
Audit Report

Troy City School District

For the Period

July 1, 2000 through March 31, 2002

SD-1101-2

October 30, 2002

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





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October 30, 2002

Ms. Patricia O'Grady
Board President
Troy City School District
1728 Tibbits Avenue
Troy, New York 12180

Dear Ms. O'Grady:

The following is our final audit report (SD-1101-2) on the Troy City School District for the period July 1, 2000 through March 31, 2002. The audit was conducted pursuant to Education Law Section 305 and the Board of Regents/State Education Department Strategic Plan – Goal #5 which states: “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 audit. 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 audit recommendation.

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

Sincerely,

Daniel Tworek

Enclosure

cc: R. Cate, J. Kadamus, A. King, B. Porter, T. Sheldon, C. Szuberla, C. Foster (DOB), J. Dougherty (OSC), A. Reo, Superintendent

Executive Summary

The Enlarged City School District of Troy (Troy), a small city school district with high student needs in relation to local resource capacity, served about 4,931 students in nine schools and spent approximately \$60 million in the 2000-01 school year. Troy's average cost per student is higher than the New York State average and its student performance is consistent with statewide trends.

Audit Results

Troy began the 2001-02 school year with a \$7.8 million accumulated deficit, and ended the year with a \$14.4¹ million accumulated deficit. Troy had shown indications of fiscal stress for several years, especially the last three school years, resulting in its current financial crisis. One of the primary causes was the failure of the Board, Superintendent, and senior administrators to adequately plan and monitor finances. Increasing operating deficits, decreasing fund balance, increasing expenditures without proportionately increasing revenue, and over-reliance on State aid contributed to the crisis. (pages 4-12)

Additional State aid and deficit financing are enabling Troy to begin its recovery from this crisis. However, the deficit financing will place an additional strain on resources for many years to come. (page 12)

Improvements are needed in Board governance. For example, the Board needs to improve its budget oversight and hold its Superintendent, senior administrators, and appointed officers accountable for Troy's finances. (pages 13-22)

Troy needs to improve its financial controls including safeguarding of assets, purchasing and payments, and State aid claims. For example, Troy used bond proceeds to fund current operations contrary to Local Finance Law. Also, Troy failed to file required reports relating to State Building aid, putting itself at risk of not receiving Building aid to which it is otherwise entitled and having to pay back the aid that it already received. At the time this report was written, the Department was analyzing the financial impact of Troy not filing the required reports. (pages 22-32)

Comments of District Officials

Troy officials' comments to the findings were considered in preparing this report and are included as Appendix B. In response to the audit, Troy's Superintendent and Board agree with the recommendations and intend to adopt them in their entirety.

¹ Unreserved, undesignated fund balance (deficit) per the Independent Auditor's Report for the year ended June 30, 2002.

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Introduction

Background

The Enlarged City School District of Troy's (Troy) stated mission is, "to provide world class instruction, facilities, and educational programs at all grade levels with the ultimate goal of graduating individuals who possess the skills necessary for life long learning and the knowledge and expertise to be contributing members of a rapidly changing society." Troy, located in Rensselaer County, has high needs relative to local resource capacity. Approximately 42 percent of Troy's students receive free or reduced price lunches. Troy reported serving about 4,931 students in kindergarten through grade 12 in nine schools, and also reported serving 72 students in a pre-K program during the 2000-01 school year. Troy employed about 632 full-time staff and spent about \$60 million. As shown in the 2002 New York State School District Report Card (Report Card), the 1999-2000 district-wide total expenditure per pupil was \$12,299, which is \$1,259 higher than the average of \$11,040 for public schools in New York State and \$858 higher than the average of \$11,441 for high need urban suburban districts.

The Report Card indicates that student performance at the elementary level is steadily improving. For example, the number of fourth graders meeting or exceeding the standards in English Language Arts (ELA) improved to 60 percent as of January 2001, from 39 percent as of January 1999. As of January 2001, 75 percent of fourth graders met or exceeded the standards in mathematics, compared with 56 percent in January 1999. These figures are comparable to the statewide averages. Additionally, four of Troy's schools were named among 604 schools as "most improved schools" in New York State.

At the middle level, the Report Card indicates that student performance remained relatively static during the period 1999-2001. As of January 2001, about 30 percent of eighth graders met or exceeded the standards in mathematics, compared with 29 percent in January 1999. The number of students meeting or exceeding the standards for ELA as of January 2001 was 39 percent, up from 33 percent in January 1999. Though the performance of Troy's eighth graders is less than statewide trends, the percentages of students meeting or exceeding the

standards in ELA and mathematics are slightly higher than those of similar schools.

Generally, the reported performance of Troy's high school students compares favorably with that of similar schools. The percentages of the 1998 student cohort passing the Regents English, Mathematics, and Global History exams exceeded those of similar schools, while the percentage of students passing the Regents U. S. History and Government exam was below the average for similar schools. About 57 percent of high school graduates earned Regents diplomas. Troy's reported dropout rate, though lower than the Statewide average, nonetheless climbed from 1.4 percent in 1998-99 to 2.5 percent in 2000-01.

Scope, Objectives and Methodology

The audit examined selected management practices, records, and documentation for the period July 1, 2000 through March 31, 2002. This was a financial related audit and our objectives were:

- to review Troy's financial condition and related fiscal operations;
- to identify factors leading to the current financial crisis; and
- to assess the adequacy of Troy's system of management controls and compliance with laws and regulations.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed State Education Department (Department) and Troy management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed Troy's audited financial statements.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other audit procedures considered necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions and recommendations.

Comments of District Officials

Troy officials' comments were considered in preparing this report and are included as Appendix B. Troy's Superintendent and Board agree with the recommendations, have already implemented some, and intend to implement all. For example, Troy has already made improvements in its financial controls by appointing a Treasurer and by requiring the Treasurer and Internal Claims Auditor to carry out the responsibilities of their positions.

Report on Financial Condition

Troy is in the early stages of recovering from a serious financial crisis. Troy has incurred deficits in prior years and, as a result, began the 2001-02 school year with an accumulated deficit of \$7.8 million. Preliminary unaudited financial reports showed that Troy may have incurred an operating deficit of up to \$10.9 million (including the \$2 million appropriated from the prior year) for the year ending June 30, 2002, thereby increasing its accumulated deficit to approximately \$16.7 million. Subsequent to our audit, Troy's independent auditor determined that the 2001-02 operating deficit was actually \$8.4 million and the accumulated deficit was \$14.4 million².

The New York State Legislature passed a bill, signed into law by the Governor, which will enable Troy to repay its accumulated deficit over a 10-year period. Troy's 2002-03 budget requires an approximately 10 percent school tax increase, eliminates 84 positions, reduces expenses by 2.74 percent, refinances debt, and recognizes \$6.1 million in additional State aids. Prior to legislative intervention, Troy's financial situation was so dismal that severe cuts in programs and very large tax increases would have been required to prevent financial ruin. Presented below are the factors that led to Troy's financial crisis.

Factors Leading to Financial Crisis

A school district and its board should be aware of certain fiscal stress indicators and act to ensure the district operates in a fiscally responsible manner. Troy has shown indications of fiscal stress for several years resulting in the current financial crisis. One of the primary causes of the stress was the failure on the part of the Board, Superintendent, and senior administrators to plan and monitor finances adequately.

The following factors have contributed to Troy's financial crisis:

- increasing operating deficits,
- decreasing fund balance,
- increasing expenditures without proportionate increase in revenue, and

² Independent Auditor's Report for the year ended June 30, 2002.

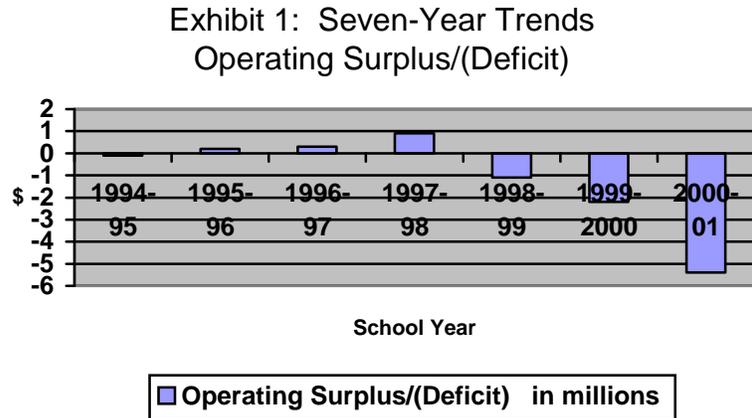
- overreliance on State aid.

A discussion of each of these factors follows.

Operating Deficits

When expenditures exceed revenues for a given period, a school district has an operating deficit. An operating deficit in one year can be offset by surpluses from prior years, reserve funds, or loans that must be repaid in subsequent years. However, an operating deficit or operating deficits in consecutive years can deplete those surpluses and reserve funds.

Troy incurred operating deficits in the last three consecutive school years primarily because the Board did not implement balanced budgets or take adequate action to curb spending or increase revenue. The following chart illustrates Troy’s operating surpluses (deficits) over a seven-year period.



Source: Independent Auditor’s Reports

Fund Balance Deficit

Fund balance is the cumulative effect of any surplus or deficits. A positive fund balance is a sign of a fiscally healthy district and can be used to:

- set up reserves that are specifically authorized by law,
- appropriate amounts for the next year’s budget, and
- maintain (an unreserved/undesignated) fund equity to use for cash flow and unanticipated expenditures.

It is not fiscally prudent to fully deplete the amounts in fund balance or, in fact, to set up reserves or appropriate monies that are not available in fund balance. Nevertheless, Troy depleted its fund balance and set up reserves and appropriated amounts even though it did not have the fund balance to do so. The following table shows the depletion of certain reserves.

Exhibit 2
Seven-Year Trends in General Fund
Fund Balance

	Total Reserves (Exclusive of Debt Reserves)*	Designated for Next Year's Budget	Fund Balance Accumulated Surplus/Deficit
1994-1995	\$381,771		\$408,998
1995-1996	\$851,531		\$112,588
1996-1997	\$1,392,913	\$3,500,000	\$(687,108)
1997-1998	\$1,940,172	\$2,050,000	\$1,078,247
1998-1999	\$778,800	\$2,600,000	\$636,309
1999-2000	\$209,030	\$2,600,000	\$(973,252)
2000-2001	\$186,403	\$2,000,000	\$(7,380,874)

Source: Independent Auditor's Reports

**Reserve for Debt is legally restricted for the repayment of debt.*

The table illustrates that Troy has been depleting its fund balance to the point where it ended the 2000-01 school year with a \$7.4 million deficit in its General Fund. The table also shows Troy has been designating monies for the next year's budget that it did not have. The Board designated \$2.6 million and \$2.0 million in school years 1999-2000 and 2000-01 respectively, resulting in accumulated deficits (unreserved/undesignated fund balance) of \$973,252 and \$7,380,874. In essence, this results in overstating the funds available in the following year's budget as these designated amounts are considered part of that budget. Designating monies for future budgets, which are nonexistent, and substantial increases in accumulated deficit are strong indicators of a district facing financial stress.

Increasing Expenditures Without Proportionately Increasing Revenue

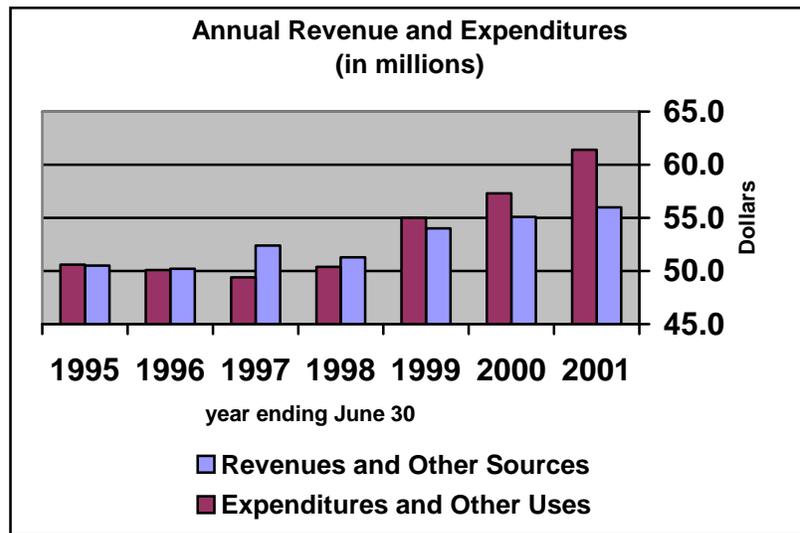
Although Troy's expenditures and revenue both increased, its revenue increase did not keep pace with its expenditure increase. In addition, Troy overspent appropriations and overestimated revenue. Because Troy did not carefully monitor and control its expenditures and revenue, it left

overspent appropriations and overestimated revenue unchecked, making Troy susceptible to incurring further deficit.

Changes in Expenditures and Revenue

During the seven-year period ending June 30, 2001, Troy's expenditure base increased at about twice the rate of the revenue base. Expenditures increased \$10.8 million, or 21 percent, while revenue increased only \$5.5 million, or 10.8 percent. The following chart illustrates the changes.

Exhibit 3
Seven-Year Trends in
Revenue and Expenditures



Source: *Independent Auditor's Reports*

As the chart shows, Troy's revenue approximated or exceeded expenditures until the year ending June 30, 1999.

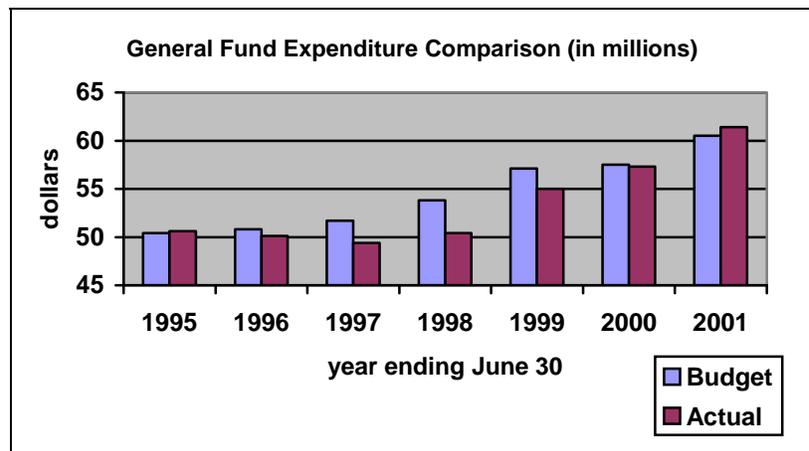
During the seven-year period ending June 30, 2001, expenditures for each major category (general support, instruction, pupil transportation, employee benefits and debt service) increased. In particular, both debt service and instructional costs increased at a rate greater than other expenditures. For example, during the year ended June 30, 1995, debt service costs comprised 7.3 percent of all expenditures, but during the year ended June 30, 2001, debt service had risen to 9.4 percent of all expenditures with a similar percentage estimated for the year ended June 30, 2002.

The significant increase in Troy’s expenditure base over the past several years is in contrast to the slight decrease in student enrollment. For example, Troy kindergarten through grade 12 enrollment decreased by 141 students (2.9 percent) from the fall of 1995 to the fall of 2001.

Overspent Budget

A school district’s budget is a clearly defined estimate of administrative, instructional, and non-instructional expenditures by type of expenditure. Section 1718 of the Education Law requires a board of education not to incur a liability in excess of the amount appropriated in the budget unless the board is specifically authorized by law to incur such a liability. Although expenditures exceeded revenue in each of the last three years as shown in the preceding chart, actual expenditures only exceeded budgeted expenditures in the last year shown. The following chart shows a seven-year comparison of actual and budgeted expenditures.

Exhibit 4
Seven-Year Trends in
General Fund Expenditures



Source: Independent Auditor’s Reports

During the year ended June 30, 2001, Troy’s expenditures exceeded its budget by about \$840,000. Approximately 50 percent of this amount was attributable to salaries, primarily instructional salaries, 25 percent to fringe benefits, and 20 percent to interest expense on increased borrowings.

During the 2001-02 school year, Troy continued to overencumber and overspend its budget. As of the June 30, 2002 budget status report (July 12, 2002 version), Troy had 76 appropriation accounts showing amounts overspent and/or over-encumbered³. The more significant examples are shown in the following table.

Exhibit 5
2001-02 Overspent Appropriations

Account name	Budget Appropriation*	Estimated Expenditures	Difference
Special Education – Tuition	\$1,469,581	\$1,790,381	(\$320,800)
Special Education – BOCES Services	\$2,464,429	\$3,427,774	(\$963,345)
Special Education -Instructional Salaries	\$3,668,585	\$3,927,343	(\$258,758)
Hospital, Medical and Dental Insurance	\$5,351,387	\$5,794,777	(\$443,390)
Business Administration - BOCES Services	\$45,240	\$153,076	(\$107,836)

Source: General Fund - Appropriations Status Report for 6/30/2002 (July 12, 2002 version)

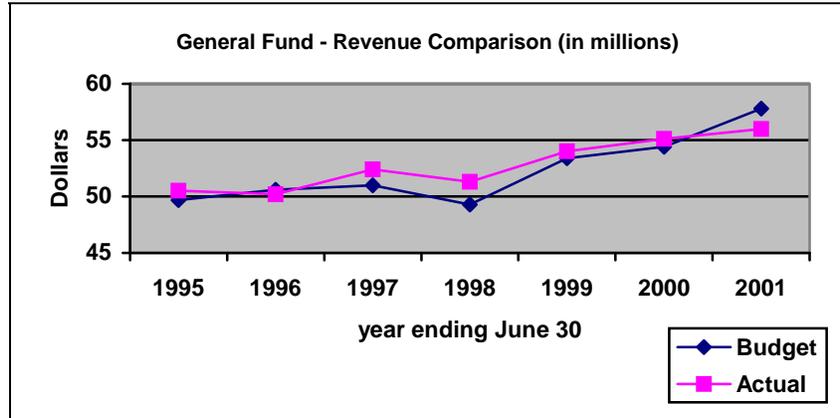
**as adjusted*

Overestimated Revenue

In addition to underestimating expenditures for the 2000-01 school year by \$840,000, Troy overestimated revenue by \$1.8 million, including a \$1.1 million overestimation of State aid. For the four years prior to 2000-01, Troy had underestimated revenue. The following graph illustrates a comparison of budgeted revenues to actual revenues over a seven-year period.

³ Subsequent to our audit, Troy’s independent auditor determined that Troy actually overspent its budget by \$1.6 million for the 2001-02 school year.

Exhibit 6
Seven-Year Trends in
General Fund Revenues



Source: *Independent Auditor's Reports*

Troy significantly overestimated its revenue for the 2001-02 school year. Although the final amount had not yet been determined at the time of our audit, Troy records showed a \$6.9 million revenue gap, including \$4.9 million for State aid⁴. Estimates of State aid should be projected largely on the basis of current legislation. Estimates of all revenue should be based on known factors and realistic assumptions. Even though Troy received \$1 million in unanticipated special State aid to deflect the cost of charter school tuition, Troy still greatly overestimated State aid. In addition, Troy significantly overestimated other revenues.

Troy was overly optimistic in its revenue projection even though it had no certainty that all revenue estimates would materialize. For example, Troy budgeted \$900,000 in Occupational Education aid although Troy had no assurance that it would receive this aid. This aid did not materialize.

State Aid and Local Support for Education

Real property taxes and State aid are the principal sources of revenue to most school districts. Troy relies more heavily on State aid as do other high need urban school districts. State aid for Troy increased 23 percent from \$29.1 million in the 1994-95 school year to \$35.8 million in the 2000-01 school year. Yet, real property tax revenues declined during this time period

⁴ Subsequent to our audit, Troy's independent auditor determined that Troy actually overestimated revenue by \$5.1 million, including \$3.8 million for State aid, for the 2001-02 school year.

from \$18.5 million to \$17.3 million, a 6.4 percent decline. These trends are illustrated in the following table.

Exhibit 7
Seven-Year Trends
In State Aid and Real Property Tax Revenue

School Year	State Aid (Actual)	Real Property Taxes and Tax Items
1994-95	29,083,807	18,527,440
1995-96	31,628,658	16,338,653
1996-97	31,387,507*	18,699,556
1997-98	31,038,529	17,569,787
1998-99	33,254,662	17,715,876
1999-2000	34,722,208	17,396,349
2000-01	35,777,122	17,339,951
Amount increase/(decrease) from 1995 – 2001	6,693,315	(1,187,489)
Percentage increase/(decrease) from 1995 - 2001	23%	(6.4%)

Source: Independent Auditor’s Report

**State aid for 1996-97 was understated in Troy’s records and financial statements by \$1.9 million. Actual State aid received was reduced by this amount because of overpayments in prior years. Troy recorded neither the current (1996-97) revenue nor the prior period adjustment. Therefore, this error does not affect fund balance.*

Troy’s local effort did not keep pace with the State’s effort towards financing Troy’s expenditure base, which increased by \$10.8 million or 21.2 percent over the seven-year period. Troy had not adjusted tax rates for a four-year period ending June 30, 2001, but relied completely on increased State aid and its reserves, a clear indication that Troy was headed toward a financial crisis.

Skyrocketing Deficit

Troy officials indicated they did not become aware of the magnitude of Troy’s deteriorating financial condition until six months into the 2001-02 school year when they learned that the accumulated deficit reached \$7.4 million. Furthermore, revenues were overestimated and obligations were projected to exceed appropriations for the year. As a result, Troy was in the midst of its 2001-02 school year before it began to address its

skyrocketing deficit. With its expenditure base continuing to increase, overestimated revenue, and lack of any surplus funds, Troy was faced with making severe cuts in expenditures and very large increases in tax rates in its 2002-03 budget.

Steps Toward Recovery

Increased operating deficits, deficit fund balances, increasing expenditures without proportionate increases in revenue, and overreliance on State aid are all indicators of a school district in fiscal stress. Troy averted a financial catastrophe as a result of intervention by the NYS Legislature and the Governor.

Chapter 83 of the Laws of 2002 placed Troy in the category of special school deficit program district. This allows Troy to issue special bonds to liquidate the projected accumulated deficit at June 30, 2002. The amount of the bonds is limited to the lesser of the deficit as certified by the State Comptroller or \$16.5 million. The maximum period of maturity for these bonds will be 10 years. The District issued a revenue anticipation note (RAN) for \$16.5 million at 2.7 percent and maturity date of April 15, 2003. This RAN will be converted into bonds after the State Comptroller certifies the deficit and any excess amounts are repaid.

Deficit legislation will be an additional burden to Troy's annual operating budget for many years to come. Troy needs to gauge the impact this debt service will have on its annual budget to assess how it will finance the additional obligation. Troy's Board, Superintendent, and senior administrators also need to improve budget monitoring, fiscal reporting processes, and financial controls, which are discussed in more detail in the following section.

Report on Management Controls

"Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance."

Government Auditing Standards, 1994 Revision

The audit identified numerous opportunities for Troy to improve its management controls. The following sections discuss these opportunities including Board Governance and Financial Controls.

Board Governance

A school board has ultimate responsibility for the fiscal health and stability of the district. A school board should develop policies and delegate the administration of the district to the superintendent, senior administrators, and board-appointed officers who should manage the school within the established policies. The superintendent, senior administrators, and board-appointed officers should then be held responsible for results.

The superintendent's duty is to enforce all provisions of the laws, regulations, and board policy in the district and to have general supervision and direction over all school district activities. Although not a voting member of the board, a superintendent has the freedom and privilege to speak on all matters before the board and an obligation to report to the board.

The audit identified opportunities where the Board can significantly improve its governance by improving its budget oversight and holding the Superintendent, senior administrators, and appointed officers accountable for Troy's finances.

Budget Oversight

Public school districts face serious challenges due to rising costs, higher standards, changing enrollments, and difficulty in obtaining adequate resources. To manage a district cost-effectively and within legal constraints while meeting its

mission and program objectives, a district must carefully plan, evaluate, and control its activities. Key to the effective management of a school district is a sound budgeting system.

Each board of education must prepare a budget and present it to residents in accordance with Education Law. A school district typically charges its superintendent and business official with the responsibility of supervising and coordinating the budget preparation for presentation to the board, although ultimate responsibility for the budget rests with the board.

An effective budgeting process begins with positive direction from a board in the form of policy (the Department's Budgeting Handbook for School Districts). A budget policy should be up-to-date and provided to all district personnel involved in the budget process. A comprehensive budget policy should address:

- the board's responsibility for preparation and presentation of the budget;
- long-range planning requirements;
- the budget calendar setting forth the approximate times of the year and order of consideration for budget items by the board;
- general format for presentation of the budget;
- budget adoption;
- use of fund balance;
- administration of the budget; and
- budget transfer requirements.

Troy's budget policy is inadequate and did not include many key items. In addition, Troy's Board and administrators did not adhere to the policy and sound budgeting practices as follows:

- The Board did not establish the budget priorities. Rather, the Board charged the Superintendent, in cooperation with appropriate staff members, with determining budget priorities after receiving guidelines from the Board.
- Troy's budget preparation process is highly centralized under the direction of the Superintendent, with most decisions made by the Superintendent and Assistant Superintendent, although the Business Manager prepares the actual budget document.
- Troy does not use a citizen advisory committee to involve the community in the budget development process.

- Troy does not have a long-term plan outlining financial resources needed to meet the mission and educational objectives. Such a document would assist Troy in projecting its needs over the next three to five years.
- Although Troy has a budget calendar, that calendar was not approved by the Board and the former Business Manager/Treasurer was not able to locate a copy.
- Troy's budget development was not an ongoing process throughout the year. Rather, Troy began planning its 2002-03 budget in January 2002.
- Troy did not estimate fund balance and, as a result, appropriated non-existent fund balance for subsequent years' budgets. For example, Troy appropriated \$2.6 million from 1999-2000 funds for the following year's budget, or almost \$1 million more than the actual amount available. Troy compounded this error by appropriating \$2 million from 2000-01 funds for the following year's budget when it already had a negative fund balance.
- To ensure that the budget and individual budget items are not overspent, all known obligations such as salaries and fringe benefits, debt service, utilities, service contracts, and others should be mass-encumbered. Usually, 85 to 90 percent of the budget is already committed at the beginning of the year leaving limited room to take care of unexpected expenditures which may arise during the fiscal year. Troy does not encumber all known obligations, including utility costs or certain salary costs.
- Troy's budget policy allows funds to be expended within budgetary appropriations without prior Board approval, but does not address budget transfers. According to its minutes, the Board has authorized the Superintendent to make certain transfers within limits. However, transfers were made without the formal approval of either the Superintendent or the Board.
- Troy did not realistically estimate revenues.

Requiring Financial Accountability

A school board is ultimately responsible for a district's operations. The board sets policy and delegates the authority to implement that policy and run the day-to-day operations of the district to its superintendent, senior administrators, and appointed officers. The Board needs to hold the Superintendent, senior administrators, and appointed officers accountable for Troy's finances by:

- ensuring its Internal Claims Auditor and Treasurer are fulfilling the responsibilities of their Board-appointed positions,
- establishing adequate policy so staff know what is expected of them and can be held accountable, and
- requiring the timely submission of complete and accurate financial reports.

Board Appointments

A board has the authority to appoint district officers, including a clerk, treasurer, tax collector, purchasing agent, and internal claims auditor. These individuals are appointed to administer the district's affairs in an efficient manner and each of these officers has specific duties. The Board made the required appointments; however, the Internal Claims Auditor did not fulfill certain of those responsibilities and the Treasurer's dual role as Business Manager compromised internal controls.

Internal Claims Auditor

Section 1724 of the Education Law requires a board of education to audit and approve each claim except contracted wages and debt service. A board may, by resolution, authorize the payment in advance of audit claims for public utility charges, postage, and shipping, provided that such claims are presented at the next regular meeting for audit. 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.

Although appointed by the Board, the Internal Claims Auditor did not review and approve a majority of the claims requiring review. For example, during the 2000-01 school year, the Internal Claims Auditor did not review an estimated 95 percent of the required claims. For the 2001-02 school year, the Internal Claims Auditor had not reviewed an estimated 85 percent of the required claims at the time of this audit. As a result, Troy was not in compliance with the Education Law, made payments of approximately \$20 million during the two-year period without proper review and approval, and was at substantial risk of making inappropriate payments for invalid or incorrect claims.

During this audit, the Interim Business Manager instructed the Internal Claims Auditor to review all required claims.

District Treasurer

Section 2130 of the Education Law and Part 170.2 of the Regulations require different individuals to hold the offices of tax collector, treasurer, board clerk, and internal claims auditor, if one is appointed. In addition, the individuals responsible for a district's business management, the purchasing agent, and a clerk directly involved in the accounting function may not be appointed as a district's internal claims auditor. The separation of certain positions serves to strengthen a district's internal control structure, and to decrease the risk of errors or improprieties occurring and not being timely detected and corrected.

Although the Board had appointed different individuals to the tax collector, treasurer, board clerk, and internal claims auditor positions as required, Troy had not separated the treasurer and business manager functions.

At the time this audit was initiated, Troy's then Business Manager was also the Treasurer. In his role as Business Manager, the former Business Manager/Treasurer was responsible for:

- preparing and implementing the budget,
- overseeing buildings and maintenance, school lunch, and transportation services,
- supervising the Tax Collector, Purchasing Agent, and Internal Claims Auditor, and
- performing other general business management functions such as insurance, State aid and Medicaid claims, etc.

As Treasurer, the former Business Manager/Treasurer was Troy's chief accounting officer and the custodian of all monies and was required to submit certain financial reports to the Board.

In his dual role of Treasurer and Business Manager, the former Business Manager/Treasurer was responsible for both the general business operations and the accounting and fund custodian responsibilities. As a result, the former Business Manager/Treasurer may not have had adequate time to devote

to the dual responsibilities, likely contributing to certain problems cited in this report.

When the former Business Manager/Treasurer resigned in January 2002, Troy contracted the services of an Interim Business Manager. Although not officially appointed as Treasurer, the Interim Business Manager served in both capacities through the end of the 2001-02 school year. As a result of this audit, Troy established separate positions for Treasurer and Business Manager. (Note: The District filled the Treasurer position in July 2002 and is in the process of recruiting a permanent Business Manager.)

Board Policy

Developing policy is a board's major responsibility. Policies represent a clear definition of a board's vision for the district. Section 1709 (2) of the Education Law requires a board of education to establish policies concerning district operations. Copies of policies and procedures should be distributed to district officials and staff.

The Board's Policy Manual does not contain certain required business management policies, while the policies relating to other business management areas are inadequate. For example, the accounting policy is two sentences long, has not been revised since adopted in 1991, and does not include many basic elements such as adherence to the Uniform System of Accounts for School Districts. In addition, Troy has few written procedures in the business management area.

Troy policies are not in compliance with the Education Law and good business practices. Staff may not know what is expected of them and Troy may not be able to hold staff fully accountable. In addition, because Troy has few written procedures, it may be at substantial risk when key employees leave. This is especially critical in the business office.

Financial Reports

As stated in the Board's policy, "the Superintendent of Schools will keep the Board of Education informed in a timely manner about the financial status of the district. The Superintendent should highlight any deviation in actual fiscal conditions from planned fiscal conditions and offer recommendations to the Board to remedy the situation." The primary way a

superintendent keeps a board informed is by ensuring certain financial reports are prepared, accurate, and submitted to the board on a timely basis.

Section 170.2 of the Regulations requires the treasurer of a school district to submit cash reports and budget status reports to the board, and good budget administration requires accurate fund balance and cash flow projections. The budget status and treasurer's cash reports are a significant source of summarized financial information for a board. Also, regularly presented, up-to-date, comprehensive, and accurate status reports for each fund are indispensable management tools for use by both administrative staff and boards. The reports are a basis for financial monitoring and decision making. The reports must be submitted to the board for its review and acceptance at official board meetings.

Troy's budget status reports were incomplete and not submitted to the Board for review, cash reports were either not completed or not submitted timely, cash flow projections were not prepared, the independent audit report and the ST-3 were not submitted timely, and extraclassroom activity fund reports were not routinely completed. Also, as previously discussed, fund balance projections are not routinely prepared.

As a result of the lack of submission of certain financial reports and the untimely submission of others, the Board and Troy officials did not have accurate information about Troy's financial position. Without this knowledge, the Board cannot make informed decisions about Troy's fiscal operations. Furthermore, Troy's exposure with the potential for the loss or misuse of cash is a high risk.

Budget Status Reports

Part 170.2 of the Regulations requires the treasurer to render a report, at least quarterly (and monthly in the event that budget transfers have been made since the last report), for each fund including, at a minimum, the revenue and appropriation accounts required in the annual State budget form. This report should show the status of these accounts in at least the following detail:

- revenue accounts: estimated revenues, amounts received to date, and revenues estimated to be received during the balance of the fiscal year; and

- appropriation accounts: original appropriations, transfers and adjustments, revised appropriations, expenditures to date, outstanding encumbrances, and unencumbered balances.

Although budget status reports are prepared, they reflect only the General Fund and only the revenue portion of the report is regularly submitted to the Board for review. As a result, the Board does not have all the financial information necessary for making informed decisions about Troy's fiscal operations.

According to Troy officials, budget status reports were submitted to the Board on a regular basis and the reports were discussed at Board workgroup and committee meetings. However, the Board did not keep any record of these meetings. In addition, the Board cannot pass any resolutions, such as the resolutions necessary to accept these reports, at workgroup or committee meetings.

Treasurer's Cash Reports

Part 170.2 of the Regulations requires a district's treasurer to render a monthly cash report for each fund showing the cash balance on hand at the beginning of the month, receipts by source during the month, total disbursements during the month, the cash balance on hand at the end of the month, and reconciliation with bank statements. The report needs to show the district's total cash position, including checkbook balances, certificates of deposit, and government obligations. A treasurer's report showing the district's cash position for all accounts and funds will comply with the Regulations and provide the board with an accurate report of the district's fiscal status.

Troy's former Business Manager/Treasurer, did not always submit a treasurer's cash report to the Board. For example, reports were not submitted to the Board for May, June, July, October, and November 2001. In addition, the reports which were submitted were not always timely. For example, according to Board minutes, the report for August 2001 was submitted three months late.

Cash Flow Projections

A critical ingredient of sound financial management is the ability to project or plan “cash flow” for the fiscal year. Districts should prepare accurate cash flow statements to project any excess funds for investment or any shortfalls where borrowing may be required. In order for it to be a useful tool, the cash flow projection should be constantly updated as changes become known. Copies of cash flow statements should be presented to the superintendent and the board to aid them in planning district finances.

Board minutes do not indicate that cash flow statements were regularly prepared and presented to either the Superintendent or the Board. After the former Business Manager/Treasurer left in January 2002, former interim treasurers provided cash flow statements only after repeated requests by the Department’s audit team. However, the statements were inaccurate and untimely. For example:

- A cash flow statement for July 2001 through January 2002 was not prepared until March 2002.
- The April 2, 2002 cash flow statement shows an April 1, 2002 beginning cash balance of \$7 million, whereas the accounting records show that the amount was actually less than \$1 million.

As a result, Troy’s administrators and Board have not been provided with the information necessary to anticipate and manage Troy’s cash needs. In fact, in March 2002, the Board passed a resolution to issue emergency revenue anticipation notes (RANs) for \$1.8 million in order to pay salaries. Fortunately, Troy officials discovered that adequate cash was available to meet the payroll needs before the RANs were issued; however, this example reinforces the need for accurate and timely cash management.

Independent Audit Report and ST-3

Section 2116(a) of the Education Law and Section 170.2 of the Regulations require school districts to obtain an annual audit by an independent certified public accountant or an independent public accountant. A board should adopt a resolution accepting the audit report and file a copy of the resolution and the report with the Department by October 1 of the year following the year audited. In addition, school

districts are required to submit their annual financial reports (ST-3) to the Department by September 1. The ST-3 must correspond to the independent audit report. If changes are required to the ST-3 as a result of the independent audit, the ST-3 should be revised in a timely manner. Troy did not submit either its independent audit report or its ST-3 when required.

Troy submitted its independent audit report for the 2000-01 school year December 14, 2001, about 2½ months after the due date. Although the independent auditor scheduled the audit for August 2001, Troy could not provide the information needed to complete the audit until November 2001.

Troy submitted its ST-3 for the 2000-01 school year November 21, 2001, about 1½ months after the due date. As a result of adjustments required by the independent audit, the ST-3 as originally submitted was inaccurate. Troy subsequently revised the ST-3 on February 11, 2002 to reflect the required adjustments.

Extraclassroom Activity Fund Report

Part 172.3 (b) of the Regulations requires the central treasurer of an Extraclassroom Activity Fund to maintain a record of receipts and expenditures of the fund, and to submit it to the board at least quarterly.

Troy's Central Treasurer does not provide Extraclassroom Activity Fund reports to the Board as required. According to the Central Treasurer, these reports are only provided when requested by the Board. The Board meeting minutes for the 2000-02 school years did not include any indications that these reports were ever provided to the Board.

Financial Controls

In order to fulfill a district's mission to provide quality education, financial operations must be properly controlled and monitored. The education program staff must work with business staff in order for a district to succeed, have continuity of operation, and be able to provide and even improve educational programs offered year after year. It is difficult to sustain a successful education program when the district is going through a financial crisis.

To help ensure fiscal viability and soundness, a district must protect the integrity of its financial operation by establishing various internal controls. A district must implement the necessary financial controls to help ensure assets are safeguarded against loss from theft or unauthorized use; ensure compliance with the laws, regulations and policies; maintain the reliability and integrity of reports and data; and ensure operational efficiency, economy, and effectiveness. Troy needs to make improvements related to:

- safeguarding assets,
- purchasing and payments,
- personnel, and
- State aid.

Safeguarding Assets

Internal controls over the safeguarding of assets represent processes designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets. Troy needs to better protect its assets by preventing further inappropriate use of bond proceeds, strengthening controls over cash receipts and asset inventory, and keeping its accounting records current.

Use of Capital Funds for Cash Flow

Section 165 of the Local Finance Law requires that proceeds from bonds be deposited and secured in a special account, not commingled with other funds, and expended only for the purpose for which the obligations were issued. In the event that any portion of the proceeds is not expended for the purpose for which the obligations were issued, such portion can only be used to pay the principal and interest on such obligations.

During the 2000-01 school year, Troy issued \$4 million in bond anticipation notes (BANS) on November 29, 2000, and \$10.3 million in bonds in June 28, 2001 for a total of \$14.3 million. During the same year, Troy temporarily transferred (i.e., loaned) \$11 million from the Capital Fund to the General Fund. During the 2001-02 year, Troy temporarily transferred an additional \$1.4 million from the Capital Fund to the General Fund.

The following table shows the temporary transfers made from the Capital Fund to the General Fund and the purpose of each.

Exhibit 8
Capital Fund Temporary Transfers to General Fund

Date of temporary transfer	Amount	Purpose
October 27, 2000	\$750,000	payroll
October 31, 2000	\$85,000	health insurance
November 29, 2000	\$3,000,000	accounts payable and payroll
May 1, 2001	\$300,000	accounts payable
June 28, 2001	\$5,000,000	accounts payable and payroll
June 29, 2001	\$1,915,000	year-end accounts payable
TOTAL 2000-01	\$11,050,000	
August 31, 2001	\$1,400,000	accounts payable
November 14, 2001	\$50,000	payroll
TOTAL 2001-02	\$1,450,000	

Source: Troy accounting records (General Fund-General Ledger)

As of June 30, 2002, the Capital Fund has been repaid all amounts owed from the General Fund. Troy has historically transferred bond proceeds temporarily from the Capital Fund to the General Fund as needed for cash flow purposes. Our review of Troy's records shows that Troy inappropriately used bond proceeds for cash flow purposes as far back as 1996-97 and possibly longer. This practice violates Local Finance Law and poses the risk for the General Fund not being able to repay the Capital Fund, thereby jeopardizing voter-approved capital projects.

Cash Receipts

Adequate controls over cash receipts require that districts have written policy and procedures for cash, establish adequate separation of duties, and promptly deposit all receipts. Written policy and procedures guide all staff involved in the cash receipts process. Adequate segregation of duties among different individuals helps reduce the risk of loss or misuse of funds. Prompt deposits of receipts help reduce the risk of theft or diversion of funds and contribute to the best possible use of resources. Troy needs to improve its controls over cash receipts in each of these areas.

- Troy has no written policies or procedures for cash receipts.

- Troy has not adequately segregated the responsibilities for collecting cash and issuing receipts, maintaining accounting records, preparing bank reconciliations, and making bank deposits among different individuals. At times, one individual performed all tasks.
- Troy does not always deposit receipts promptly, with deposits often made two to five days after receipt.

Inventory Control for Assets

Inventory controls are needed to safeguard property against loss, establish effective use, determine needs, and identify surplus items. Adequate controls include maintaining complete and accurate records, tagging assets with ownership and identification labels, and periodically conducting physical inventories. Maintaining adequate fixed asset records and accurately reporting fixed assets are important for two key reasons. Local governments, such as school districts, meet the requirements under Generally Accepted Accounting Principles (GAAP) for fairly reporting fixed assets in their financial statements. Also, management has a valuable tool for controlling fixed assets and planning replacements.

The audit found that Troy has not maintained adequate controls over its fixed assets.

- Troy has no written policies or procedures governing fixed assets.
- Other than for certain computer equipment, Troy has not conducted a physical inventory since 1977.
- Troy has not tagged any inventory, with the exception of inventory items in one school, since 1997.

As a result, Troy does not have adequate controls over its assets and is at greater risk of loss and unauthorized use. For example, at the time of the audit, Troy could not account for 40 hand-held computers valued at \$13,000. Subsequently, Troy officials provided a list of the items detailing asset numbers and disposition of the items. Although Troy could account for most of the items, one was listed as stolen, one in the possession of a former employee, and one in the possession of the family of a deceased employee.

Current Accounting Records

Troy did not keep certain accounting records current, accurate, and complete. For example, the General Fund June 30, 2001 account balances were not recorded in the subsequent year's accounting records until the end of January 2002. Also, the Special Aid Fund balances of June 30, 2001 were not recorded in the subsequent year's accounting records until the week of April 1, 2002.

As a result, the accounting records and the treasurer's cash reports were neither complete nor accurate, and bank reconciliations could not be completed. Failure to maintain the accounts on a current basis increases the chance of errors occurring and not being detected. In addition, the Board and other officials are not able to monitor the actual financial condition of the district because they did not know the real account balances.

Purchasing and Payments

Purchasing is one of the most highly specialized activities in school administration and is regulated by State law, court decisions, and local board policy. Strong controls are necessary to ensure purchases result in securing goods and services in the right quantity, at the right time, and for the right price, and to ensure that purchases are made in compliance with the law and district policy. School districts generally find it convenient to purchase goods and services on credit rather than to pay cash at the time of each purchase. The liability arising from the purchase of goods or services on credit is called an account payable. It is a good business practice to pay bills on time not only to maintain good credit standing but also to avoid unnecessary finance charges, late payment fees, and legal costs.

Troy needs to improve its controls over purchasing. In addition, Troy needs to improve its controls over accounts payable including travel costs and financial stationery.

Purchasing

Troy has appointed a Purchasing Agent and the Board has approved a purchasing policy. The policy requires all purchasing to be done by the Purchasing Agent using an official purchase order, subject to the approval of the

Superintendent and, in limited cases, the Board. The policy allows exceptions to the regular purchasing process in certain circumstances such as emergency situations. However, on several occasions, Troy did not follow the regular purchasing process.

The practice of issuing a confirming purchase order, one issued after the order is placed with a vendor, bypasses the regular purchasing process and does not permit a purchasing agent to consolidate orders or obtain the lowest possible prices. The confirming order process should be used only in the case of a “real emergency” as this process can easily lead to over expenditure of appropriations and, eventually, a budget deficit. Troy’s practice is to use what it calls a vendor claims, which are similar to confirming purchase orders except that a vendor claim form is used instead of a purchase order form.

Although some of the vendor claims purchases may have been real emergencies, the majority were not. For example, vendor claims were used to purchase office furniture, window treatments, law books, legal services, BOCES services, and auto insurance.

Accounts Payable and Approval of Claims

As noted above, credit purchases are convenient but require strong controls with accounts payable. An accounts payable subsidiary ledger, which contains an individual account for each person or company to whom money is owed, supports the amount in the accounts payable ledger. A district needs to monitor its cash flow and pay its bills on time to maintain a satisfactory credit standing with vendors.

Troy needs to improve its controls over accounts payable as follows.

- Troy does not have a Board-approved accounts payable policy or written administrative procedures to guide this essential function.
- As previously discussed, the Internal Claims Auditor does not audit and approve each claim.
- Invoices are not entered to the accounts payable system in a timely manner. For example, during this audit, Troy officials identified \$279,000 in unrecorded tuition bills for Troy residents attending other public schools. As a result, accounting records were inaccurate with both expenditures

and accounts payable (liabilities) understated. Also, when invoices are not processed properly, Troy may incur unnecessary late fees and other penalties.

- Accounts payable checks are not mailed in a timely manner. Staff processes invoices and prints checks even though adequate funds may not be available and checks not mailed for a period of time. Checks are held by the accounts payable staff in an unsecured location until the Interim Business Manager gives the approval to mail them as funds become available. Holding the checks creates an understatement of cash and liabilities in financial records that are relied on by the Board and others. This procedure increases the risk of processing duplicate invoices, making inappropriate payments, losing checks, or having checks misused.
- Invoices have been paid in duplicate. For example, the audit identified six instances in which duplicate payments were made during the 2001 calendar year. In some cases, the vendor submitted a duplicate invoice while the first payment was being held. Troy paid the duplicate invoices without verifying that the invoices had already been paid and by overriding the accounts payable system controls. Duplicate payments could easily be prevented by requiring purchase orders for all claims and complying with the controls already in place.

Travel Policy and Expenditures

School districts should develop specific policies and procedures concerning the reimbursement of employee and board member expenses. Although Troy has a travel policy that states expenses must be necessary, the policy applies only to employees, not Board members, and it does not specify any limits on reimbursable expenses.

In addition, Troy has no internal procedures to guide employees or Board members in the preparation of expense reports. A review of a sample of reimbursement claims shows that claims for meals have been processed without adequate documentation, such as details of attendees and the purpose. As a result, Troy may be incurring inappropriate expenses related to travel and meal reimbursement. Without guidelines, Troy is at increased risk of misappropriation of funds.

Financial Stationery

Section 1720 of the Education Law authorizes a school district to use a machine or device commonly known as a check-signer to reproduce signatures on checks. Authorization of a check-signing machine mandates certain safeguards including authorization of the check-signing machine's use, control of the signature plate, and protection of the checks.

During the audit we observed:

- The check signature disk and blank checks were not properly secured.
- The accounts payable staff maintained a check signing register but the check register was not reviewed by supervising staff to verify the appropriateness of the use of the check-signing machine.
- Although Troy has a formal check signing policy, it needs to establish procedures that will guide its employees on handling blank checks and the signature plate.
- The accounts payable staff processed and signed checks which compromised internal control and put Troy at substantial risk of making inappropriate payments for invalid or incorrect claims.

Personnel Issues

Districts should only pay for services provided and should establish pay rates based on contracts. However, Troy paid certain administrators for time not worked and at rates higher than required by contract.

Troy's contract agreement with the Troy Administrators' Association states that administrators are designated as 11-month employees. Troy appointed or promoted three individuals to administrative positions on September 1, 2000. Troy paid each of these administrators a full 11-month salary even though each was only in the position for 10 months of the 2000-01 school year. According to Troy officials, the administrators provided additional services to justify payments of the full 11-month salary.

Troy's contract with its administrators as well as its contract with its teachers include salary scales based on steps, but do not define the requirements for each step or designate at what step an administrator or teacher should start. Steps are typically, however, based on years of service and educational

level. Troy started three administrators at the highest step while it started other administrators at lower steps. Troy did not maintain adequate documentation to support the basis for the higher salary. As a result, the placement of administrators on the salary scale is at the discretion of the Superintendent, rather than based on well-defined, objective criteria. According to Troy officials, step placements were based on prior experience and salary levels to ensure administrators were adequately compensated for accepting new responsibilities.

State Aid Reports

School districts are required to collect and report financial and other statistical data related to State aid claims. Timely and accurate data are crucial since the information is used by the districts, legislators, and the Department for aid calculations and decision making. The reliability and validity of data are impacted by many factors including communication, supervision, staff training and experience, and established policies and procedures. District personnel must provide the necessary oversight and have systems in place to ensure that all State aid information is collected, analyzed, and reported to the Department accurately and on a timely basis. This audit did not include a review of State aids; however, significant Building aid issues were identified.

Building Aid

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, school districts must submit various information, including the SA-139 – Request for Building Project Data form, to the Department so that aid payments can be initiated. Once the projects are completed, school districts must close out the projects and submit certificates of substantial completion and final cost reports. If the final cost reports are not received by the due dates, aid may be lost or delayed.

Historically, Troy has not adequately maintained documentation for projects or submitted timely information, as required. As a result, Troy is:

- not receiving the aid to which it is otherwise entitled;
- at risk of having to pay back the aid that it already received in the form of reduction of future aids; and

- burdened with searching for information going back several years or more.

An SA-139 should be filed as soon as a project's general construction contract is signed. No aid payments can be calculated or generated without the financing and cost information from the form. As of June 2002, Troy had not submitted the SA-139s for the following building projects for which it has not received aid.

Exhibit 9
Projects for Which SA-139s
Have Not Been Submitted

Bond Issue	Date of Issue	Troy Payments (Debt Service) as of June 2002	Building Project #
\$7.5 million	10/22/99	\$1,917,497	0-011-014 0-002-005 0-005-006 0-008-007 0-010-007
\$10.3 million	6/28/01	\$282,559	0-001-004 0-002-006 0-005-007 0-016-006

Source: SED Facilities Planning Website, Troy's bond schedule

Furthermore, final cost reports for building projects are due to the Department the later of six months after a certificate of substantial completion has been issued by the architect or June 30. A district has one year after the due date to file the final cost report or the project becomes ineligible for any aid and all aid paid to a district will be recouped by the Department. Final cost reports for projects substantially completed during the calendar year 2000 were due to the Department on June 30, 2002, while projects completed during calendar year 2001 are due on June 30, 2003.

Troy has not filed final cost reports for 27 capital projects. The majority of these projects are old, with Department approval dates going back several years. In addition, Troy has not filed the certificates of substantial completion for 25 of these projects. At the time this report was written, the Department was analyzing the financial impact on Troy.

Issues Needing Further Review – School Lunch Program

The audit identified issues related to the School Lunch Program that warrant further review. The review was not complete at the writing of this report. A separate letter report will be issued covering the results of this portion of the audit.

Recommendations

1. Develop a corrective action plan addressing the findings and recommendations in this report. The plan should include the implementation actions, date completed or target date, and the individual responsible for implementation. Progress reports should be prepared monthly until all recommendations have been satisfactorily addressed.
2. Ensure adequate reserves, including any mandated reserves, are maintained to meet Troy's needs.
3. Designate a portion of fund balance for the next year's budget only when adequate fund balance is available.
4. Control and monitor appropriations to avoid overspending. Do not incur any obligations, including hiring staff, unless adequate appropriations are available.
5. Estimate revenues conservatively to ensure they are accurate and adequate.
6. Develop a training program for all Board members in the area of fiscal governance.
7. Improve Board oversight for budget development. Review and revise budget policy as appropriate. Establish budget priorities. Approve budget calendars.
8. Consider establishing a citizen advisory committee to involve the community in the budget development process.
9. Consider establishing an audit committee to assist with fiscal oversight responsibilities.
10. Require board committees to provide regular reports to the Board.
11. Establish a long-term financial plan for both operating and capital needs.
12. Require fund balance projections to be prepared and submitted to the Board for review on a regular basis and as

early as feasible, but no later than January of any school year.

13. Encumber all known obligations, including salaries and contracts, at the beginning of the school year or as soon as they become known.
14. Review encumbrances regularly to ensure their validity and make corrections as needed.
15. Authorize the Superintendent to make budget transfers in conformance with the Regulations and Education Law. Require the Superintendent's approval of any transfers before the transfers are made. Require any transfers authorized by the Superintendent to be shown in the budget status reports submitted to the Board.
16. Ensure the Internal Claims Auditor follows a set of established procedures in carrying out the responsibilities of that position.
17. Attract and retain a qualified and experienced Business Manager.
18. Review the Board Policy Manual to ensure Troy has complete and updated policies.
19. Establish written procedures guiding all business office operations and distribute both policies and procedures to staff as appropriate.
20. Ensure the Board routinely reviews fiscal reports.
21. Require the Treasurer to submit accurate and timely budget status reports to the entire Board for each fund, including the revenue and appropriation details required in the annual State budget form.
22. Require the Treasurer to submit accurate and timely cash reports to the Board.
23. Require cash flow statements to be prepared and submitted to the Board for review on a regular basis and as part of any requests for approval to borrow funds.

24. Require the Central Treasurer of the Extraclassroom Activity Fund to prepare and submit the required reports to the Board.
25. Ensure all reports reviewed by the Board are adopted by resolution and reflected in the minutes.
26. Submit the required ST-3 to the Department by September 1 and the audit financial statements to the Department by October 1 of each year.
27. Ensure bond proceeds are expended only for the purposes for which the obligations were issued. Ensure the General Fund repays the Capital Fund any amounts due.
28. Segregate responsibilities for cash receipts.
29. Implement the necessary inventory controls for assets.
30. Keep all accounting records (journals and ledgers) current and balanced monthly.
31. Limit the use of confirming purchase orders to emergency situations.
32. Improve controls over accounts payable. Ensure all liabilities are recorded. Prepare checks for disbursement only when adequate funds are available and they can be mailed. Ensure duplicate payments are not made.
33. Establish adequate policy and procedures concerning both employee and Board travel and expense reimbursement.
34. Require the Treasurer to secure blank checks and the check-signing machine and disk. Ensure the check signing register is independently reviewed by someone in a supervisory position.
35. Ensure all new personal service contracts delineate the requirements for each step including initial step placements.
36. Submit all outstanding Building aid reports to the Department.

Comments of Troy Officials

Both Troy's Superintendent and Board President agree with the findings in this report. Further, they agree with the recommendations, have already implemented some, and stated intent to implement all. Troy officials state that they are committed to making improvements in Board governance and financial controls, and that this commitment will be evidenced by the implementation of the audit recommendations. In response to the audit, Troy officials state that they were unaware of Troy's dire financial condition until November 2001, even though Troy started the 2001-02 school year with a \$7.8 million deficit.

In his sections of the response, the Superintendent cites actions taken once officials were aware of the financial condition. These actions included contacting the Office of the State Comptroller for assistance, hiring an experienced Interim Business Manager, beginning the search for a Treasurer, anticipating an \$11 million shortfall in the 2002-03 budget, seeking financial relief from legislators, securing deficit financing legislation, and preparing a balanced 2002-03 budget. The Superintendent points out that although Troy was showing signs of fiscal stress as early as 1995, the status quo was maintained until November 2001.

In its sections of the response, the Board President agrees that a primary cause of the current financial crisis was the failure of the Board, the Superintendent, and the senior administrators to adequately plan and monitor finances. The Board agrees that it needs to improve its governance and, in particular, its budget oversight so that the Board may hold itself, the Superintendent, senior administrators, appointed officers, and staff accountable.

Contributors to the Report
Troy City School District

- Rosemary Ellis Johnson, CPA, Audit Manager
- Maria Castro, Auditor-in-Charge
- Grant Miller, Associate Auditor
- Jean Stone, Senior Auditor

THE ENLARGED CITY SCHOOL DISTRICT OF TROY

1728 Tibbits Avenue, Troy, New York 12180

ARMAND J. REO
Superintendent of Schools

Telephone (518) 271-5210
FAX (518) 271-5229

October 11, 2002

Mr. Daniel Tworek
Director
Office of Audit Services
The State Education Department
The University of the State of N.Y.
Albany, New York 12234

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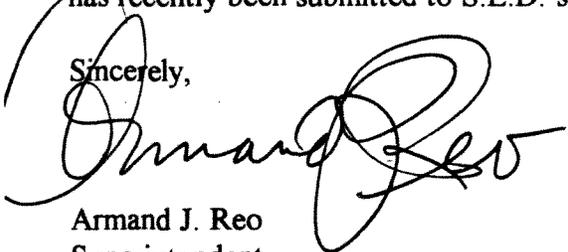
**OFFICE OF
AUDIT SERVICES**

Dear Mr. Tworek:

You will note in the Board of Education's Summary that they estimate our accumulated deficit to be approximately 16.7 million dollars.

I have prepared this brief communication to you to inform you that our external audit of June 30, 2002, which has recently been submitted to S.E.D.'s audit, reports our deficit to be 14.4 million dollars.

Sincerely,



Armand J. Reo
Superintendent

AJR/ed

THE ENLARGED CITY SCHOOL DISTRICT OF TROY

1728 Tibbits Avenue, Troy, New York 12180

BOARD OF EDUCATION

Patricia M. O'Grady, President
Carol Harvin, Co-Vice President
Michael Pollack, Co-Vice President
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Mary Ellen Adams
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Austin Devine
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Armand J. Reo, Superintendent
Eva DeFiglio, Clerk of the Board

October 11, 2002

Mr. Daniel Tworek
Director
Office of Audit Services
State Education Department
The University of the State of New York
Albany, New York 12234

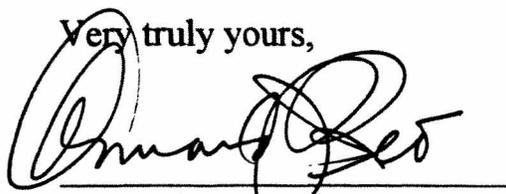
Re: Response to Draft Audit Report

Dear Mr. Tworek:

In response to the draft audit report dated August 5, 2002, prepared by your office, enclosed herein please find the response of the Superintendent's Audit Response Team, together with the response of the Board of Education.

While the responses are not necessarily inconsistent with one another, the Board of Education felt that the issues addressed in the audit warranted a response from the Board. As you can see from the responses, neither the Superintendent nor the Board take issue with the recommendations and intend to adopt them in their entirety.

Very truly yours,


Armand J. Reo
Superintendent


Patricia M. O'Grady
President, Board of Education

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October 11, 2002

Mr. Daniel Tworek
Director
Office of Audit Services
The State Education Department
The University of the State of N.Y.
Albany, New York 12234

Dear Mr. Tworek:

This letter has been formulated in response to your recent State Education Department audit for the period of July 1, 2000 through June 30, 2002. The Troy City School District wishes to extend our personal gratitude to you and to your staff, especially Rosemary Johnson, Maria Castro, Grant Miller, and Jean Stone for their patience, professionalism, cooperation and thoroughness throughout the entire auditing process. I, along with our Board of Education and our entire school community, are very appreciative of your efforts and again wish to thank you.

Our Board of Education and Superintendent's audit response is comprised of four documents:

1. A cover letter prepared by the Superintendent's Audit Response Team.
2. The Superintendent's Audit Response Team's response to each of the audit's thirty-six (36) recommendations.
3. The Superintendent's Audit Response Team's formation of a matrix that identifies the audit recommendation, a brief response to the recommendations, the timeframe within which we project the attainment of the corrective action and the person or persons responsible for the implementation of the corrective action.
4. The Board of Education draft response to the Draft Audit Report.

Before we expand on what we feel were the causative reasons for our district's fiscal crisis, we think it is very important that we review the action taken by Central Office and our Board of Education upon notice of this crisis. In brief, what was the action taken once we were informed of this grave condition? Be reminded that within days of the announcement of our fiscal crisis our district was left without a Business Manager or a Treasurer. Therefore, we were not only confronted with the announcement that we had a growing deficit, we were without business office leadership in the midst of a fiscal crisis and also had to begin the structuring of the 2002-2003 annual budget.

Our immediate response to our problem was to do the following:

- A. Contacted the New York State Comptroller's Office and immediately invited them into our district to be of assistance in the auditing of our business office. They agreed and immediately responded and, like the State Education Department's Office of Audit Services, were extremely helpful and informative.
- B. Immediately contacted the Executive Director of the Association of School Business Officials to secure an interim Business Manager. That overture was successful in that a well-regarded, experienced Business Manager was hired in January 2002 and remains our district's Interim Business Manager as this response is being penned.
- C. Additionally, we understood the need to segregate the duties of the Business Manager from the position of Treasurer and began the search for a District Treasurer. That search also resulted in the hiring of a well-regarded Treasurer in July 2002, who currently serves as our district's Treasurer.

As we were apprised of the 2000-2001 deficit, we also knew at its announcement in November 2001 the deficit was mounting and would have a devastating impact not only on our 2001-2002 budget but an enormous impact on the structuring of our 2002-2003 budget as well. Understanding these dynamics I, along with our new Interim Business Manager and our Board of Education, set out to structure a budget for the 2002-2003 school. As this process unfolded we realized the enormous differential between anticipated revenues and appropriations. We anticipated an eleven (11) million dollar shortfall, which to close would have represented a 60% tax hike to our community. As this was totally unacceptable to everyone we began to deal with the three known quantities that we could factor into the budget-building process with assurance --- employee reductions, tax rate increase and a \$79K increase in state aid as announced in the Executive Budget Statement. This obviously caused great pain to all components of

our school district and community. It was obvious that relief was needed so overtures were made to the offices of our legislators – Senator Bruno, Assemblyman Canestrari and Casale who were extraordinarily helpful and responsive to our crisis. Because of their intervention we have received considerable additional state aid, formulated legislation for deficit financing and refunded our old debt. Because of their action, we have been able to structure a sound 2002-2003 budget and project a 10-year deficit-financing package that will be affordable. In my opinion our district still finds itself financially challenged and although we have considerable debt that needs to be reduced over the next ten years, we are no longer in the financial crisis as recently identified. Our financial condition has improved as our Board of Education has taken the necessary action, despite the pain associated with it, of raising local taxes and reducing staffing patterns. Through federal grant money, such as Title I and federal funds for class-size reduction, the district has been able to supplement our regular education programs. This has alleviated some of the pain associated with our educational reductions at this time. This will prompt our 2002-2003 pupil-teacher ratios to approximate last year's and provide our district with every opportunity to maintain and exceed our recent impressive academic achievement results. In addition, we have returned several non-instructional staff as well and hope that we will continue to do so as future circumstances and finances allow.

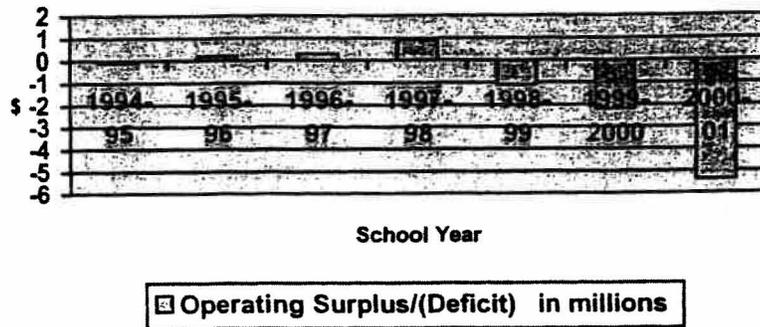
That said, let me share with you our response to the announcement of our financial crisis in November 2001. As you might imagine, we were filled with a litany of emotions. We were shocked, angered, amazed and quite frankly embarrassed.

Despite acknowledgement of our obvious fiduciary responsibilities, let me attempt to explain to you why we feel that the financial events that erupted in November 2001 were the combination of several financial conditions that had existed in our district for several years.

Condition No. 1:

The audit demonstrates that the Troy City School District had shown indications of fiscal stress for several years resulting in our current financial crisis. This chart illustrates that Troy incurred operating deficits in four of the last seven years. The first year of operating deficit being 1994-95 and incurring more serious operating deficits in three consecutive years commencing with the 1998-1999 school years through 1999-2000 and 2000-2001.

Exhibit 1: Seven-Year Trends
Operating Surplus/(Deficit)



Condition No. 2

The audit indicates that it is not fiscally prudent to fully deplete the amount in fund balance or, in fact, set up reserves or appropriate monies that are not available in fund balance. Nevertheless, Troy depleted its fund balance and set up reserves and appropriated amounts even though it did not have the fund balance to do so. As early as 1995-1996, a small fund balance of \$112K for a multi-million dollar budget was marginal at best and should have been sighted as a troublesome indicator of financial distress. The following year of 1996-1997, with the receipt of some 2.2 million dollars in prior school year aid the district still had a deficit of some \$687K. Without the receipt of the \$2.2 million the district, at that time, would have been in debt for approximately \$3 million. In the year 1997-1998 the district once again received \$4 million in prior school aid yielding a fund balance of \$1,078,247, but without the infusion of \$4 million in prior school year aid it would again have been in deficit some three million dollars. It suffices to say that as early as 1996 the Troy City School District was financially distressed and its grave financial condition at that time should have been identified and recognized as such. If it were not for the non-recurring aid of prior school year aid, it would have had to face that condition straight-on and begin to gradually take the necessary steps needed to stabilize its financial condition. In brief, if it were not for the infusion of some 6.2 million dollars in prior school year aid, the district would have been approximately 6 million dollars in debt at the conclusion of 1998. The district did not recognize this condition and proceeded into the late nineties without increasing revenue through higher school taxes or reducing employee positions with ever-increasing cost mounting and ultimately driving our district into debt.

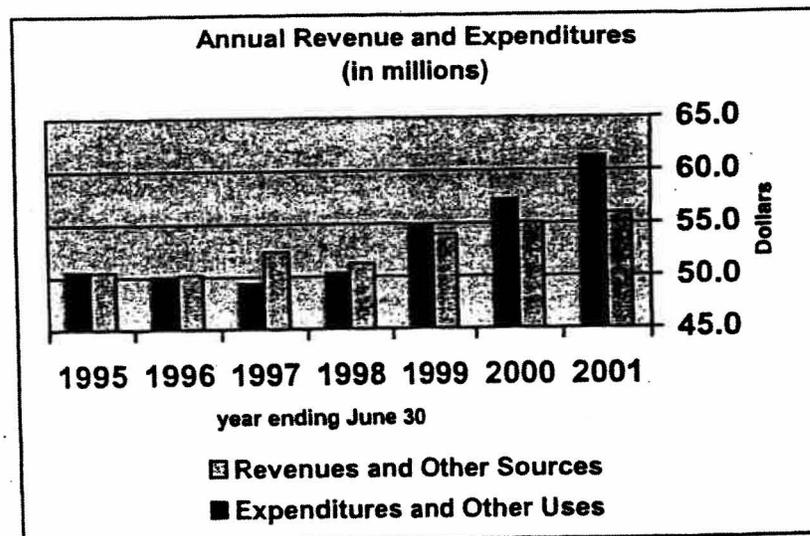
	Total Reserves (Exclusive of Debt Reserves)*	Designated for Next Year's Budget	Fund Balance Accumulated Surplus/Deficit
1994-1995	\$381,771		\$408,998
1995-1996	\$851,531		\$112,588
1996-1997	\$1,392,913	\$3,500,000	\$(687,108)
1997-1998	\$1,940,172	\$2,050,000	\$1,078,247
1998-1999	\$778,800	\$2,600,000	\$636,309
1999-2000	\$209,030	\$2,600,000	\$(973,252)
2000-2001	\$186,403	\$2,000,000	\$(7,380,874)

Source: Independent Auditor's Reports

*Reserve for Debt is legally restricted for the repayment of debt.

Condition No. 3

As indicated in our audit during the seven-year period ended June 30, 2001, Troy's expenditure base increased at about twice the rate of the revenue base. Expenditures increased \$10.8 million or 21%, while revenue increased only \$5.5 million or 10.8%.



Source: Independent Auditor's Reports

During the seven-year period ending June 30, 2001, expenditures for each major category (general support, instruction, pupil transportation, employee benefits and debt service) increased; yet the district, for whatever reasons, did not see fit to increase school taxes.

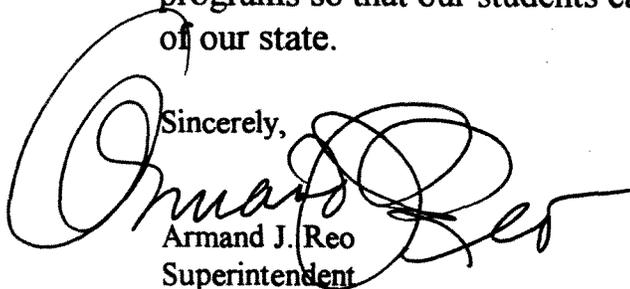
Condition No. 4

The audit indicates that as expenditures increased disproportionately to revenue, Troy over spent its budget. It over-encumbered its budget because costs increased beyond the

budget appropriation and the district had no alternative but to meet their obligations despite their inability to afford the increased expense. Increased expenses were incurred in areas quite out of the control of the district such as --- special education tuition, special education BOCES services, special education instructional salaries, and hospital, medical and dental insurance. As revenue did not keep pace with the increase in expenditures, Troy over estimated revenue. It over estimated aid from the state, E-Rate refund of prior year expenses, refund of prior year expenses, interest earned and Medicaid. In brief, Troy was overly optimistic in its revenue projection and never contemplated at the time the need to be less reliant on the state nor to reduce staff or increase taxes. In fact, the district's real property tax revenues declined from 1994-1995 to 2000-2001 from \$18.5 million to \$17.3 million, a 6.4% decline as expenditures were skyrocketing. In fact, it had not adjusted tax rates for a four-year period ending June 30, 2001 but relied solely on increased state aid and its reserves, which inevitably accelerated Troy's movement toward financial crisis.

We're confident that we agree that hindsight is always 20/20; but looking at our financial condition retrospectively to 1994-1995 through the years concluding with 2000-2001, there were signs that our district was suffering financial stress, yet the status quo was maintained. Expenditures increased, they always do, yet local revenues did not. In fact, they were reduced at times. Perhaps this occurred because of the overall economic condition of our city at large. Student achievement expectations were dramatically elevated through the state standards and to meet that level of expectation there is an increased level of expenditures attached. Be assured, however, that there is no "smoking gun". All funds have been accounted for and all have been directly or indirectly spent on the education of our children and quite successfully I might add. Despite this, it is quite obvious that the leadership of the Troy City School District needs to improve its monitoring of its annual budget, fiscal reporting processes and financial control so to return the district to financial stability thereby ensuring that the students of our district will receive a genuine opportunity to receive a quality education. It is my opinion that the following response to your recommendations in combination with our matrix of timeline and person responsible for implementation is evidence of the district's commitment to the taxpayers and students of our district and the responsibility of developing quality programs so that our students can continue to meet the ever-rising academic expectations of our state.

Sincerely,



Armand J. Reo
Superintendent

BOARD OF EDUCATION SUMMARY

The Board of Education has no basis to dispute the findings of the draft audit report that the District has ended the 2001-02 school year with an estimated \$16.7 million accumulated deficit.

The Board of Education was completely unaware that the school district finances were in such dire straits until approximately early November of 2001. We agree that one of the primary causes of the current financial crises was the failure of the Board, the Superintendent, and senior Administrators to adequately plan and monitor finances. We also agree that increasing operating deficits, decreasing fund balances, increasing expenditures without proportionally increasing revenue, and over-reliance on State Aid contributed to the crisis.

We also agree that improvements are needed in Board governance and the need for the Board to improve its budget oversight and hold it's Superintendent, senior Administrators and appointed officers accountable for the school district finances.

RECOMMENDATION NO. 1

Develop a corrective action plan addressing the findings and recommendation in this report. The plan should include the implementation actions, date completed or target date, and the individual responsible for implementation. Progress reports should be prepared monthly until all recommendations have been satisfactorily addressed.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team and the Board of Education agree with the need to develop a corrective action plan addressing the findings and recommendations in this report.

The district will develop a corrective action plan that addresses the findings and recommendations. This plan will be outlined in the following responses to recommendations 2 through 36. In addition, the district will prepare a matrix that will depict implementation action; date completed and individual's responsible for implementation. In addition, the district will provide the Board of Education with a quarterly updated on the status of our implementing the action plan.

BOARD OF EDUCATION RESPONSE

The Board will develop a corrective plan addressing the findings and recommendations contained in the report. This plan shall be developed by October 15, 2002 and shall include implementation actions, target dates and the individuals responsible for implementation.

RECOMMENDATION NO. 2

Ensure adequate reserves, including any mandated reserves are maintained to meet Troy's needs.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team and the Board of Education agrees that there is a need to ensure adequate reserves, including any mandated reserves, maintained to meet Troy's needs.

In the future, the district and the Board of Education will establish an adequate reserve but only after a 2% or 3% fund balance is in place to meet our needs. The district is making every attempt to achieve financial stability so as to complete the year with a surplus. In the future, the district will take steps to establish specific reserve funds allowed by law; but only a 2 or 3% unappropriated, unreserved fund balance is in place to meet our needs.

Actions Taken:

- A. Job reductions in all component areas – instructional and non-instructional staff as well as a reduction to our administrative staff.

Those instructional staff who were returned were funded from

additional Federal Title I revenue and additional Federal Class Size money and not from the General Fund.

B. Raised taxes some 10%.

BOARD OF EDUCATION RESPONSE

The Board acknowledges the need to improve its financial controls including its safeguarding of assets, purchasing and payments, and state aid claims. The Board also needs to ensure the timely filing of required reports relating to State Building Aid.

The Board needs to ensure adequate reserves, including any mandated reserves, are maintained to meet the District's needs.

RECOMMENDATION NO. 3

Designate a portion of fund balance for the next year's budget only when adequate fund balance is available.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that it should dedicate a portion of the fund balance towards the following school year, however, only when adequate fund balance is available.

Effective December 2002 the district will prepare and project monthly fund balances for the following year. These projections will be incorporated into the quarterly report to the Comptroller's Office.

This issue has been a major problem for several years dating back to the mid-nineties wherein Troy had not increased school taxes for several consecutive years until the year 2000-2001. In that year taxes were increased 8.5% with 5% assigned to the cost of the Ark Community Charter School. As a result, taxes had been raised only 3.5% since the 1996-97 school year. The district has unquestionably relied too heavily on state aid and has not put forth a consistent local effort to increase taxes. This cannot and will not happen in the future. The district will have to incrementally raise local taxes as most

statewide school district's have. This, in combination with state aid, will more effectively meet the ever-rising expenditures experienced by all school districts. Only when the district exceeds the amount allowed by the real property tax law will we consider dedicating any excess of the reduction of taxes.

BOARD OF EDUCATION RESPONSE

The Board has adopted a budget calendar at the October 2, 2002 monthly Board meeting. We also shall estimate fund balances so that we do not appropriate non-existent fund balances for subsequent year's budgets.

RECOMMENDATION NO. 4

Control and monitor appropriations to avoid overspending. Do not incur any obligations, including hiring staff, unless adequate appropriations are available.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that overspending of its' budget must be avoided at all cost and that we must establish and implement greater control and monitoring of all appropriations.

The district has already implemented the control and monitoring of appropriations to avoid overspending. As of July 2002, the district hired a full-time Treasurer so that this implementation process be made attainable. The Treasurer has enacted a procedure wherein before any purchases are ordered, the district checks the budget line item to ensure the appropriations are available. Central Office will strongly recommend to the Board of Education not to incur obligations that cannot be accommodated within the limits of the approved budget, including the development of a salary budget broken down by individuals and positions. Only emergencies categorized as safety and

health issues will be incurred if not allocated and transfers from other budget line items will be made.

BOARD OF EDUCATION RESPONSE

The Board needs to control and monitor appropriations to avoid overspending and not incur any obligations unless adequate appropriations are available.

RECOMMENDATION NO. 5

Estimate revenues conservatively to ensure they are accurate and adequate.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that in the past revenues were projected that were unrealistic and not guaranteed. With the structuring of the 2002-2003 budget, conservative revenue projections were made and the budget was built on that premise. Only revenues that were guaranteed were projected. The district will ensure that revenues will be estimated conservatively each year so as to ensure both accuracy and adequacy. In addition, the district will do a re-projection-of-revenue in November of each year and periodically thereafter to ensure sufficient revenue exists to meet all expenditures.

BOARD OF EDUCATION RESPONSE

In preparation of the budget, the Board intends to estimate revenues conservatively to ensure they are accurate and adequate.

RECOMMENDATION NO. 6

Develop a training program for all Board of Education members in the area of fiscal governance.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that virtually all Board of Education members are in need of training regarding the fiscal governance of our district.

The district will collaborate with the NYS School Boards Association and also the Office of State Aid Planning in offering fiscal-governance-type workshops to our Board of Education. It is the district's intent to organize a workshop in early December. It is further expected that Central Office personnel, in addition to our Business Manager and Treasurer, will be in attendance as budget-building and fiscal governance is a team effort.

BOARD OF EDUCATION RESPONSE

The Board also intends to contact the NYS School Boards Association and seek guidance in developing a training program for all Board

**members in the area of fiscal governance. This will be done during
October 2002.**

RECOMMENDATION NO. 7

Improve Board of Education oversight for budget development. Review and revise budget policy as appropriate. Establish budget priorities. Approve budget calendars.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that there is need for improved BOE oversight of budget development. A need to review and revise budget policy as appropriate, to establish budget priorities and to approve budget calendars.

The district will approve the budget calendar at the October Board of Education meeting. In addition, the district will begin to revise their budget policies through the district's Policy Committee. We feel that this complete process will be arduous and will take two years to revise all outdated budget policies. This process will begin in 2002-2003 school year and be finalized by the conclusion of the 2003-2004 school year. The district will utilize the NYS School Boards Association to review model policies adopted by other districts.

In addition, the Board of Education's legal counsel will also be involved in this process.

BOARD OF EDUCATION RESPONSE

We agree that such a document will assist the District in projecting its needs over the next three to five years. The Board has adopted a budget calendar and will have budget development evolve throughout the entire school fiscal year.

RECOMMENDATION NO. 8

Consider establishing a Citizen Advisory Committee to involve the community in the budget development process.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that a Citizen Advisory Committee should be created to assist in the budget building process.

The recommendation to have a Citizen Advisory Committee has already been discussed with the Board of Education. It has been the recommendation to the Board of Education that the district seek out individuals from the community who have private sector/business experience. A five (5) member committee will be established for the 2002-2003 school year. This Board of Education committee should have individuals who are both taxpayers within our committee and hold high level positions in different organization, i.e., bank officer, university comptroller. The Superintendent, Associate Superintendent, Business Manager and Treasurer need to be members of this committee.

BOARD OF EDUCATION RESPONSE

As stated in the audit, each Board of Education must prepare a budget and present it to residents in accordance with the Education Law. The board intends to begin the budget process with positive direction in the form of policy. The budget policy the Board intends to adopt shall be up-to-date and will be provided to all district personnel involved in the budget process. The Board intends to establish budget priorities and use a citizen advisory committee to involve the community in the budget development.

RECOMMENDATION NO. 9

Consider establishing an Audit Committee to assist with fiscal oversight responsibilities.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that an Audit Committee should be established.

The district through its Business Manager and Treasurer will formulate an Audit Committee wherein it will invite our external auditor to more regularly visit our district on a quarterly basis to audit our financial records – current cash flow documents, budget status reports and fund balance projections. In addition, our Treasurer will give direction to our internal auditor to prepare a monthly internal auditors report for our Board of Education. We anticipate the committee will direct the internal and external auditor to areas of special emphasis.

BOARD OF EDUCATION RESPONSE

The Board also intends to establish an audit committee to assist with fiscal oversight responsibilities and require Board committees to provide regular reports to the Board.

RECOMMENDATION NO. 10

Require the Board of Education Committees to provide regular reports to the Board of Education.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that written reports from the Board of Education Committee's shall be provided to the Board of Education as a whole.

The district has already begun the process of the Board of Education establishing minutes and attachments given out at the finance meetings. The first Board of Education Finance Committee meeting was held on August 29, 2002 and minutes were taken and shared with all Board of Education members. This will be an on-going process. The Clerk of the Board of Education will maintain these minutes in her office. Minutes of all committees will be maintained and reported regularly to the Board of Education as a whole and accepted via Board of Education resolution.

BOARD OF EDUCATION RESPONSE

The Board also intends to require Board committees to provide regular reports to the Board.

RECOMMENDATION NO. 11

Establish a long-term financial plan for both operating and capital needs.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that there is a need to establish a long-term financial plan.

In establishing a long-term fiscal plan, the district will review current contracts, expiration of current contracts, anticipated future costs of contracts and the ramifications of those future costs. The long-term fiscal plan will also include the issue of capital projects and the funding of same. The plan will address how the district will bear the impact of principle and interest payments on deficit financing bonds to be sold later this year.

BOARD OF EDUCATION RESPONSE

The Board intends to establish a long-term plan outlining financial resources needed to meet the mission and educational objectives of the District.

RECOMMENDATION NO. 12

Require fund balance projections to be prepared and submitted to the Board of Education for review on a regular basis and as early as feasible but no later than January of any school year.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that to the best of its ability it should project a fund balance at approximately mid-year.

As we all know, the projection of fund balances is not an exact science. This current school year the district does not have a fund balance and the administration has informed the Board of Education of this matter. The district must demonstrate fiscal restraint and put aside funds that will not be encumbered in order to have a healthy fund balance. Without a fund balance, any organization or district can easily fall into a deficit. The administration recommends to the Board of Education that funds budgeted and not spent be set aside. It is our opinion that it will take more than one year to build a comfortable fund balance. The fund balance projection will be reported on a monthly basis effective January of each school year.

BOARD OF EDUCATION RESPONSE

The Board will require fund balance projections to be prepared and submitted to the Board for review on a regular basis and as early as feasible, but no later than January of any school year.

RECOMMENDATION NO. 13

Encumber all known obligations, including salaries and contracts, at the beginning of the school year, or as soon as they become known.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that all known obligations must be encumbered at the outset of each school year.

Our new and full-time Treasurer is currently and will on an annual basis encumber all known obligations. As an example and at her suggestion, paychecks will be periodically distributed personally to create a check and balance technique that will ensure accuracy of this encumbrance.

BOARD OF EDUCATION RESPONSE

To ensure that the budget and individual budget items are not overspent we believe that all known obligations, such as salaries and fringe benefits, debt services, utilities, service contracts and others should be mass-encumbered.

RECOMMENDATION NO. 14

Review encumbrances regularly to ensure their validity and make corrections as needed.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that encumbrances should be reviewed regularly.

All encumbrances will be reviewed on a regular basis to ensure validity, accuracy and corrections will be made as needed. This process has already been implemented by both our Interim Business Manager and the Treasurer.

BOARD OF EDUCATION RESPONSE

The Board will review encumbrances regularly to ensure their validity and make corrections as needed.

RECOMMENDATION NO. 15

Authorize the Superintendent to make budget transfers in conformance with the Regulations and Education Law. Require the Superintendent's approval of any transfers before the transfers are made. Require any transfers authorized by the Superintendent to be shown in the budget status report submitted to the Board of Education.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees to authorize the Superintendent to make budget transfers in compliance with Regulations and law. In addition, it agrees to require the Superintendent's approval of any transfers before the transfers are made. It also agrees that all transfers be shown in the budget status reports submitted to the Board of Education.

Currently all budget transfers are reported to the Board of Education at monthly Board meetings and are accompanied by corresponding text. No transfers will be made unless the Superintendent authorizes them and the transfers will be shown in the budget status report. This process has already been implemented.

BOARD OF EDUCATION RESPONSE

The Board also feels that all transfers should be made with Board approval and we will require the same in the future.

RECOMMENDATION NO. 16

Ensure the Internal Claims Auditor follows a set of established procedures in carrying out the responsibilities of that position.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees and will ensure that our internal claims auditor will follow a set of established procedures in carrying out the responsibilities of that position.

The Interim Business Manager and the district's Treasurer have already issued both written and verbal procedures to the district's internal auditor. These procedures are as follows:

- 1. All claims will be audited prior to release, i.e., ensuring it was properly authorized; approval to pay, and that invoice corresponds to purchase orders.**
- 2. There will also be an audit on individual payrolls periodically.**
- 3. The internal auditor will prepare a written audit report on a monthly basis and the report will be given to the Board of Education. The Treasurer will determine if the audit report is**

aligned to all of the other financial reports and check for accuracy.

- 4. The internal auditor will verify cash receipts on a monthly basis.**
- 5. All procedures for the Business Office operations will be given to all key personnel in writing and they will be held accountable for these procedures.**

BOARD OF EDUCATION RESPONSE

The Board also realizes that we need to be realistic in estimating revenues and that we cannot have years where there is no tax increase as has occurred for four consecutive years in the mid-1990's unless there are sufficient revenue sources to allow for the same. The Board also feels that it is ultimately responsible for a district's operations and finances and that the Board needs to hold the Superintendent, senior administrators and appointed officers accountable for the day to day operations of the district. The Board intends to do this by ensuring its Internal Claims Auditor and Treasurer are fulfilling the responsibilities of their Board appointed positions, by establishing adequate policy so that staff know what is

expected of them and that they can be held accountable and by requiring the timely submission of complete and accurate financial reports.

The Board intends to require that the Internal Claims Auditor to review all required claims. Clearly, the percentage of claims, which were not reviewed as cited in the audit, is unacceptable. We intend to require that all required claims are reviewed in a timely manner so that we are in compliance with Education Law and are not at risk of making inappropriate payments for invalid, duplicative or incorrect claims.

RECOMMENDATION NO. 17

Attract and retain a qualified and experience Business Manager.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that it must attract and retain both a qualified and experienced Business Manager.

Over the past several months the district has conducted a search for a qualified Business Manager without success. It is our belief that the advertised salary was not competitive and that for this reason we have been unsuccessful. Therefore, the district has initiated yet another search in collaboration with Questar III and ASBO wherein it has raised the salary component to \$100K. We will begin the interview process of candidates on or about October 30, 2002 with the hope of recommending a qualified Business Manager to our Board of Education soon thereafter.

BOARD OF EDUCATION RESPONSE

The Board appointed a full time Treasurer in July of 2002 and we are actively recruiting a permanent Business Manager so that each will have ample time to perform the duties of their respective offices.

RECOMMENDATION NO. 18

Review the Board of Education policy manual to ensure Troy has complete and updated policies.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that it needs to and will review our current Board of Education policy manual to ensure completeness and that policies have been updated.

As noted in Recommendation No. 7, the Board of Education will review and revise all needed financial policies. This will be accomplished with the aid of NYSSBA with 2004 as our completion target date.

BOARD OF EDUCATION RESPONSE

The Board intends to amend and update its policies and written procedures concerning district operations to comply with §1709(2) of the Education Law. Copies of policies and procedures shall thereafter be distributed to district officials and staff so that they know what is expected of them so that they can be held accountable.

RECOMMENDATION NO. 19

Establish written procedures guiding all Business Office operations, and distribute both policies and procedures to staff as appropriate.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that written procedures guiding all Business Office operations must be established and that policies and procedures be distributed to appropriate staff.

As noted in Recommendation No. 16 response, written policies will be given to all staff as appropriate. They are currently being formulated by the Interim Business Manager and the Treasurer.

BOARD OF EDUCATION RESPONSE

The Board intends to amend and update its policies and written procedures concerning district operations to comply with §1709(2) of the Education Law. Copies of policies and procedures shall thereafter be distributed to district officials and staff so that they know what is expected of them so that they can be held accountable.

RECOMMENDATION NO. 20

Ensure the Board of Education routinely reviews fiscal reports.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that the Board of Education should and will routinely review all fiscal reports.

On a monthly basis via regularly scheduled Board of Education meetings the Treasurer's Report will be made part of the Superintendent's Report section of the meeting. The district treasurer will, at that time, report publicly to the Board of Education matters relative to fiscal reports, i.e., budget status reports, revenue reports, appropriation report, cash flow report and fund balance projections.

BOARD OF EDUCATION RESPONSE

The Board intends to require the Treasurer to submit accurate and timely budget status reports to the entire Board for each fund and grant, including the revenue and appropriations details required in the annual State Budget form.

RECOMMENDATION NO. 21

Require the Treasurer to submit accurate and timely budget status reports to the entire Board of Education for each fund, including revenue and appropriation details required in the annual state budget form.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that the Treasurer should be and will be required to submit accurate and timely budget status reports to the Board of Education for each fund.

At this time the Treasurer is providing the Board of Education with a budget status report for the general fund only. The Treasurer will provide status reports to the board of Education for all funds by the conclusion of the 2002-2003 school year. Some sooner than later with the Capital Fund taking the longest time to generate a report.

BOARD OF EDUCATION RESPONSE

The Board intends to require the Treasurer to submit accurate and timely budget status reports to the entire Board for each fund and grant,

**including the revenue and appropriations details required in the annual
State Budget form.**

RECOMMENDATION NO. 22

Require the Treasurer to submit accurate and timely cash reports to the Board of Education.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that the Treasurer should be and will be required to submit accurate and timely cash reports to the Board of Education.

The Treasurer is currently submitting accurate and timely cash reports to the Board of Education via the monthly Treasurer's Report. By January of each school year special aid fund, school lunch and bookstore fund will be added to the process. All other funds will be implemented by the end of 2003 school year.

BOARD OF EDUCATION RESPONSE

The Board also intends to require the Treasurer to submit accurate and timely cash reports to the Board and require cash flow statements to be prepared and submitted to the Board for review on a quarterly basis and as part of any requests for approval to borrow funds.

As stated in the audit, §170.02 of the Commissioner's Regulations requires the treasurer to submit cash reports and budget status reports to the Board. The reports must be submitted to the Board for its review and acceptance at official Board meetings. The Board intends to require budget status reports that are complete and timely. We intend to require cash flow projections and complete extra classroom activity and grant final reports.

The Board intends to require the Treasurer to render a monthly cash report for each fund showing the cash balance on hand at the beginning of the month, receipts by source during the month, total disbursements during the month, the cash balance at hand at the end of the month, and reconciliation with bank statements. This will comply with the Commissioners Regulation and provide the Board with an accurate report of the district's fiscal status.

RECOMMENDATION NO. 23

Require cash flow statements to be prepared and submitted to the Board of Education for review on a regular basis and as a part of any requests for approval to borrow funds.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that cash flow statements be prepared and submitted to the Board of Education for review on a regular basis and as part of any requests for approval to borrow funds.

As noted in Response No. 20 and 22, this is currently required and these reports are currently given to the Board of education with regularity. Cash flow statements will be prepared by the Treasurer at the start of each school year and updated monthly to reflect actual general fund, cash receipts and disbursements.

BOARD OF EDUCATION RESPONSE

The Board also intends to require the Treasurer to submit accurate and timely cash reports to the Board and require cash flow statements to

be prepared and submitted to the Board for review on a quarterly basis and as part of any requests for approval to borrow funds.

As stated in the audit, §170.02 of the Commissioner's Regulations requires the treasurer to submit cash reports and budget status reports to the Board. The reports must be submitted to the Board for its review and acceptance at official Board meetings. The Board intends to require budget status reports that are complete and timely. We intend to require cash flow projections and complete extra classroom activity and grant final reports.

The Board intends to require the Treasurer to render a monthly cash report for each fund showing the cash balance on hand at the beginning of the month, receipts by source during the month, total disbursements during the month, the cash balance at hand at the end of the month, and reconciliation with bank statements. This will comply with the Commissioners Regulation and provide the Board with an accurate report of the district's fiscal status.

RECOMMENDATION NO. 24

Require the central treasurer of the Extra-Classroom Activity Fund to prepare and submit the required reports to the Board of Education.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that the central treasurer of the Extra-Classroom Activity Fund prepare and submit required reports to the Board of Education.

The central treasurer who is in charge of the Extra-Classroom Activity Fund has been directed by our Treasurer that she is to prepare and submit required reports concerning this fund to the Board of Education on a monthly basis, starting with the month of November 2002.

BOARD OF EDUCATION RESPONSE

The Board also intends to require the Treasurer of the Extracurricular Activity Fund to maintain a record of receipts and expenditures of the fund and to submit it to the Board at least quarterly.

RECOMMENDATION NO. 25

Ensure all reports received by the Board of Education are adopted by resolution and are reflected in the minutes.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that all reports received by the Board of Education are adopted by resolution and reflected in the minutes.

Effective October 2002 all financial reports will be adopted by resolution and reflected in the minutes. These reports will be listed as Treasurer's Report under the category of Superintendent's Reports.

BOARD OF EDUCATION RESPONSE

The Board intends to require the treasurer to render a report, at least quarterly (and monthly in the event that budget transfers have been made since the last report) for each fund, including, the revenue and appropriation accounts required in the annual State budget form. The Board intends to require that these reports be given at regular Board meetings where minutes are kept and where the Board can pass

resolutions to accept the reports.

RECOMMENDATION NO. 26

Submit the required ST-3 to the S.E.D. by September and the Audit Financial Statement to the S.E.D. by October 1st of each year.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

With the exception of 2001, our financial reports were submitted in a timely manner. The Superintendent's Audit Response Team agrees that required reports are to be submitted to S.E.D. in accordance with their timeline.

Our current ST-3 report has already been submitted to the S.E.D. during the month of September 2002. In addition, and after collaboration with our external auditor, our annual audit statement will be submitted by October 1, 2002. This timeline will be adhered to in future years.

BOARD OF EDUCATION RESPONSE

The Board intends to ensure that the annual audit by an independent certified public accountant is done in a timely manner and that the same is accepted by the Board by resolution, and that the resolution and the report are filed with the Department October 1st of the year following the

year audited. The Board also intends to require the submission of the annual Financial Reports (ST-3) to the Department by September 1st, and if changes are required to the ST-3 as a result of the independent audit, the same will be revised in a timely manner.

RECOMMENDATION NO. 27

Ensure bond proceeds are expended only for the purposes for which the obligations were issued. Ensure the General Fund repays the Capital Fund any amounts due.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that bond proceeds are to be expended only on matters for which the obligations were issued. In addition, it agrees that the General Fund repays the Capital Fund any amounts due.

The district guarantees that bond proceeds shall only be used for the purpose for which the obligations were issued. In addition, all Capital Funds revenue that was transferred to the General Fund have been returned to the Capital Fund. The transfer of Capital Funds to the General Fund as evidenced in June 2001 will not recur.

BOARD OF EDUCATION RESPONSE

The Board realizes that it needs to better protect its assets by preventing further inappropriate use of bond proceeds, strengthening

controls over cash receipts and asset inventory and keeping its accounting records current. We intend to prevent the inappropriate use of bond proceeds for cash flow purposes, which the audit indicates, occurred as far back as 1996-97 and possibly longer. This practice is in violation of the Local Finance Law and shall cease.

RECOMMENDATION NO. 28

Segregate responsibilities for cash receipts.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees the responsibilities for the matter of cash receipts should be segregated.

All cash and checks (exclusive of tax payments) received in the Business Office will be recorded on the cash receipt log and forwarded to the Treasurer. The Treasurer will issue a receipt and forward it to the Tax Collector for deposit. The bookkeeper will record cash receipts into Finance Manager.

On a monthly basis, the Internal Claims Auditor will verify cash receipt log against the bank statement to ensure all deposits are made. External auditor will provide annually an updated internal control questionnaire to identify potential weaknesses in the cash receipt system.

BOARD OF EDUCATION RESPONSE

The Board intends to develop and adopt written policies on procedures for cash receipts, segregate the responsibility for collecting cash and issuing receipts, maintaining accounting records, preparing bank

reconciliation's and making bank deposits among different individuals.

The Board will also require that deposits are made promptly.

RECOMMENDATION NO. 29

Implement the necessary inventory controls for assets.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that there is need for the implementation of inventory controls for assets.

The district is currently preparing an RFP for a District-wide inventory that will be completed and in compliance with State Regulations. The district will update this information in accordance with the RFP.

BOARD OF EDUCATION RESPONSE

The Board intends to develop written policies or procedures governing fixed assets. We will direct that a physical inventory be conducted and records kept of the inventory for each school building and implement the necessary inventory controls for assets.

RECOMMENDATION NO. 30

Keep all accounting records (journals and ledgers) current and balance monthly.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that all accounting records are to be made correct and balanced monthly.

The district has already implemented this recommendation so that all accounting records are current and balanced monthly.

BOARD OF EDUCATION RESPONSE

Further, the Board intends to require that all accounting records (journals and ledgers) are kept current and balanced monthly.

RECOMMENDATION NO. 31

Limit the use of confirming purchase orders to emergency situations.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that the confirming of purchase orders will be limited to emergency situations only.

The Treasurer and the Purchasing Agent have sent a memorandum to all employees that they will no longer issue a purchase order number without written documentation. The district will no longer reimburse staff for items purchased if they did not follow proper procedure. This procedure will be monitored by the Purchasing Agent.

BOARD OF EDUCATION RESPONSE

The Board will limit the use of confirming purchase orders to emergency situations, improve controls over accounts payable and ensure liabilities are recorded.

RECOMMENDATION NO. 32

Improve controls over accounts payable. Ensure all liabilities are recorded. Prepare checks for disbursement only when adequate funds are available and they can be mailed. Ensure duplicate payments are not made.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that controls over accounts payable must be improved.

This recommendation has been already implemented this year by our Interim Business Manager and Treasurer. They have already met with all business staff to specifically outline their duties and their obligation regarding those duties. These duties and obligations have been prepared in written form by the Treasurer and submitted to appropriate personnel.

Anyone who duplicates payments or prepares checks without receiving the balance of the line item to ensure adequate funds are available will be both informally and formally reprimanded. Hand-drawn checks will not be allowed. External auditor will provide annually an updated internal control questionnaire to identify potential weaknesses in the account payable system.

BOARD OF EDUCATION RESPONSE

The Board will direct that checks are prepared for disbursement only when funds are available and they can be mailed to ensure that duplicate payments are not made.

RECOMMENDATION NO. 33

Establish adequate policy and procedures concerning both employee and Board of Education travel and expense reimbursement.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that adequate policies and procedures concerning travel and expense reimbursement need to be established.

The Treasurer has outlined procedures for staff on travel and expense reimbursement. The district will no longer reimburse staff members for supplies, materials, etc. All purchases must be made via the purchase order system. Reimbursement related to travel (i.e. mileage, tolls, meals) will be made via a claim form. The district will need to formulate policy for Board of Education members.

BOARD OF EDUCATION RESPONSE

The Board will establish adequate policy and procedures concerning both employee and Board travel and expense reimbursement.

RECOMMENDATION NO. 34

Require the Treasurer to secure blank checks and the check-signing machine and disk. Ensure the check signing register is independently reviewed by someone in a supervisory position.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that both the blank checks and the check-signing machine and disk need to be placed in a secure place. It also agrees that the check-signing register be independently reviewed by a supervisor.

The district has already taken action to secure blank checks, check-signing machine and the disk via the Treasurer. The Treasurer will also review the check-signing register independently.

BOARD OF EDUCATION RESPONSE

The Board intends to require the Treasurer to secure blank checks and the check signing machine and disk and ensure that the check signing register is independently reviewed by someone in a supervisory position.

RECOMMENDATION NO. 35

Ensure all new personnel service contracts delineate the requirements for each step including initial step placements.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team personnel service contracts already delineate the steps and salary. The district ensures that all future contracts will delineate the requirements for placing someone on a higher step.

BOARD OF EDUCATION RESPONSE

We intend to ensure that all new personal service contracts delineate the requirements for each step including the initial step placement.

RECOMMENDATION NO. 36

Submit all outstanding building aid reports to the department.

SUPERINTENDENT'S AUDIT TEAM RESPONSE

The Superintendent's Audit Response Team agrees that it needs to submit all outstanding building aid reports to the S.E.D.

The district is already in the process of submitting all outstanding building aid reports to S.E.D. In addition, it is making every effort to retrieve data going back to 1991 concerning Capital project reports that have not been submitted over a ten-year period.

BOARD OF EDUCATION RESPONSE

The Board also intends to require the submission of all outstanding building aid reports to the Department.

BOARD OF EDUCATION CLOSING STATEMENT

In closing, the Board agrees that all recommendations contained in the audit should be followed by the Board of Education and we intend to take the steps necessary in a timely manner to ensure that they occur.

This will be done so that the Board, the Superintendent, senior administrator, staff and appointed officers clearly understand their duties and responsibilities and that each can thereafter be held accountable.

RECOMMENDATION	RESPONSE	TIME FRAME	RESPONSIBLE PERSON
1 Corrective action plan	Included herein	8/15-10/15/02	Superintendent/ staff
2 Ensure reserves	When fund balance achieved	2003-2008	Board, Superintendent
3 Designate fund balance	When adequate funds available	2003-2008	Board, Superintendent
4 Avoid overspending	Ensure adequate appropriations	7/1/02-6/30/03	Board, Superintendent, BO
5 Estimate revenues	Accurate and adequate	1/1/03-1/1/08	Business Administrator
6 Board training	Fiscal governance	10/1/02-6/30/03	NYS School Boards
7 Budget development	Priorities, policy, calendar	10/1/02-6/30/04	Board, Superintendent
8 Citizen advisory	Board will discuss	10/4/02	Board
9 Audit Committee	Board agenda item	11/6/02	Board
10 Committee reports	Board agenda item	all meetings	Board
11 Long term financial plan	Operating and capital needs	10/1/02-6/30/08	Board, Superintendent, BO
12 Fund balance projection	By January each year	monthly after 1/7/2003	Business Administrator
13 Encumber obligations	As soon as known	7/01/02-6/30/03	Business Office
14 Review encumbrances	Ensure validity	7/01/02-6/30/03	Business Office
15 Budget transfers	Show in budget status report	10/01/02-6/30/03	Business Office
16 Internal Claims Auditor	Established procedures	7/01/02-6/30/03	Business Administrator
17 Business Administrator	Hire qualified and experienced	1/1/03	Board, Superintendent
18 Board Policy Manual	Review and update	10/2/02-6/30/04	Board, Superintendent, Staff
19 Written procedures, policy	Business office operations	9/1/02-6/30/03	Board, Superintendent, BO
20 Review financial reports	On a monthly basis	all meetings	Board
21 Budget status reports	Accurate and timely	monthly	Treasurer
22 Cash reports	Accurate and timely	monthly	Treasurer
23 Cash flow statements	Regular basis	monthly	Treasurer
24 Extraclassroom Fund	Required reports	11/6/02	Extraclassroom treasurer
25 Board reviewed reports	Adopted by resolution	10/2/02	Board, Superintendent, Clerk
26 ST-3 and Audit	Submit timely	9/1-10/1 yearly	Business Adm, Auditor
27 Bond proceeds	Capital Fund	at all times	Business Adm., Treasurer
28 Segregate responsibilities	Cash receipts	7/01/02-6-30/03	Treasurer
29 Inventory control	All assets	1/01/03-6/30/03	Business Administrator
30 Accounting records	Current and balanced monthly	monthly	Treasurer
31 Confirming PO's	Emergency situations	7/01/02-6/30/03	Purchasing Agent
32 Accounts payable control	Print checks when funds available	7/01/02-6/30/03	Business Administrator
33 Policy and procedures	Employee and Board Travel	10/02/02-6/30/04	Board, Superintendent
34 Secure signing disk	Blank checks, signing register	7/01/02-6/30/03	Business Adm., Treasurer
35 Personal service contract	Initial step placement	7/01/02-6/30/03	Board, Superintendent
36 Final cost reports	Submit all timely	7/01/02-6/30/03	Business Adm., Treasurer