

Funds from the Capital Project should only be used to fund authorized projects. Appropriate expenditures may include school repairs and salaries of staff that work on the project. Based upon a sample of expenditures charged to the Capital Project fund, the review determined the District appropriately charged improvements and repairs to this fund. The review also determined the District appropriately charged a portion of the

salaries for employees working on the authorized projects. We found no exceptions in this area and make no recommendations.

Capital Project Transfers and Expenditures

The Capital Project fund should be used to account for expenditures and make disbursements for authorized projects. However, the review found that, while the District accounts for the expenditures in the fund, it does not make most disbursements directly from the fund. When a Capital Project bill or payment request for a bond is received and approved, the District transfers funds in the exact amount of the expenditure from the Capital Project fund to the General fund. The District then cuts a check for each vendor from the General fund, indicating on the check the fund that issued it. Although the District has the capability to pay Capital Project expenses directly from the Capital Project fund, historically it has not done so. The District's accounting for Capital Project fund expenditures could be improved by paying capital expenditures from the Capital Projects fund. This would eliminate the need to transfer amounts between the funds and would minimize the risk of commingling of General and Capital Project funds.

Coding of Expenditures

Invoices and checks should include a reference to the accounting code, project number, or project location to facilitate review and approval of expenditures and to help ensure expenses are accurately reported. Our review of documentation for a sample of expenditures showed the District did not routinely include the accounting code, project number, or project location on its invoices and checks. We believe the inclusion of these data would improve accountability for District projects.

Incorrect Fund Name

The District should use the accounts and codes authorized by the Office of the State Comptroller in the Uniform System of Accounts for School Districts. The State Comptroller has designated the Capital Project fund as the "H" fund and this code should be used to account for the fund. However, our review determined the District uses the designation "D" to refer to the Capital Project fund. The District should amend its practice to comply with this requirement.

Travel and Conference Expenses

Several accusations involving the misuse of public funds were related to reimbursement to a Board member for travel expenses to a conference in New Orleans in 1994. It was alleged that the District inappropriately reimbursed airfare expenses for a Board member's spouse and may have also reimbursed the expenses twice. To address this issue, we requested information about the district's policies related to travel and the controls in place to ensure only reasonable, necessary expenses are paid by the District, as well as additional documentation for reimbursement of certain expenditures. Our review showed the District paid the airfare for a Board member's spouse in the first instance and received reimbursement from the Board member's spouse about one and one-half years later. However, while we did not find any indication of the expenses being paid twice, we did find several opportunities for the District to improve its policies and procedures related to travel and conference expenses.

Payment of Spouse's Expense

Article 8 of the New York State Constitution prohibits public agencies from using public funds for the benefit of private individuals. This includes the initial outlay of public funds for future reimbursement by an individual, such as a Board member's spouse. While the District does not have a written policy for expenses for non-District employees (spouses, parents, or others), its practice is not to pay for non-District employee travel. The District would, however, make reservations for a spouse traveling with a Board member and, upon receipt of the bill, request payment from the spouse.

We requested documentation to support reimbursement of expenses to a Board member for two conferences in New Orleans. A Board member's spouse attended one of the conferences and the District inappropriately paid the airfare costs with the District's credit card in April 1994. Neither the District clerk nor the internal claims auditor requested reimbursement from the spouse in a timely manner and payment was not received until October 1995. Although the District has now been reimbursed, we do not believe it was appropriate for the District to pay for the spouse's airfare in the first instance and we recommend the District amend its practices in this area.

Maximum Reimbursement Rates for Lodging and Meals

Section 77(b) of the General Municipal Law provides that actual and necessary expenses incurred in connection with attendance at a conference are appropriate expenses. While the law provides some guidance on allowable expenses, it does not establish any maximum reimbursement rates for lodging or meals. However, to help control costs in this area, some governmental agencies, such as New York State, have adopted the rates established by the Internal Revenue Service for business travelers. The rates establish a maximum allowable amount for lodging and meals for all areas of the country. These rates cannot be exceeded without adequate justification. The District should consider establishing maximum reimbursement rates for travel and conferences.

Documentation

School districts should maintain complete and accurate documentation to support travel and conference expenses. The documentation should include hotel bills, flight tickets, and receipts for meals, mileage logs, and other items. These records demonstrate that expenses are related to district business and serve as justification to support these expenses. The review determined the District did not always maintain adequate documentation to support expenses. Some specific examples follow.

- Some expenses were reimbursed based on credit card statements, rather than the detailed invoice or receipt. For example, a Board member was reimbursed lodging costs for a 1994 conference based on a personal credit card statement, rather than the actual hotel bill. Without the actual bill, the District may have paid inappropriate costs such as costs of a double room, room upgrades, movies, or personal expenses.
- A Board member was reimbursed \$50 for tips for bell captains, doormen, maid service and waiters. An itemized listing showing the amounts, dates, times, and types of services was not provided. Without an itemized listing and a policy specifying the type and any limits for expense reimbursement, it could not be determined if these were reasonable and necessary expenses.
- Adequate documentation was not available to support meal expenses. Documentation, such as actual receipts identifying

the date, time, name of restaurant, and the names and number of guests, was not routinely maintained. Without actual receipts, the District may have reimbursed duplicate costs or meal costs that were inappropriate, such as dining costs for additional people or alcoholic beverages.

Written Policies and Procedures

Districts should have written policies and procedures in place to ensure its travel and conference expenses are actual, reasonable, necessary and adequately documented. The District has a written policy for travel and conferences which discusses required approvals for conference attendance, reimbursement of reasonable and necessary expenses, and documentation requirements. However, the written policies could be improved if they addressed expenses for non-District employees (spouses, parents, and others), maximum reimbursement rates for lodging and meals, and the specific types of expenses that are reimbursable.

Review by the Internal Claims Auditor

To help ensure only reasonable and necessary expenses are incurred and paid by the District, various levels of approval are required before a payment is issued. One such approval is that of the internal claims auditor. The review determined the auditor routinely reviews the payment packet and checks the mathematical accuracy, but does not review claims for appropriateness. Without such a review, there is an increased risk the District may pay inappropriate expenses.

Controls Over Check Writing Activities

Several accusations were made related to controls over check writing activities. It was alleged that checks were written out of order and checks were used from a bank that has been out of existence for a number of years. To address these issues, we followed up on the checks in questions and obtained explanations from District officials. The review found that both of these allegations were accurate and recommended some improvements in controls for writing checks and separation of duties.

Checks Were Written Out of Sequence

Generally, checks should be written in numeric sequence and accurately dated. The District dated checks #235 and #236

August 1, 1997 and dated check #237 July 30, 1997, or two days prior. District officials explained their policy is to generally write checks in sequential order and accurately date the checks. However, checks #235 and #236 were payroll checks from the Capital Project fund which were prepared in advance to have them available for signature and post dated to coincide with the payroll date. The second instance questioned check #239 dated August 15, 1997 compared to check #240 dated August 13, 1997, or two days prior. District officials indicated this situation may have resulted from a typographical or human error. While the difference in dates could be considered immaterial, we believe the checks should be written in sequential order and accurately dated.

Use of Checks from a Bank that is Out of Existence

Checks were, in fact, written on an account in a bank that was taken over by another bank several years ago. District officials indicated the new bank will continue to honor the checks with the prior bank's name on it and the District will continue to use the checks until the stock runs out. We see no problem with this practice and therefore make no recommendation.

Separation of Duties

Duties should be separated so that the work of one employee acts as a check on the work of another employee. The District's treasurer is responsible for check writing from the General fund, Capital Projects fund, and the District's payroll account, and also prepares the bank account reconciliation for each account. Better control would be maintained if someone other than the treasurer was assigned the responsibility to reconcile the bank accounts.

Other

There was also an accusation made regarding the appropriateness of the District hiring a former Superintendent as a teacher, while receiving a pension from the New York State Retirement System. We noted the Nassau County Office of the District Attorney referred this matter to the New York State Retirement System and, therefore, we did not review the matter.

Recommendations

1. Pay Capital Project fund expenditures directly from the Capital Project fund.

2. Include the account code, project number, or project location on checks and invoices to improve accountability over Capital Project fund payments.
3. Use the 'H' designation for the Capital Project fund as prescribed by the Office of the State Comptroller in its Uniform System of Accounts for School Districts.
4. Do not use District funds to pay travel and conference costs for non-District officials.
5. Consider establishing maximum reimbursement rates for travel and conferences.
6. Ensure all travel and conference expenses are adequately documented.
7. Establish written policies to address expenses for non-District employees (spouses, parents, and others), maximum reimbursement rates for lodging and meals, and the specific types of expenses that are reimbursable.
8. Revise the job description of the internal claims auditor to include a review of expenses for appropriateness.
9. Strengthen controls in place to ensure checks are issued in sequential order and are accurately dated.
10. Consider assigning the responsibility for the reconciliation of District bank accounts to someone other than the treasurer.

Comments of Lynbrook Union Free School District Officials

The District did not provide a formal written response to the review, but verbally indicated that they agree with the recommendations and have already implemented many of the recommendations.

Contributors to the Report
Lynbrook Union Free School District

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

**NEW YORK STATE EDUCATION DEPARTMENT
OFFICE OF AUDIT SERVICES
AUDIT REVIEW PROCEEDINGS**

Requests for Audit Review

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from a final audit report issued by the Office of Audit Services.

An organization requesting an audit review must make a written application to the Associate Commissioner for Planning and Policy Development, New York State Education Department,, Room 128 EB, Albany, New York 12234 within 30 days of receiving the final audit report. An organization may request a review of an audit whenever the final audit report directs the recovery of funds from the organization and one or more of the following conditions is met:

- Recovery of funds would cause immediate and severe financial hardship to the organization, thereby affecting the well-being of program participants;
- The organization's violation was caused by erroneous written guidance from the State Education Department;
- The State Education Department failed to provide timely guidance on the matter or condition when the organization had previously requested such guidance in writing; and/or
- The report contains errors of fact or misinterpretation of laws, statutes, policies or guidelines.

Organizations requesting an audit review must submit a written application describing how one or more of the above conditions have been met. This application must include all evidence and information the organization believes are pertinent to support its position.

An audit report which recommends improvements in internal controls of administrative or financial systems, but has no material financial impact on the organization, will not be considered for an audit review proceeding.