
Final Report

Monroe-Woodbury Central School District

for the Period

July 1, 2001 through May 30, 2003

SD-0403-6

November 14, 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

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November 14, 2003

Mrs. Claire Perez
Board President
Monroe-Woodbury Central School District
Education Center
278 Route 32
Central Valley, NY 10917

Dear Mrs. Perez:

The following is our final report (SD-0403-6) for the review of the Monroe-Woodbury 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), T. Olivo, Superintendent, Dr. Robert J. Hanna, District Superintendent

Executive Summary

Background and Scope of Work

The Monroe-Woodbury Central School District (District) served about 7,000 students in seven schools and spent approximately \$83.2 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 about \$600 less than the statewide average and its student 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 May 30, 2003.

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, and policies and procedures.
- Accounting and reporting - financial condition, the financial accounting system, and financial reporting.
- Revenue and cash management - cash collection and petty cash.
- Purchasing and expenditures - purchasing and payment practices, and payroll and personnel.
- Facilities and equipment activities - inventory controls.
- Student services - extraclassroom activity funds.

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 implemented several.

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Introduction

Background

The mission of the Monroe-Woodbury Central School District (District) is "to provide an atmosphere to help each student maintain the excitement, curiosity and love of learning; to attract and retain the most qualified and best trained staff possible; to develop and implement a comprehensive and flexible instructional program; and to provide the facilities, materials, and equipment needed to enhance the effectiveness of the program."

The District is located in southern Orange County, about 50 miles north of New York City. It served about 7,000 students in seven schools and spent approximately \$83.2 million in general fund expenditures for the 2001-02 school year. The District spent \$11,270 per student, which was about five percent less than the statewide average of \$11,871 for the 2000-01 school year. This is a district with average student need relative to the school district resource capacity.

The District's student performance generally compared favorably to State standards. In many categories, the rates of students meeting or exceeding the New York State (State) standards continue to improve and are significantly higher than the State rates. For example, the rate of eighth grade students meeting or exceeding the English Language Arts (ELA) standards in 2001-02 was 73 percent, while the State rate was only 44 percent. The graduation rate for the District's 1998 cohort was 92 percent, compared to the State rate of 75 percent.

The District is experiencing the challenges of a growing student population. According to the District's estimates, student enrollment increased by approximately 35 percent over the past ten years and all five elementary schools are expected to be operating at or close to capacity during the 2003-04 school year. The growth has impacted the District's budget, which grew from about \$78 million in 1999-2000 to approximately \$96 million in 2002-03, an increase of 23 percent.

The District also experienced some fiscal stress during the last three years and ended the 2001-02 school year with a \$1.7 million negative fund balance. For the 2002-03 school year, the District incurred an operating deficit of \$1.8 million and had a \$3.4 million negative fund balance on June 30, 2003. The District has obtained legislative authority for deficit financing to address the negative fund balance.

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

- *Statistical Profiles of Public School Districts* available online at http://www.oms.nysed.gov/faru/Profiles/profiles_cover.htm
- *The New York State School Report Card* (Report Card) published March 2003 and available online at <http://www.emsc.nysed.gov/irts/reportcard/home.html>

Objectives, Scope and Methodology

The 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 that:

- 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 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, and policies and procedures.
- Accounting and reporting - financial condition, the financial accounting system, and financial reporting.
- Revenue and cash management - cash collection and petty cash.
- Purchasing and expenditures - purchasing and payment practices, and payroll and personnel practices.
- Facilities and equipment activities - inventory controls.
- Student services - extraclassroom activity funds.

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.

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, and policies and procedures.

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: Mass encumber all known obligations at the start of the fiscal year.

Encumbering helps ensure the budget is not overspent, assists in identifying accounts from which unencumbered amounts can be transferred, and also helps in forecasting the year-end fund balance. While the District mass encumbered many of its known obligations, it did not encumber \$4.3 million in debt service and certain fringe benefits. The mass encumbering of these items will help ensure the District does not incur liabilities in excess of appropriations that were approved by the Board and the voters.

Recommendation 2: Strengthen controls to ensure that budget transfers are made in accordance with applicable laws and District policies.

Recommendation 3: Establish written procedures for transfers within and between funds and consider increasing the Superintendent's transfer authority.

Section 170.2(k) of the Regulations of the Commissioner (Regulations) and Section 1718 of the Education Law require the board to ensure that appropriations are available before encumbrances or expenditures are made. When an appropriation is insufficient, a budget transfer should be made before issuing a purchase order or a payment. Any transfers should be restricted to those authorized by law. The transfers should generally be approved by the board unless the board granted the authority to the superintendent. The review found the following conditions:

- The former treasurer made budget transfers after budget codes were over-expended and without authorization.
- Transfers were inappropriately made to equipment codes, a non-contingent budgetary item. Section 170.2(l) of the Regulations prohibits such transfers.
- The Board was not always informed of budget transfers; as such, it could not be assured that the District's expenditures conformed to the Board's budget priorities.
- The Superintendent may authorize budget transfers up to \$500, a relatively small amount given the size of the District's annual operating budget.

Strengthening controls in this area will help ensure the District does not overspend its budget.

Recommendation 4: Ensure that the Board receives all fiscal reports required by law.

Boards of education should receive and use various fiscal reports on a periodic basis to help monitor a school district's financial condition. However, the Board did not receive capital fund budget status reports as required by Section 170.2(p) of the Regulations, or reports of the extraclassroom activity funds as required by Section 172.3 of the Regulations. Furthermore, the independent auditor's management letters were not submitted to the Board. As such, the Board was unaware of the District's deteriorating financial condition and not in a position to require corrective actions. The interim business administrator proposed some improvements in this area.

Recommendation 5: Strengthen controls to ensure that capital project expenditures do not exceed authorizations.

Capital project expenditures must be limited to the amount approved by the voters and the board of education. However, the District exceeded the authorized amounts for the new high school by \$500,000 and the bus garage by \$150,000. The District needs to establish controls to ensure expenditures for capital projects do not exceed the authorized amounts.

Recommendation 6: Establish a long-term financial plan for operating expenditures and capital projects.

Long-term planning can help ensure continuity of services, facilitate the annual budget process, aid in planning and financing capital purchases, and help managers better anticipate and prepare for future needs. The District has identified certain long-term needs relative to projected population increases. However, the District needs to develop multiyear budget projections that take into account its needs, its present financial condition, the impact of deficit financing, and current economic trends. Long-term planning may help stabilize the District's finances.

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 7: Appoint an internal claims auditor consistent with the requirements of the Education Law.

Section 1709(20-a) of the Education Law prohibits certain persons from being the internal claims auditor, including clerical personnel directly involved in accounting and purchasing functions. However, the Board appointed the accounts payable clerk, who processes claims and prepares checks, as the District's internal claims auditor. As such, the Board should consider appointing a different individual to the position.

Recommendation 8: Appoint a purchasing agent at the reorganization meeting and consider appointing a deputy treasurer.

The Board is required to appoint an individual as the purchasing agent. This is typically done at the Board's reorganization meeting at the beginning of the year. However, the Board did not appoint a purchasing agent until September 2002. As such, no individual was legally authorized to commit the District to purchases and contracts for necessary materials, supplies, equipment, and services during the first quarter of the fiscal year. The Board should make this appointment in a timely manner. Also, the Board should consider appointing a deputy treasurer to act in the absence of the treasurer.

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 9: Establish or update, as appropriate, all written policies and procedures required by law, Regulations, and good business practice.

The District should establish or update the following policies and procedures.

- The student transportation policy should be revised to reflect the policy the voters approved. Though the policy indicates that the District will transport students in grades K-6 who live beyond one-half mile of school, the actual practice, as approved by the voters, is to transport students in grades K-8 who live more than one-half mile from school.

- The purchasing policy should include bidding and other requirements in accordance with General Municipal Law, Section 104-b(1)(4).
- The petty cash policy should indicate the types of items that may be purchased and the dollar limits for any purchases, as required by Section 170.4 of the Regulations.
- Policies and procedures need to be developed for grants management, cash collection controls, purchasing, inventory controls, credit cards, budget transfers, and travel advances.

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.

Comments of District Officials

District officials generally agreed with the recommendations.

ACCOUNTING AND REPORTING

Districts must have adequate accounting and reporting systems in place to ensure that accurate, timely, and complete financial records are maintained and disclosed in periodic reports to the board, the public, and the State. The District has many of the necessary 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 as indicated by the following:

- Operating deficits,
- A decreasing fund balance,
- Growth in expenditures without proportionate growth in revenues, and
- Overestimations of revenues.

The District incurred operating deficits (expenditures exceeded revenues) in its general fund of about \$1.7 million in 1999-2000 and \$2.0 million in 2001-02. Although the District had incurred an accumulated deficit of about \$1.7 million (negative fund balance) by the end of the 2001-02 school year, District officials asserted that they did not become aware of the situation until it was discovered and reported by an interim business administrator in the fall of 2002. Subsequent actions to limit expenditures during the 2002-03 school year were insufficient. The District incurred a deficit of nearly \$1.8 million by the end of the 2002-03 school year, resulting in an accumulated deficit of almost \$3.4 million (negative fund balance).

The District has received legislative authorization to finance and liquidate the 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, while subjecting the District's budget process to 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 the obligations while it attempts to maintain the quality of its programs and cope with the challenges of a growing student population. Furthermore, voters rejected the District's proposed budget for the 2003-04 school year, resulting in fiscal constraints imposed by adoption of a contingency budget.

The District's business operations are undergoing transition. The review noted that, during the 2002-03 school year, the interim business administrator and the new purchasing agent had initiated certain actions and made several changes to strengthen management controls and improve business processes.

Recommendation 10: Closely monitor estimated revenues and expenditures to avoid an operating deficit.

Between 1998 and 2002, the District's expenditures increased by 36 percent while its revenues increased by only 32 percent. During this time, the District significantly overestimated State aid, interest earnings, and miscellaneous revenues. The District had not established adequate processes to ensure effective monitoring of its finances and the Board did not receive timely, sufficient, and accurate information in the form of budget status reports, cash flow projections, fund balance projections, and the independent auditor's management letters.

The District needs to ensure its budgets are balanced and that timely revisions are made to the budget to reflect any changes to estimated revenues and expenses.

Recommendation 11: 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. A positive fund balance is one indicator of a fiscally healthy district and can be used to establish reserves that are authorized by law, appropriate amounts for the following year's budget, and maintain an unreserved/undesignated fund equity to use for cash flow and unanticipated expenses. The District established reserves and appropriated funds even though it did not have the funds to do so. 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.

Recommendation 12: Address the findings contained in the independent auditor's management letters.

School districts should carefully review items in the management letter from their CPA and prepare a plan of action to address the items as needed. The District's management letter contained 31 items or recommendations for improvement including 5 that are recurring from the prior year. These items are opportunities for the District to improve its operations and should be addressed.

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.

Recommendation 13: 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 could improve its record keeping and accountability in this area by

maintaining other required information. The District's treasurer should maintain a complete record of each issuance of bonds or notes 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.

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 14: Implement procedures to ensure that all building aid reports are submitted to the Department as required.

Building aid is paid to school districts for eligible expenses incurred in the approved purchase, construction, alteration, and lease of school buildings. To claim the aid, districts must submit information to the Department so that aid payments can be initiated. When projects are completed, districts must close out the projects and submit certificates of substantial completion and final cost reports. If the final cost reports are not submitted by the due dates, aid may be lost or delayed. The District did not submit certain required reports to the Department and has incurred the following consequences:

- The loss of about \$89,000 in building aid to which the District was otherwise entitled,
- Delays in receipt of about \$2 million in aid for at least a few years, and
- The burden of researching information related to prior years.

The District is in the process of implementing procedures to prevent future losses in aid, ensure timely submission of all required reports, and specifically assign responsibility and accountability for the submission of all claims for aid.

Recommendation 15: Continue to pursue upgrading the District's accounting system to a state-of-the-art system.

School districts should use state-of-the-art computerized accounting systems to assemble, classify, analyze, record and report its transactions, and to maintain accountability for the related assets. The District is using an older system that does not accommodate accounts receivables, inventories, grants, capital projects, or generation of the ST-3 reports. The District is in the process of assessing its needs and evaluating new automated accounting systems. Upgrading to a new system should facilitate the timeliness and accuracy of the District's accounting and reporting.

Recommendation 16: Submit the independent auditor's reports including the management letters, to the Department by the October 1 due date.

The District submitted the independent auditor's reports late for the years 1999-2000 and 2001-02. The late submission of financial statements can, in some cases, delay State aid payments.

Recommendation 17: Publish the annual financial reports (ST-3) as required by Education Law and the Regulations.

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 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.

Recommendation 18: Publish notice of a report of examination as required.

General Municipal Law Section 35 requires publication of a notice that the fiscal affairs of the District have been examined (e.g., the annual independent audit) and that the report is available as a public record for inspection by interested parties. The District has not published this required notice. Publishing the notice will help ensure the public is aware of the information.

Comments of District Officials

District officials generally agreed with the recommendations.

REVENUE AND CASH MANAGEMENT

Districts collect and invest millions of dollars in revenue each year. Districts must have adequate controls in place to ensure the funds are collected and deposited, accounted for accurately, and safeguarded. The review determined the District generally complied with revenue and cash management requirements related to cash receipts and revenue, cash management and investments, and petty cash. However, the District could further improve its controls over cash collections and petty cash.

Cash Collections

Districts must establish strong internal controls over cash collections to prevent mishandling of funds 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 duties, bonding of employees, and following up on accounts receivables.

OSC'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 of 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 and procedures for handling cash.

Recommendation 19: Improve controls over cash collections by separating key duties in this area.

The District should consider separating the duties of the head bookkeeper. This individual receives cash, reviews cash worksheets, makes deposits, and prepares bank reconciliations. She also records, reviews, and posts certain disbursement transactions and is responsible for accounts receivables billings. The lack of separation of duties increases the risk of errors and misappropriations. While ideal separation of duties is not always possible in a small office, the District should strive to separate key functions,

such as bank reconciliations and cash handling, and provide for increased supervisory oversight of high-risk areas.

Recommendation 20: Consider bonding all employees who handle cash.

The District bonds the Treasurer, Tax Collector, and Internal Claims Officer, as required by Section 2130 of the Education Law. Other employees who handle cash and are not bonded include the custodians of petty cash accounts, the central treasurers of extraclassroom activity funds, the school lunch courier, and the head bookkeeper. In a recent study (Report #2000-PS-5) OSC recommended that all employees who handle moneys be adequately covered by a faithful performance bond. This would minimize the risk of loss of funds.

Recommendation 21: Resolve the outstanding accounts receivable for the use of facilities.

Districts should have procedures in place to ensure all accounts receivables are billed and collected. Collection of older accounts receivables may require sending out overdue notices and contacting delinquent payees. As of June 30, 2002, the District was carrying approximately \$12,000 in accounts receivables due from various groups for use of the District's facilities, some of which date back to the 1999-2000 school year. The District needs to determine if the amounts are valid and if they can obtain the payments.

Petty Cash

Good business practices require that someone independent of the process periodically audit the use of petty cash funds. This helps to ensure that funds are authorized and being used in accordance with established policies and procedures.

Recommendation 22: Periodically audit the petty cash accounts to ensure that the correct amount of cash and receipts are on hand and that funds are being used in accordance with policy and procedures.

The District reconciles petty cash accounts only at year-end. The District could improve controls in this area by periodically auditing the accounts on an unannounced basis. The audit should include a reconciliation of funds on hand,

and a review of the documentation and types of expenditures.

Comments of District Officials

District officials generally agreed with the 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 establishing written procedures, limiting its use of confirming orders, and strengthening its controls over payment practices.

Recommendation 23: Implement procedures to ensure the District follows standard practices for bidding goods and services, processing requisitions, issuing purchase orders, and approving claims for payment.

Recommendation 24: Ensure the purchasing agent is the only one authorized to commit the District to purchases, except for emergency purchases.

Recommendation 25: Limit the use of confirming purchase orders.

Recommendation 26: Ensure bidding requirements are adhered to.

Recommendation 27: Do not pay for goods or services in advance of receipt of the goods or services.

Recommendation 28: Ensure all claims have the appropriate approvals prior to payment.

Recommendation 29: Cancel or mark paid all vendor invoices and related supporting documentation when payment is made.

Districts should establish and adhere to standard steps for purchasing goods and services; however, the District did not always do this. The review sampled paid claims on a non-statistical basis and found the following conditions.

- The District purchased approximately \$100,000 in computer-related supplies and equipment from a vendor who was not the lowest bidder. Documentation was not available to show why the lowest bidder was not used.
- Employees other than the Board-designated purchasing agent committed the District to purchases.
- The District used confirming purchase orders for routine purchases. This circumvented the requisitioning, purchasing and encumbering processes, and may result in overspending accounts.
- The District used blanket or open purchase orders and, in some cases, may have circumvented the bidding requirements.
- The District paid \$15,000 to a consultant in advance of services.
- Some claim invoices were processed without the necessary approval.
- Invoices were not canceled upon payment. This increases the risk of duplicate payments.

District officials have initiated certain actions and made several changes to improve operations in this area. Purchasing guidance is also available at <http://www.emsc.nysed.gov/mgtserv/gemsho.htm> and also from OSC's *Local Government Management Guide*.

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 policies 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 by certifying the payroll registers and maintaining copies of performance evaluations in all personnel files.

Recommendation 30: Certify the payroll registers.

The certification of payroll registers indicates that the payroll has been examined to ensure that the individuals included in the register have performed their duties in accordance with the terms of their employment and that additions or deductions to normal salaries are appropriate and documented. The Board officially designated an administrator to certify payrolls, as required by Section 170.2 of the Regulations; however, this task was not performed. The review noted that the District was preparing to shift the supervision of the payroll process to the office of the business administrator and that other payroll procedures were being updated.

Recommendation 31: Ensure evaluations are provided for all employees, and that 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.

A limited review of personnel files indicated that some did not contain copies of the employees' evaluations.

Comments of District Officials

District officials generally agreed with the recommendations.

FACILITIES AND EQUIPMENT

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

The District has many of the controls related to facilities maintenance and equipment inventory. The District can improve its inventory system by developing written procedures and assigning responsibility for its inventory system.

Inventory Controls

School districts have a substantial investment in their assets including land, buildings, and equipment. As such, districts should establish controls that safeguard property against loss, ensure effective utilization, 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 had many of the necessary controls, but could improve controls in this area by assigning responsibility to one individual.

Recommendation 32: Appoint an individual to be responsible for the inventory system.

The District hired an outside vendor to appraise the District's assets and assist in the development of an inventory system. The new system will enable the District to establish effective controls and also prepare for the new financial reporting requirements under Government Accounting Standards Board Statement 34. As part of this process, the District should assign an individual the responsibility for maintaining the system and for reviewing the inventory for accuracy and completeness.

Comments of District Officials

The District has implemented the recommendation.

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. 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 district to establish policies and procedures for the creation and operation of extraclassroom activities and for the safeguarding, accounting, and auditing of the activity funds. The funds should be established for appropriate activities and should be operated by the students. The review noted opportunities for improvement.

Recommendation 33: Review the extraclassroom activity funds for appropriateness and financial activity.

Recommendation 34: Close out any nonstudent or inactive accounts.

Districts are authorized to establish extraclassroom activity funds for activities that are conducted by students. At least one of the extraclassroom activity funds (Journalism Scholarship) may not meet the criteria for a student activity fund. Also, a small number of funds were financially inactive during the 2001-02 school year. If the activities have been discontinued, the funds should be closed in accordance with the District's policy.

The Department has prepared Finance Pamphlet 2, *The Safeguarding, Accounting, and Auditing of Extraclassroom Activity Funds*, to assist boards and schools. The document is available from the link “Extraclassroom Activity Pamphlet” at

<http://www.emsc.nysed.gov/mgtserv/gemsho.htm>.

Comments of District Officials

The District generally agreed 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 district needs to have adequate policies and procedures in place to ensure the data are accurate, reliable and valid. The Department uses the data as a performance benchmark to identify schools that may need assistance in raising student performance; it also uses some of the data for State aid and School Report Cards.

The District has implemented many of the necessary controls to accurately account for and report attendance and student performance data. It has developed processes and established procedures to conform to the Department's new System for Tracking Education Performance.

Contributors to the Report
Monroe-Woodbury Central School District

- Nancy Taylor, CPA, Auditor-in-Charge
- William Mapes, CGAP, Senior Auditor

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OCT 16 2003

OFFICE OF
AUDIT SERVICES

October 9, 2003

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

Dear Mr. Abbott:

The district has reviewed the draft report (SD-0403-6) dated September 16, 2003 and offers the following comments to each recommendation. As you can see, the district has implemented several of the State's initial recommendations.

Budget Development and Budget Administration

- Recommendation 1 – Encumbrances – The district has met with appropriate personnel on encumbrance accounting and has instructed all to encumber known expenditures for the fiscal year. During the first two weeks of the fiscal year, 75% of the budget was encumbered.
- Recommendation 2- Budget Transfers – The district provides the Board of Education with monthly reports on each budgetary transfer. The description includes budgetary account codes, description, amount transferred and reason for transfer.
- Recommendation 3- Budget Transfer Procedures – The district has modified its accounting package to reject any purchase requisitions when funds are not available. In addition, the district has cross-contracted with Erie 1 BOCES for their Board Policy Manual Service COSER.
- Recommendation 4 – Fiscal Reports to Board of Education – The Board of Education is receiving the required monthly reports.
- Recommendation 5 – Capital Project Expenditure Controls – The Assistant Superintendent for Business and Management Services prepares a monthly budget status report that includes approved and pending change orders. This report

maintains a running reserve balance to ensure the elimination of cost over runs. District personnel also participate in weekly meetings with the construction manager.

- Recommendation 6 – Long-Term Financial Plan - The Assistant Superintendent for Business and Management Services is in the process of developing a three-year budget projection.

Staffing

- Recommendation 7 – Internal Claims Auditor - Pending
- Recommendation 8 – Appointments for Purchasing Agent and Deputy Treasurer – Implemented at the July 9, 2003 Board of Education reorganizational meeting.

Policies and Procedures

- Recommendation 9 – Policy Update – Cross-contracted with Erie 1 BOCES for their Board Policy Manual Service COSER. The purchasing policy was revised on July 9, 2003 and the transportation policy updated at the August 20, 2003 Board of Education meeting.

Financial Condition

- Recommendation 10 – Monitor Revenues and Expenditures – The over estimation of revenues was corrected within the 2003-04 budget, creating a tax levy increase of 21.8% and a 17.6% weighted average tax rate increase. Revenues and expenditures are monitored at a minimum, monthly.
- Recommendation 11 – Fund Balance Management – Implemented a monthly fund balance worksheet (see attached). The Board of Education receives this report at the monthly business meetings.
- Recommendation 12 – Annual Management Letter & Reports – The Board of Education will review and approve the appropriate documents that are to be submitted to the State Education Department.

Financial Accounting System

- Recommendation 13 – Bond Register – District has implemented the bond and note register. Files have been reviewed for appropriateness.

Financial Reporting

- Recommendation 14 – Building Aid Reports – The district has submitted eleven final cost reports from prior years. Record keeping procedures and reports have been improved to ensure timely submission of all final cost reports.
- Recommendation 15- Accounting Software System – The district, in the very near future, will be purchasing WinCap, an integrated software package. This product,

along with several others, was reviewed by a committee for all facets of accounting, purchasing, payroll and human resources.

- Recommendation 16 – Annual Independent Audit Reports - The Board of Education will review and approve the appropriate documents that are to be submitted to the State Education Department.
- Recommendation 17- Publish Annual Financial Reports – Implemented with the 2002-03 reports.
- Recommendation 18 – Publish Notice of Fiscal Affairs – Implemented with the 2002-03 reports.

Cash Collections

- Recommendation 19 – Improve Controls over Cash – Procedures have been revised since the State management review team visited the district. The cash deposits and bank reconciliations have been delegated to other district personnel.
- Recommendation 20 – Bonding Employees – Implemented during the 2003-04 school year.
- Recommendation 21 – Accounts Receivable – The district has been successful in collecting the outstanding accounts receivable from prior years for facility usage.

Petty Cash

- Recommendation 22 – Petty Cash Audits – District Treasurer is making periodic audits of the petty cash accounts.

Purchasing and Payment Practices

- Recommendations 23-29 – Purchasing – The district has tightened up its total purchasing procedures. Confirming purchase orders are only used on emergency basis, payments are made when appropriate documentation is received and purchase orders are not processed unless unencumbered balances are available.

Payroll and Personnel

- Recommendation 30 – Payroll Certification – The Board of Education, at the reorganization meeting of July 9, 2003, designated the Superintendent of Schools and the Assistant Superintendent for Business and Management Services to certify payrolls. This procedure is implemented and payrolls are certified prior to distribution.
- Recommendation 31 – Employee Evaluations - The employees under the supervision of the Assistant Superintendent for Business and Management Services are being evaluated on an annual basis.

Inventory Controls

- Recommendation 32 - Inventory Update – The district had training during the week of September 22, 2003 on an inventory program (ASSET MAXX) that will assist in maintaining Government Accounting Standards Board Statement 34 financial reports. The entire business office received training. The purchasing agent is maintaining the program.

Extraclassroom Activity Funds

- Recommendations 33-34 - Extraclassroom Activity Accounts – The district treasurer is monitoring the extraclassroom activity accounts for appropriateness, inactivity and financial accountability.

Should you have any questions or require additional information, please do not hesitate to contact me.

Sincerely,



John J. Staiger, Jr.
Assistant Superintendent for Business
And Management Services

Cc: Mr. Terrence Olivo, Superintendent
Ms. Claire Perez, Board President
Mr. Randy Bullis, CPA, District Auditor