
Audit Report

Niagara Falls City School District

for the Period

July 1, 2001 through September 30, 2003

SD-0703-1

June 3, 2004

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: mabbott@mail.nysed.gov

June 3, 2004

Mr. Kevin Dobbs
Board President
Niagara Falls City School District
607 Walnut Avenue
Niagara Falls, New York 14302

Dear Mr. Dobbs:

The following is our final report (SD-0703-1) for the review of the Niagara Falls City School District for the period July 1, 2001 through September 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

c: T. Savo, T. Sheldon, B. Porter, J. Kadamus, C. Szuberla, R. Bullis, C. Foster (DOB), W. Campbell (OSC), C. Grant, Superintendent, C. Godshall, District Superintendent

Executive Summary

Background and Scope of Work

The Niagara Falls City School District (District) served about 8,800 students in 13 schools and spent approximately \$105.2 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 \$13,273, which is about 12 percent higher than the statewide average of \$11,871. While the District's student performance compared favorably with the State averages at the elementary level, the performance of the District's eighth graders was somewhat lower than the State averages. The graduation rate for the 1998 cohort was at 58 percent, considerably lower than the State average of 75 percent.

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, 2003.

Review Results

The review found the District has many of the necessary management controls in place. However, improvement opportunities exist in several areas. Some of the key recommendations are as follows:

- Develop a long-term financial plan and improve budget controls related to mass encumbering, keeping expenditures within budgeted amounts, and initiating timely budget transfers. (pages 4-8)
- Closely monitor revenues and expenditures and manage the District's fund balance to increase the amount available for contingencies. (pages 9-12)
- Improve controls over cash receipts by separating duties, using pre-numbered cash receipt forms, and adhering to the \$100 maximum limit for the petty cash fund. (pages 13-15)
- Improve controls over the procurement and payment process including the approval process, documentation, and credit card charges. (pages 16-23)
- Conduct periodic physical inventories for equipment. (page 24)
- Ensure the District complies with its transportation policy and properly accounts for and reports transactions of the extraclassroom activity funds. (pages 25-27)
- Improve controls over reporting student data. (pages 28-29)

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

Comments of District Officials

District officials agreed with the recommendations. Their comments are included in this report as Appendix B.

Table of Contents

INTRODUCTION.....	1
BACKGROUND.....	1
OBJECTIVES, SCOPE AND METHODOLOGY	2
REVIEW RESULTS.....	3
COMMENTS OF DISTRICT OFFICIALS	3
GOVERNANCE AND PLANNING.....	4
POLICIES AND PROCEDURES.....	4
BOARD APPOINTMENTS	6
STRATEGIC PLANNING, BUDGET DEVELOPMENT, AND ADMINISTRATION.....	7
COMMENTS OF DISTRICT OFFICIALS	8
ACCOUNTING AND REPORTING	9
FINANCIAL CONDITION	9
FINANCIAL ACCOUNTING SYSTEM.....	10
FINANCIAL REPORTING.....	11
COMMENTS OF DISTRICT OFFICIALS	12
REVENUE AND CASH MANAGEMENT	13
CASH RECEIPTS.....	13
PETTY CASH FUND.....	15
COMMENTS OF DISTRICT OFFICIALS	15
PURCHASING AND EXPENDITURES.....	16
PURCHASING PROCEDURES AND PAYMENT PRACTICES	16
TRAVEL AND CONFERENCE AND CREDIT CARD CHARGES	18
DUTIES OF INTERNAL CLAIMS AUDITOR	19
PAYROLL AND PERSONNEL PRACTICES	22
COMMENTS OF DISTRICT OFFICIALS	23
FACILITIES AND EQUIPMENT	24
COMMENTS OF DISTRICT OFFICIALS	24
STUDENT SERVICES.....	25
STUDENT TRANSPORTATION	25
EXTRACLASSROOM ACTIVITY FUNDS	26
COMMENTS OF DISTRICT OFFICIALS	27
STUDENT RELATED DATA.....	28
COMMENTS OF DISTRICT OFFICIALS	29

Appendix A – Contributors to the Report

Appendix B – Niagara Falls City School District Response

Introduction

Background

The mission of the Niagara Falls City School District (District) is “to guarantee educational excellence for every student and to prepare students for successful employment, continuing education, and lifelong learning in an ever changing world.” In 1999, the District opened a new high school, the first public school in New York State (State) to be privately financed. This enabled the District to consolidate its two aging high school buildings into a new, state-of-the-art facility. The District also operates nine elementary schools and three middle schools.

The District, located in western New York, has high student needs in relation to District resource capacity. The District served about 8,800 students in the 2001-02 school year, over 40 percent of whom were eligible for free lunch. In the 2000-01 school year, the District expended \$107 million, or \$13,273 per student, about 12 percent higher than the State average of \$11,871. The performance of the District’s fourth grade students compared favorably to the State averages in the 2003 New York State School District Report Card (Report Card). According to the Report Card, the rates of the District’s eighth grade students who met or exceeded the State standards in mathematics and English language arts were somewhat lower than the State averages, though in science the rates were slightly higher. The graduation rate for the 1998 cohort was only 58 percent, compared to the State average of 75 percent.

The District experienced some fiscal stress, evidenced by operating deficits in three consecutive fiscal years. Its largest operating deficit, nearly \$3 million, was incurred in the fiscal year ended June 30, 2001. On June 30, 2002, the District had a negative unreserved fund balance of \$761,000.

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 the following web site:

http://www.oms.nysed.gov/faru/Profiles/profiles_cover.htm

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

Objectives, Scope and Methodology

The State Education Department's (Department) Office of Audit Services (OAS) reviewed selected management practices, records, and documentation for the period July 1, 2001 through September 30, 2003. The review used a questionnaire to focus on seven key areas: governance and planning, accounting and reporting, revenue and cash management, purchasing and expenditures, facilities and equipment, student services, and student-related data. The questionnaire contains information on key controls in each of the areas and also includes the specific criteria or the standards used in assessing the District's operations. A copy of the questionnaire is available from OAS.

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

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

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

Our review included examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other procedures considered necessary in the circumstances. The review also included assessing the estimates, judgments, and decisions made by management. We believe that the review provides

a reasonable basis for our findings, conclusions, and recommendations.

Review Results

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

- Develop a long-term financial plan and improve budget controls related to mass encumbering, keeping expenditures within budgeted amounts, and initiating timely budget transfers.
- Closely monitor revenues and expenditures and manage the District's fund balance to increase the amount available for contingencies.
- Improve controls over cash receipts by separating duties, using pre-numbered cash receipt forms, and adhering to the \$100 maximum limit for the petty cash fund.
- Improve controls over the procurement and payment process including the approval process, documentation, and credit card charges.
- Conduct periodic physical inventories for equipment.
- Ensure the District complies with its transportation policy and properly accounts for and reports transactions of the extraclassroom activity funds.
- Improve controls over reporting student data.

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

Comments of District Officials

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

GOVERNANCE AND PLANNING

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

Policies and Procedures

Written policies and procedures help ensure employees understand their responsibilities, help hold staff accountable, and also aid with any staff transitions. 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, the review identified opportunities for the District to improve its policies and procedures in certain areas as follows.

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

A review of the Board policy manual found that the District had not established the following policies:

- petty cash;
- cash receipts/revenue collection;
- cash disbursements/accounts payable;
- payroll;
- retirement reporting;
- billing procedures;
- capital assets;
- breakfast/lunch programs; and
- the provision of food or beverages at meetings, training, and conferences sponsored by the District.

In addition, the student transportation policy should be revised to reflect the policy the voters approved. Though the policy requires that the District provide transportation to only those students who live beyond 1.5 miles from school, the District actually transports many students who live less than 1.5 miles from school.

The District should add provisions regarding the disposition of funds of discontinued clubs and inactive accounts to its extraclassroom activities policy. The policy should also require that quarterly reports of the activity funds be prepared and submitted to the Board in accordance with the Regulations of the Commissioner of Education (Regulations) Section 172.3.

The District should develop procedures for approving Board member and superintendent travel ensuring that such approval is made by a resolution of the Board and noted in the minutes. The District should establish policies regarding travel advances and also ensure that mileage reimbursement rates are approved annually during the reorganization meeting.

The District should also develop formal written procedures for the review of State aid related reports before submission to the Department. It is good business practice to require an independent review of information prior to submission and a discussion of the methodologies to obtain it to help ensure the data being submitted are reasonable and accurate.

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. The Western New York Regional Information Center also offers a number of policy services that are described at www.erie1boces.org.

Board Appointments

Districts are required to appoint certain officers and individuals to administer the district's affairs. The official appointment is usually done during the organizational meeting at the beginning of the school year after which the appointed officers are required to take a constitutional oath of office. Education Law and the Regulations prohibit some positions from being held by the same person. The Board could improve controls over processes by appointing an internal claims auditor in accordance with the Education Law. In addition, the Board did not make some required appointments.

Recommendation 2: Appoint an individual as the internal claims auditor who is not directly involved in any accounting or purchasing function and not on the list of certain persons prohibited by law to hold such office.

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

- a member of the board;
- the clerk or treasurer of the board;
- the official of the district responsible for business management;
- the person designated as purchasing agent; and
- clerical personnel directly involved in accounting and purchasing functions.

The Board appointed an accounts payable clerk to the position of internal claims auditor. This results in a lack of independence because, in essence, the internal claims auditor is reviewing her own work as an accounts payable clerk. Better control is maintained if the internal claims auditor is not involved in the accounting or purchasing functions.

Recommendation 3: Officially appoint the clerk of the Board, tax collector, and the district clerk each school year during the reorganization meeting.

During the annual organizational meeting, boards of education elect and appoint their officers, clerk of the board,

tax collector, treasurer, and, at its discretion, an auditor, for the coming year. The current treasurer was appointed in December 2002 for the period December 2, 2002 through June 30, 2003, but was not officially reappointed during the July 1, 2003 organizational meeting for the 2003-04 school year. Similarly, the district clerk and the tax collector were not officially reappointed for the 2003-04 school year.

Strategic Planning, Budget Development, and Administration

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

Recommendation 4: Develop a long-term financial plan that includes major aspects of expenditures and revenue projected for the next five years.

Recommendation 5: Develop a long-range plan for equipment replacement.

Long-term planning can help ensure continuity of services, facilitate the annual budget process, aid in planning and financing capital purchases, and help managers better anticipate and prepare for the future. The plan needs to take into account enrollment projections, estimated increases in salary and fringe benefit costs, changes in student-teacher ratios, supplies and equipment needs, building maintenance costs, capital needs, debt service, and other needs. The plan also needs to estimate projected revenue including real property tax revenue, State aid projections, Medicaid revenue, federal aid, and other revenue investments. The plan should also estimate the appropriate level of fund balance. The District does not have a long-term financial plan or a long-range plan for equipment replacement.

Recommendation 6: At the start of the year, encumber all known obligations such as salaries, contracts, debt service, utilities, and fringe benefits.

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbering helps ensure budgets are not overspent, aids in identifying accounts from which available amounts can be transferred, and also helps in forecasting the year-end fund balance. It is not unusual to have 85 to 90 percent of the budget already committed at the beginning of the fiscal year. However, the District does not mass encumber all known obligations.

Recommendation 7: Ensure that appropriations are available before encumbrances or expenditures are made.

Recommendation 8: Ensure budget transfers are made during the year to prevent overspending any budget codes.

Education Law Section 1718 (l) expressly provides that, “no school board shall incur a district liability in excess of the amount appropriated by a district meeting unless the board is specifically authorized by law to incur such liability.” In addition, both Education Law Section 1704 and Regulations Sections 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 a procedure in place to prohibit incurring an expense or issuing a purchase order if it will result in overspending the account. Although budget transfers are made throughout the year, the budget status report, as of September 30, 2003, showed over 33 budget accounts with function codes overspent by \$10,000 or more resulting in negative balances. The overspent function codes make monitoring the budget more difficult and increase the risk that the legally authorized amounts will be exceeded.

Comments of District Officials

District officials agree with these 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 controls related to financial condition, financial accounting and reporting, auditing, and State aid and grants. However, the District can make some improvements related to financial condition, the accounting system, and its financial reporting.

Financial Condition

A board 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. The District can improve monitoring of its finances and managing its fund balance.

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

The District experienced some fiscal stress. Indicators of the stress are the operating deficits (expenditures exceeded revenues) in its general fund that were incurred in each of the past four fiscal years. In each of those years, the District underestimated its expenditures, particularly for its central services and regular school teaching. In three of the past four years, the District's fund balance was lower than its total reserves indicating that the District had reserves without sufficient funds on hand. Over the past four years, the District's expenditures increased by almost five percent, while its revenues increased by slightly more than three percent. The District needs to ensure its budgets are balanced, its revenue and expenditures are monitored on an ongoing basis, and its budget is adjusted, as needed, to ensure expenditures do not exceed available resources.

Recommendation 10: 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 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 fund balance to use for cash flow and unanticipated expenditures. A district is permitted, under Real Property Tax Law, to retain an unreserved, undesignated fund balance of up to two percent of the following year's proposed budget. The District established reserves, though it did not have the funds to do so. In three of the past four years, the District had a negative unreserved fund balance. The District should closely monitor its revenues and expenditures with the aim of managing its fund balance and increasing the amount of reserved and unreserved fund balance.

Financial Accounting System

A district's accounting system should provide for an accurate, clear, and complete record of all financial transactions. The system should include written policies and procedures, accounting software, and record keeping systems. It must be designed to comply with certain accounting principles, policies and procedures, and classification and coding guidelines. It should also be able to generate periodic financial reports for the board and the State. The District's accounting system generally met those requirements. However, the review identified improvement opportunities related to record keeping for bonds and notes and integration of the accounting system.

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

Section 163 of Local Finance Law requires districts to maintain a bond and note register and a complete record of each issuance of bonds or notes. Section 170.2(g) of the Regulations states that one of the duties of a board is to provide the treasurer with a note register in which to record the dates of the resolutions authorizing notes, the types of notes, the dates on which notes are drawn, the numbers of the notes, the banks from which the money was borrowed,

the amounts of the notes, the rates of interest, the dates of maturity, the dates the notes were paid, and the amounts of principal and interest paid. The District has not maintained a bond and note register. The maintenance of a bond and note register should improve accountability with bonds and notes.

Recommendation 12: Consider maximizing the use of all modules available in the District's accounting system.

Districts should fully use their computerized accounting system to assemble, classify, analyze, record, and report 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, it should consider fully using the system's capabilities and also use technology to track other information. The District does not have the inventory and depreciation modules integrated into the system. The system could be used for recording depreciation and better control over the recording and tracking of assets.

Financial Reporting

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

Recommendation 13: Publish the annual financial reports (ST-3) and notice thereof, as required by Education Law and the Regulations.

Education Law Section 2528 requires city school districts to publish their annual financial report by October 1 in at least one public newspaper published in the district or a public newspaper with general circulation within the district. It should consist of summary reports and a notice of the availability of the report in its entirety for public inspection. The District does not publish its annual financial report.

Recommendation 14: Submit the ST-3 to the Department by the September 1 due date and the independent audit

report to the Department by the October 1 due date as required by Section 170.2(r) of the Regulations.

The ST-3 is used as the basis for State aid calculations and reporting fiscal data to the public. The independent audit report is used by the Department to monitor school districts' financial condition and verify selected data on the ST-3. Late submission of these reports could result in withholding aid or, in some cases, reduction in aid. The District has not filed these reports on time in the past four years, with the lateness ranging from one and a half months to three months.

Comments of District Officials

District officials agree with these recommendations.

REVENUE AND CASH MANAGEMENT

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

Cash Receipts

Districts must establish strong internal controls over cash collections to prevent mishandling and to safeguard against loss. The District established many of the necessary controls over cash collections, but it could make improvements related to separation of duties, using pre-printed pre-numbered cash receipt forms, and simplifying the cash receipts process.

The Office of the State Comptroller's *Standards for Internal Control in New York State Government* states separation of duties is the division of key tasks and responsibilities among the various employees and units of an organization. No one individual should control all 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.

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

Good business practices and sound internal control require that someone independent of other cash and record keeping functions should open the mail, restrictively endorse all checks, and establish a record of all funds received. The checks should be turned over to the business office for deposit and someone independent of the record keeping function should verify the funds were, in fact, deposited into the bank.

The billing, accounts receivable, and cash receipts functions are being performed by one person. In addition, the person processing funds received in the mail is also in charge of issuing and recording cash receipts. The lack of separation of duties increases the risk of errors and misappropriations. While ideal separation of duty is not always possible in a small office, the District should strive to separate key functions and provide for increased supervisory oversight over high-risk areas.

Recommendation 16: Use pre-printed, pre-numbered cash receipt forms for all cash receipts.

Recommendation 17: Consider streamlining the cash receipts system.

Employees who receive monies on behalf of a district, other than the treasurer, must issue pre-numbered receipts printed in triplicate as required by Section 170.2(i) of the Regulations. It also states that copies of the receipts shall be distributed as follows: original to payer, copy to treasurer with the money or bank deposit receipt, and copy retained by person authorized to receive money.

The District uses a person other than the treasurer to issue cash receipts. This person does not use a pre-printed, pre-numbered receipt in triplicate form. The computer system generates the receipts that are used. There are two cash receipt systems that are routinely used and a third system that is sometimes used. One system is used for collections from billed transactions and the other for collections where the District did not send a bill (e.g., State aid). When collections are received as a result of a billed transaction, the computer system automatically assigns a cash receipts number while staff assigns the number in the second system. During certain times of the week, when payroll is being processed, manually drawn receipts using pre-printed forms are used. The treasurer does not receive a copy of the receipts issued under any of the three systems.

Petty Cash Fund

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

Recommendation 18: Ensure that the balance in each petty cash fund does not exceed the \$100 maximum established by the Regulations.

Section 170.4 of the Regulations requires that the petty cash funds be authorized by the board and the balance on hand in each fund shall not exceed \$100 at any time. The District has no Board authorization for its petty cash fund. In addition, the District has one petty cash fund maintained at \$1,000 in the central office.

Comments of District Officials

District officials agree with these recommendations.

Purchasing and Expenditures

A district purchases thousands of products and services each year. Purchasing in a district is regulated by State law, court decisions, and local board policy. 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 and expenditures. The review identified opportunities for improving controls in purchasing procedures and payment practices; travel and conference attendance, and credit card use; the duties of the internal claims auditor; and payroll and personnel practices.

Purchasing Procedures and Payment Practices

Districts should establish written procedures for purchase and payment processes. The procedures should identify the steps in processing a purchase requisition, issuing a purchase order, verifying receipt of the goods or services, approving the claim for payment, and paying for the goods or services in a timely manner. Each of the steps must be adequately documented including the approval or authorization of the transaction by a district official, such as the purchasing agent, who is the only district official authorized to initiate a contract between the vendor and the district. The District had many of the necessary controls over the purchasing process but could improve by limiting the use of confirming purchases (obtaining authorization after the purchase), requiring necessary information on claims for meals, and ensuring that travel and conference related expenditures are sufficiently documented.

Recommendation 19: Limit confirming purchases to emergency situations only.

Recommendation 20: Reimbursement claims for meals should state the names of the guests, the purpose of the lunch/dinner meeting, and the topics discussed.

Recommendation 21: Ensure that reimbursement for employees' travel expenditures is within the amount approved by the Board or Superintendent.

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

Recommendation 23: Ensure that claims, other than those related to travel and conferences, go through the purchasing system and are approved by the purchasing agent.

Based on a sample test of expenditures, the following conditions were found:

- The District does not limit the use of confirming purchases to emergencies. The audit determined 7 of 12 claims reviewed were confirming purchases. Confirming purchases are generally used for emergency situations and result when the purchases are prepared and approved after the fact. The use of confirming purchases circumvents the purchasing process and can lead to overspending budgets or committing the District to expenditures that are not necessary or reasonable.
- Payments were made for meals without documentation that the expense related to District business and without a list of the individuals in attendance. Cost of meals for any guests may not be paid unless it is determined that a lunch or dinner meeting with guests will promote a valid local government purpose. The claim for reimbursement should state the names of the guests, the purpose of the lunch/dinner meeting, and the topics discussed.
- Payments were made for expenditures beyond the amount approved for an employee to attend a conference. District staff needs to submit a request for attendance at conferences and obtain an administrator's approval. This request contains the date, time, location, cost, and other details of the conferences. The payment for the conference should be limited to the approved amount unless justification is provided to exceed the approved amount.
- Payments were made for charges made to a grocery store credit card even though adequate documentation was not provided to support the claim.
- Charges made to the grocery store credit card did not go through the normal purchasing process and were not approved by the purchasing agent.

Travel and Conference and Credit Card Charges

Many districts have credit cards for use by officials for travel expenses incurred in the performance of their duties. A purchase order is not required for employee expenses such as conference expenses, mileage, and other reimbursable expenses in the performance of day-to-day duties. However, the claims submitted by credit card companies must be paid within a reasonable time to avoid incurring unnecessary interest charges, and the claims should be supported by detailed documentation. Although the District has established some procedures in the processing of credit card charges, there are opportunities to improve control and oversight.

Recommendation 24: Require charges unrelated to travel and conference attendance to go through the regular purchasing process and be approved by the purchasing agent.

Recommendation 25: Develop a formal written procedure for approval and payment of credit card charges and adhere to these procedures.

Recommendation 26: Ensure that all charges are submitted with sufficient documentation including the name(s) of the traveler(s), the purpose, and the destination.

Recommendation 27: Ensure that travel and conference expenditures are within the established per diem allowance of \$150 or, in the event the allowance is exceeded, the Superintendent's approval was obtained.

The District has credit cards issued to a majority of its administrators. The District's policy for the use of credit cards states that, "all charges must be documented with the appropriate receipts. The receipt should be submitted to the Financial Services Office and should detail the nature of the charge and the names of the individuals involved. Any charges not documented by receipts will be considered personal charges and the employee will be billed accordingly." Similarly, it states that corporate card charges should not supersede normal purchasing or conference and travel policies. However, exceptions were noted.

- District administrators made charges that are not related to conference, mileage, or other reimbursable expenses in performance of day-to-day duties, such as:
 - purchases of water for coolers in the office totaling \$230.
 - repair of equipment totaling \$1,360.
 - purchase of computer and office supplies totaling \$2,500.
 - membership fees for various organizations totaling \$4,400.
 - gifts for employees, network/internet related fees, and other personal charges totaling \$638.

These claims should go through the purchasing system and be approved by the purchasing agent.

- The approval process for payments was not consistent. Payments were made without the administrator's signature.
- Payments were made for charges that did not have sufficient documentation or detail showing destinations and purposes of the travel or identification of who incurred the charges if there was more than one employee.
- Payments were made for charges exceeding the \$150 per diem allowance established by District policy. There was no indication that the Superintendent approved exceeding the per diem allowance.
- Credit card charges for meals were not sufficiently documented.

The required scrutiny by the internal claims auditor in auditing the claims from vendors and suppliers, and the required detail of supporting documentation mentioned, also applies to claims for credit card charges. Based on a sample review of credit card charges and payments, the internal claims auditor needs to enhance the review of credit card charges.

Duties of Internal Claims Auditor

Section 1724 of the Education Law requires that a board audit and approve each claim except contracted wages and debt service. Performing this auditing function itself would take an inordinate amount of a board's time. For that

reason, Section 1709.20 (a) of the Education Law authorizes a board to adopt a resolution to appoint an internal claims auditor to perform this important function in its stead. When the office of auditor has been established and filled, all powers and duties of the board with respect to auditing, allowing, or rejecting all claims against the district shall be exercised only by the auditor during continuance of such office. The internal claims auditor, as auditing officer for the board, must be vigilant in the review of claims and cognizant as to board policy, contracts, and State laws and regulations. An internal auditor should test the claims made against the district to ascertain whether they are ready for payment. An internal claims auditor, who is properly trained and motivated, presents a protective shield for the district's resources. The internal claims auditor has the final authority on whether a claim should be paid.

According to the OSC's Financial Management Guide (Guide), the internal claims auditor must be satisfied that the amounts claimed were actually and necessarily incurred by the claimant in the performance of official duties or in the authorized attendance at a conference or training. Each claim must be in such detail, with appropriate documentation, that the internal claims auditor can see exactly and precisely what goods were purchased, services rendered, or expenses incurred by the claimant. As a general rule, a claim must contain enough detail and documentation so that the internal claims auditor is supplied with sufficient information concerning the nature of the claim to be able to determine whether the claim represents a lawful and proper charge. The claim must contain sufficient detail to permit a satisfactory audit by a person who is entirely unfamiliar with the transaction. The District's internal claims auditor did not completely review all transactions.

Recommendation 28: Ensure that, in auditing claims, the internal claims auditor determines that:

- the purchasing agent's signature authorized the release of the purchase order;
- the receiving copy was signed and dated indicating that the materials or services were received;
- the purchase order or schedule of claims contains the purchasing agent's signature as the "officer giving rise to the claim";

- taxes should not be paid other than federal or those of another state;
- proper and complete documentation is included on each claim;
- the extensions are correct for mathematical accuracy, discounts are taken, and transportation charges, where applicable, are accurate;
- the charges are not duplicates of an item(s) already paid;
- the proposed payment is for a valid and legal purpose;
- the unit price billed (invoice) does not exceed the bid or contract authorization;
- the voucher is properly itemized; and
- claims meet the requirements of board policy, where applicable.

The review noticed generally weak controls and monitoring in the payments of credit card charges. According to the internal claims auditor, statements for charge cards are not reviewed in detail. The claim is reviewed to ensure there is appropriate District official approval as evidenced by the signature on the claim documents. The claims do not contain sufficient detail to permit a satisfactory audit by a person who is entirely unfamiliar with the transaction. In addition, supporting documents related to the claims are filed separately; that is, claim vouchers are filed in accounts payable, available detailed documentation of individual charges is filed in the treasurer's office, and approvals for conference attendance are filed in the district clerk's office. Generally, the District pays claims based solely on the billing statements without sufficient itemization or documentation and appropriate review of expenditures. As a result, the District paid claims without sufficient documentation to perform a proper review and approval and is at substantial risk of making inappropriate payments for invalid or incorrect claims.

Recommendation 29: Only make purchases as allowed under General Municipal Law Sections 104 and 119(o).

A non-statistical sample of purchases indicated that the District generally complied with bidding requirements in the procurement of goods and services. However, in one instance, the District purchased office supplies by "piggybacking" on a BOCES contract.

Districts and BOCES may not "piggyback" onto the purchasing contracts of other governmental agencies (i.e., districts or BOCES) except as allowed under Section 104 of the General Municipal Law which permits schools and others to purchase from the "State contracts" prepared by the Office of General Services (OGS) and/or under provisions of Section 103 of the General Municipal Law, allowing purchases through the county under certain circumstances.

Payroll and Personnel Practices

Salaries and fringe benefits make up the single largest expense category of a district's budget. As such, the payroll function should be clearly defined through policy and procedures and be closely supervised. The personnel function should provide assurance that a district is hiring and retaining the most qualified individuals. The District generally implemented the necessary controls for payroll and personnel, but it could make some improvements related to providing timely evaluations to its employees and monitoring time and attendance.

Recommendation 30: Require the administrator appointed by the Board to examine and approve the actual payroll.

A certified payroll is one that has been examined and approved by an administrator who certifies that the persons included on the payroll have regularly performed their duties in accordance with the terms of their employment, and that any additions to or deductions from normal salary payments have been made pursuant to the bylaws of the district and on the basis of personnel records that have been maintained by the district.

The administrator authorized by the Board to certify payroll does not certify payroll. The person only reviews and approves the time sheets.

Recommendation 31: Ensure regular evaluations are completed for all employees and a copy is provided to the employee and another copy is placed in the employee's personnel file.

Good administrative practices require each employee to be evaluated at least annually by an immediate supervisor. A

written report should be prepared and a copy placed in the employee's personnel folder. The evaluation lets employees know if they are meeting management's expectations and also serves as a record of employee performance. In reviewing a sample of 10 employee files, half of the sample shows that the District is behind in its evaluations. The dates of the last evaluations range from 10 years ago to 1 year ago.

Recommendation 32: Ensure that applicant's qualifications are thoroughly evaluated, credentials are verified, and references are checked.

An application form should be required that contains background information for the job applicant such as education, training, work experience, references, etc. To help ensure the District hires the most qualified individual, credentials and references should be thoroughly checked. Four out of 10 employee files sampled do not include any indication that the references were contacted. There was also one file that does not contain any evidence that credentials were verified.

Comments of District Officials

District officials agree with these 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, construction, and inventory including long-range planning for educational facilities and inventory records for the District's assets.

Districts have a substantial investment in their assets including land, buildings, and equipment. As such, districts should establish controls that safeguard property against loss, ensure effective utilization, identify amounts for insurance coverage, evaluate needs, and identify surplus items. 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 adopting a formal schedule for physical inventories.

Recommendation 33: Establish and implement a policy to conduct periodic equipment and fixed asset inventories.

The District has written policies and procedures regarding its equipment and many of the necessary controls. However, the District can improve controls by establishing and implementing policies and procedures for periodic physical inventories. The review noted that, while the District had affixed stickers to many items of furniture and equipment identifying them as property of the District, not all items were tagged. Also, the inventory records were not completely accurate. Inventory records should be updated throughout the year to reflect any movements, relocations, or addition of assets. In addition, the District should perform periodic inventories.

Comments of District Officials

District officials agree with this recommendation.

STUDENT SERVICES

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

Student Transportation

Districts are required to establish a policy for student transportation and must adhere to certain requirements related to transporting 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.

Recommendation 34: 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 Board established a policy to provide for the transportation of students living more than 1.5 miles from the schools they attend. However, the District is transporting some students who live within this limit. As a result, the District is not in compliance with its own policy. A district may provide transportation for students living within the 1.5-mile limitation with voter approval, but the district would not be eligible for transportation aid for the cost of the services. Districts report the mileage for these students on the non-allowable pupil decimal worksheet and this information is used in the calculation of aid.

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 funds. The funds should be established for appropriate activities and should be operated by the students. In addition, the Regulations also require that a record of the revenues and expenditures be maintained and reports be made at least quarterly to the board. The review noted opportunities for improvement in administering extraclassroom activity funds by providing the Board with financial status reports, strengthening controls over cash receipts, reviewing all funds for appropriateness, and closing non-student and inactive accounts.

Recommendation 35: Provide the Board with the report on receipts and disbursements of the extraclassroom activity fund as required by the Regulations.

Boards have a fiduciary responsibility to monitor the transactions of the extraclassroom activity funds. Regulations Section 172.3(b) requires the central treasurer of the extraclassroom activity funds to provide the Board with a financial report pertaining to the receipts and expenditures for all accounts in his/her custody on at least a quarterly basis. However, the Board has not received a report on the activity of the extraclassroom activity funds. Without periodic reports, the Board cannot effectively monitor the transactions or meet its fiduciary responsibility.

Recommendation 36: Strengthen controls to ensure that all transactions of the extraclassroom activity funds are properly accounted for.

In the past few years, the District's independent auditor has been unable to issue an unqualified opinion on the financial activity of the extraclassroom activity funds. Proper documentation was not always available for cash receipts. This condition may represent one reason for the over expenditure of funds in a small number of accounts. As a result, some clubs have subsidized the deficits of others.

Recommendation 37: Review the extraclassroom activity funds for appropriateness and financial activity.

Recommendation 38: Close out any non-student or inactive accounts.

Districts are authorized to establish extraclassroom activity funds for activities that are conducted by students. Several of the extraclassroom activity funds (e.g., Retirement Lunch, Book Fair, Library Account, Board of Education Fund, Venuto Vending, Fiscal Fund) 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 districts. The document is available from the link "Extraclassroom Activity Pamphlet" at the following web address:

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

Comments of District Officials

District officials agree with these recommendations.

Student Related Data

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

The District has implemented many of the necessary controls to accurately account for and report attendance and student performance data. It has developed processes and established procedures to conform to the Department's new System for Tracking Education Performance (STEP). The review found opportunities for improvement in the accuracy of its STEP reports.

Recommendation 39: Ensure that all data submitted to the Department in the STEP report are internally reviewed and accurate prior to submission.

The District's process used to submit the STEP report to the Department does not provide assurance that accurate data are being submitted. Administrative staff prepared and submitted the STEP report to the Department without obtaining verification from the attendance office. Though the District submitted its report for the year ended June 30, 2003 on time, the attendance office was still attempting to verify that 135 students, believed to have entered General Educational Development (GED) programs, had actually done so. If the District receives information that is contrary to that submitted to the Department, it will need to update and resubmit the data. For example, if a number of students move out of the District rather than enter GED programs, the District's student non-completer rate will be overstated. Also, because the District did not formally track the number of high school graduates who earned Regents Diplomas with Honors, the number reported to the Department may not be accurate.

Recommendation 40: Provide sufficient guidance regarding attendance and ensure that the District's comprehensive attendance policy is fully implemented.

Although the central office issued certain guidance regarding students 17 years of age or older who are absent for 20 consecutive days, it did not issue guidance for students under the age of 17 who are absent for 20 consecutive days. Students under the age of 17 in grades seven and above who end the school year with at least 20 consecutive days of unexcused absences should be reported to the Department through STEP as long-term absentees. Also, the District's comprehensive attendance plan established criteria for defining unexcused absences, as required by Section 104.1 of the Regulations. However, the high school has not been tracking unexcused absences.

Comments of District Officials

District officials agree with these recommendations.

Contributors to the Report
Niagara Falls City School District

- James A. Conway, Manager
- Maria Castro, Associate Auditor
- William Mapes, Senior Auditor
- Jean Stone, Senior Auditor



School District of the City of Niagara Falls, New York

607 Walnut Avenue ♦ P.O. Box 399 ♦ Niagara Falls, NY 14302-0399
(716) 286-4211 ♦ FAX: (716) 286-4283

April 23, 2004

Sent Via Fax #(518) 473-0259

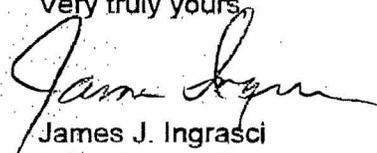
Ms. Maria T. Castro
Associate Auditor
New York State Education Department
Education Building, Room 524
Albany, NY 12234

Dear Ms. Castro:

The Niagara Falls City School District is in receipt of your draft audit report. We do not disagree with the report and will provide you with a corrective action plan as soon as the final report is received by the district.

If you have any additional questions concerning this matter, please feel free to contact me at (716) 286-4242.

Very truly yours,


James J. Ingrasci
Administrator for
School Business Services

JJI/eb