
Audit Report

Hempstead Union Free School District

For the Period

July 1, 1996 through May 28, 1998

SP-0698-3

November 9, 1999

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
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November 9, 1999

Dr. Nathaniel Clay, Superintendent
Mr. Frank Ashby, President of the Board of Education
Hempstead Union Free School District
185 Peninsula Boulevard
Hempstead, New York 11550

Dear Dr. Clay and Mr. Ashby:

The following is our final audit report (SP-0698-3) on the Hempstead Union Free School District for the period July 1, 1996 through May 28, 1998. The audit was conducted pursuant to Section 305 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

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

Ninety days from the issuance of this report, District officials will be asked to submit a report on actions taken as a result of this audit. I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Daniel Tworek

Enclosure

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Executive Summary

The Hempstead Union Free School District's (District), located in Hempstead, New York, served about 6,300 students and expended almost \$72.7 million in the 1996-97 school year. The average cost per student at the District was comparable to the average cost for other public school districts in Nassau County and almost \$3,000 more per student than other New York public schools. The District's tax rate is around twice the Nassau county and statewide average, and student performance at the high school is significantly below other New York public schools.

The audit examined selected financial management practices, records, and documentation related to the District for the period July 1, 1996 through May 28, 1998. This was a financial related audit and our objectives were: to assess the adequacy of the District's policies, procedures and practices related to travel and conferences, and personnel and payroll; and to determine the status of the 81 recommendations contained in our prior audit report.

Audit Results

Presented below is a summary of the audit findings developed in response to the audit objectives. While the Board and the Superintendent have implemented many controls and improvements in the District, they need to do more as is evidenced by the findings and recommendations in this report. Of particular concern is whether their actions are consistent with expectations for its employees and exemplify the proper "tone at the top" for control consciousness in the District.

The Board and the Superintendent approved certain expenses which appeared excessive, unnecessary, or inappropriate including \$31,178 to hold two retreats for Board members and others at an ocean-side resort; \$2,724 to send two employees to Hawaii for a conference; \$2,136 for food and beverages at breakfast and lunch meetings; \$775 for alcoholic beverages at the retreats; and an additional \$133 in airfare for a Board member to stop over in Las Vegas prior to attending a conference in Los Angeles.

Some expenses for the Board, Superintendent and others lacked required approvals. Advances to Board members were not generally reconciled. Documentation was inadequate to show the purpose of expenses on credit cards and to show the benefit to the District from conferences. Other expenses were determined to be unnecessary, excessive, inappropriate and inadequately documented.

Some of the District's personnel and payroll practices were questionable, including the use of interim administrators, hiring an inexperienced district clerk, and assigning 33 teachers/principals to curriculum specialist and special assignment positions. Also, improvements were recommended related to documentation, payroll changes, perquisites and paycheck distribution.

Regarding the recommendations in our prior audit report, the District fully implemented 55 recommendations, partially implemented 20 recommendations, and did not implement 6 recommendations. The District needs to address controlling District spending, filing outstanding building project final reports, updating and maintaining its fixed asset inventory, and establishing

and disseminating numerous policies. In regard to the recommendations that were not implemented, the District should pursue implementation of the ones related to contracts and the employee manual.

District officials agreed with the recommendations, but disagreed with some of the findings and conclusions in the report. The auditor's notes, following the District's response, address the disagreements.

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Introduction

Background

The Hempstead Union Free School District's (District) mission "...is to ensure that students achieve personal growth and academic success and become productive citizens in a global society...." The District, located in Hempstead, New York, served about 6,300 students and expended almost \$72.7 million in the 1996-97 school year. As shown in the New York State School Report Card (Report Card), the average cost per student at the District was \$12,279,¹ which is comparable to the average cost for other public school districts in Nassau County, but \$2,958 more per student than other New York public schools. In addition, the District's residents bear a tax rate that is about twice the Nassau county and statewide average.

The Report Card shows that the percentage of elementary school students in the District scoring at or above the State minimum level exceeds the percentage for New York public schools as a whole. However, based on Regents examinations, student performance at the high school is significantly below other New York public schools. For example, the Report Card shows that only 16 percent of the average grade enrollment passed the Regents Math Course I compared to 59 percent for New York public schools.

Given the high cost per student, high tax rate, and low performance, the District needs an adequate system of internal controls, including an effective control environment, to help ensure all funds are spent efficiently and effectively in raising student performance.

Scope, Objectives and Methodology

The audit examined selected financial management practices, records, and documentation related to the District for the period July 1, 1996 through May 28, 1998. This was a financial related audit and our objectives were: to assess the adequacy of the District's policies, procedures and practices related to travel and conferences, and personnel and payroll; and to determine the status of the 81 recommendations contained in our prior audit

¹ The average cost per student was calculated using an adjusted enrollment number taking into account the district's students in special education and those being educated in other districts.

report (Report No. SP-0396-5) issued October 21, 1996. These recommendations related to the District's financial position (revenue and expenditures), State aid claims, and internal controls for budgeting and expenditures, the accounting system, purchasing and inventory.

To accomplish our objectives, the audit reviewed applicable laws, regulations, policies and procedures; interviewed Department and District management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the CPA 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 we 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.

Audit Results

One of the responsibilities of a school district's board and superintendent is to establish adequate internal controls including the control environment. The control environment sets the overall tone for control consciousness in an organization and is impacted by factors such as the board's involvement, personnel practices, and management's philosophy and operating style. The attitude, awareness and actions of the board, superintendent and school administrators have a significant impact on the effectiveness of internal controls. These individuals must set the example and communicate the school district's values and expected behavior to its employees.

While the board and the superintendent have implemented many controls and improvements in the District, they need to do more as is evidenced by the findings and recommendations in this report. Of particular concern is whether their actions are consistent with expectations for its employees and exemplify the proper "tone at the top" for control consciousness in the District. Some of the actions we question:

- Board members do not routinely obtain approval, account for the \$80 per day advance, or adequately document expenses. Credit card charges totaling \$11,400 for travel and conference expenses were not adequately documented.
- The Board and the Superintendent approved certain expenses which appeared excessive, unnecessary, or inappropriate including \$31,178 to hold two retreats for Board members and others at an ocean-side resort; \$3,240 for a continental breakfast for 600 people to welcome staff; \$2,724 to send two employees to Hawaii for a conference; \$2,136 for food and beverages at breakfast and lunch meetings; \$775 for alcoholic beverages at the retreats; and an additional \$133 in airfare for a Board member to stop over in Las Vegas prior to attending a conference in Los Angeles.
- The Board's hiring practices were questionable including assigning 33 teachers/principals to curriculum specialist and special assignment positions and hiring an inexperienced board clerk along with a consultant costing over \$10,475 to train the individual.
- The Board allowed up to 33 non-payroll accounts to be overspent in the first half of the school year including \$246,443 in a textbook account and \$78,550 in a computer/contractual services account. While we do not question the purchase of textbooks, we do question the appropriateness of exceeding the budgeted amount by \$246,443.
- The Board did not budget, plan or solicit bids for a \$275,000 contract to update the audio and video systems in the middle and high schools.

We believe these exceptions and others in the report are indications that the District does not promote an environment of necessary and reasonable use of public funds and we question if the funds could have been used more effectively in providing direct services to students. Furthermore, the Board and Superintendent actions are not reflective of the cost conscious type of control environment that should be prevalent in the District. Their questionable actions have a direct impact on controls throughout the District and on student performance. These exceptions and others are more fully explained in the body of the report. The report includes three sections that were

developed in response to the audit's objectives. A description of each of the sections and the key findings follows.

The first section, Meeting, Travel and Conference Expenses, shows that some expenses for the Board, Superintendent and others lacked required approvals. Advances to Board members were not generally reconciled. Documentation was inadequate to show the purpose of expenses on credit cards and to show the benefit to the District from the conference. Other expenses were determined to be unnecessary, excessive, inappropriate and inadequately documented.

The second section, Personnel and Payroll Practices, questions the effectiveness of some of the District's personnel and payroll practices including the use of interim administrators, hiring an inexperienced district clerk, and assigning 33 teachers/principals to curriculum specialist and special assignment positions. Also, improvements were recommended related to documentation, payroll changes, perquisites and paycheck distribution.

The third section, Status of the Prior Audit's Recommendations, reveals the District fully implemented 55 recommendations, partially implemented 20 recommendations, and did not implement 6 recommendations. The District has improved such areas as monitoring its financial position, grants management, a state-of-the-art computerized accounting system, and timely and complete billings for Medicaid and foster care. The District needs to continue to take the necessary actions to complete the implementation of the 20 partially implemented recommendations by controlling District spending, filing outstanding building project final reports before the deadline, updating and maintaining its fixed asset inventory, and establishing and disseminating numerous policies. In regard to the recommendations that were not implemented, the District should pursue implementation of the ones related to contracts and the employee manual.

Each section of the report also includes further recommendations for improvement.

Comments of Hempstead Union Free School District Officials

District officials agreed with the recommendations, but disagreed with some of the findings and conclusions in the report. The auditor's notes, following the District's response, address the

disagreements. District official's comments to the report are included as Appendix B to this report.

Meeting, Travel and Conference Expenses

The audit reviewed meeting, travel and conference expenses for the Board, the Superintendent and others for the two years ending May 28, 1998. Individuals attended conferences throughout the United States including Hawaii, Los Angeles, San Francisco, Phoenix, Atlanta, Washington, Boston, Miami, Albany, Rochester, and Syracuse. The accounting records show the District spent at least \$113,271 in the 1997-98 school year for travel and conferences, including \$48,996 in conference expenses for Board members. This was almost two and one half times the \$14,421 spent in the preceding year.

Section 77-b of the General Municipal Law (GML) and the Claims Section of the Office of the State Comptroller's Financial Management Guide (Guide) specify the requirements and guidelines for the expenses of school district officials and staff attending conferences. The Guide states the Board should promulgate rules and regulations concerning reimbursement of expenses. Specifically, they should set forth the types of expenses that are reimbursable, the procedures and documentation necessary to support reimbursement and any reasonable dollar or time limits. The District has policies for travel reimbursement; however, many of them are not followed. We found exceptions related to approvals, required reports, travel advances, and expenses that were unnecessary, excessive, inappropriate, and inadequately documented.

The Board Did Not Approve Attendance at Conferences or Require Reports

GML permits the Board to authorize any of its members, officers or employees to attend a conference. The law also permits the Board to delegate the power to authorize attendance at a conference to any executive officer or administrative board. The Board adopted a policy requiring Board members to submit a request to attend a conference in writing, obtain Board approval prior to the attendance of the conference, and report to the Board on the conference at a public meeting or a regularly scheduled meeting.

Our review of Board minutes showed Board members did not generally request or obtain the approval of the Board to attend a conference, or report back on any conferences attended. For example, there was no documentation in the minutes to show all

five Board members and the Superintendent were approved to attend a five-day conference in Reno or to show any Board member reported back on the information and benefits of the conference.

We also noted the Superintendent was not required to obtain Board approval to attend conferences. In effect, Board members and the Superintendent could approve their own attendance at conferences.

District employees are required to obtain the Superintendent's approval to attend conferences and to prepare reports on the conferences attended. Documents showing the Superintendent approval were maintained; however there was no resolution in the Board minutes delegating this authority to the Superintendent, as required by law. Furthermore, there was no documentation to show that the staff prepared reports as required. For example, there were no reports on the results of the conference and the benefits to the District of sending an assistant principal and one advanced placement teacher to a seminar in Hawaii.

Contrary to the GML, the Guide, and the Board's own policies, Board members and others attended many conferences that were not specifically approved by the Board and the District may have incurred some inappropriate expenses. In addition, since the required reports were not prepared, the information and the benefits of the conferences were not routinely shared with appropriate staff.

Board Members Do Not Account for Travel Advances

GML allows districts to advance money for estimated expenses to officers and employees authorized to attend a conference. However, an itemized voucher showing actual expenditures must be submitted upon completion of the travel and any advanced amounts in excess of such expenses should be refunded to the district. The District's practice is to directly pay the providers for lodging and transportation (in many cases prior to the service being provided) and advance Board members \$80 per day for meals and incidental expenses while attending conferences. Board members are expected to submit receipts and invoices accounting for the actual costs and reimburse the District for any unused funds.

However, we noted that for the 1996-97 and 1997-98 school years, Board members did not account for 14 of the 18 advances given totaling \$4,080 or provide the required receipts or invoices. Without an adequate accounting and documentation of the advances, we question whether the expenses were appropriate. Also, the \$80 advance appears to be excessive since it is almost twice the maximum Federal government allowance for meals. We also question the need for an advance since lodging and transportation are paid directly and all Board members are authorized to receive a District MasterCard for their use in carrying out their official duties.

Travel, Conference, and Meeting Expenses Were Unnecessary, Excessive, Inappropriate, and Inadequately Documented

The GML states all actual and necessary expenses in connection with the attendance at a conference are a charge against the District. The Guide provides additional information regarding the definition of reasonable and necessary. The review determined the District incurred conference and certain other expenses which were unnecessary and excessive, inappropriate or not related to District business, and inadequately documented. Some specific examples follow:

Expenses Were Unnecessary and Excessive

The Guide states that a board shall promulgate rules and regulations concerning reimbursement of expenses. The rules and regulations should set forth the type of expenses which will be reimbursed, the procedures and documentation necessary to support the reimbursement, and any reasonable dollar or time limits which the board may wish to set. The guiding principle should be that all expenses are reasonable, necessary, and directly related to district operations.

The District has several policies and procedures to address reimbursement of expenses. However, it does not have a policy addressing meals for non-district employees at conferences and meetings or a policy for providing food and beverages at District sponsored events. The audit determined the District paid certain questionable meal and travel expenses. We question whether the District could have used the funds more effectively by providing direct services to students. The following examples appear to be unnecessary or excessive costs to the District.

- The District provided \$80 per day travel advances to Board members and the District clerk for conferences even when the registration fees included some meals. Since travel advances are not generally reconciled with receipts for actual costs of meals and other incidentals, the costs may have been reimbursed twice. In addition, certain other expenses were paid twice including \$450 for a hotel room deposit, \$47 for mileage and fuel, and \$33 for a train ticket.
- Without a policy addressing food and beverages at District meetings and events, we questioned the appropriateness of certain expenditures including \$3,240 for a continental breakfast to welcome staff of 600 people on the first day of school, over \$2,136 for food and beverages at breakfast and lunch meetings, \$1,330 for dinner at a steak house, and \$655 for a school celebration at the public library.
- District policy allows for dinner and lodging on the night prior to a conference and breakfast on the day after the conference. However, a Board member and others incurred charges for lodging and food, which were not consistent with this policy. Also, the Superintendent charged an additional room for four nights at a conference, but there was no documentation to justify how these additional costs were related to District business. At one retreat, a Board member charged the District \$260 for a second room and did not provide documentation to justify how this additional cost related to District business. Also, a Board member and the Superintendent each rented a car and charged the cost to the District rather than sharing a car when they attended a conference together in Scottsdale, Arizona.
- The District sponsored two retreats for its Board members and certain employees. Both of these retreats were held in a remote location requiring additional outlays of money for transportation and lodging. The retreats were held at an ocean-side resort at a cost of \$31,178 including \$775 for alcoholic beverages, \$500 for hors d'oeuvres and \$1,069 for food and beverages above the three meals a day included in the conference rate.
- The District spent \$2,724 to send two of its employees to a seminar in Hawaii on advanced placement courses. The expenses were for registration for the two employees and travel expenses for one of the employees. Based on the cost, we question if the District may have been able to find a

similar seminar closer to New York. We also questioned expenses related to other trips including \$92 for a hotel room upgrade, and \$423 for finance charges and late payment fees on District and personal credit cards.

- Board minutes showed the Board authorized about 50 individuals including Board members, Central Office administrators, and others to attend a conference in San Diego. While it may have been reasonable to send some Board members and employees to the conference, we question the need to send a contingent of Board and Central Office administrators. The attendees could have reported back to the District on the results of the conference, while saving travel expenses. Also, the District should consider the feasibility of bringing trainers to the District in the future.

Inappropriate Expenses

School districts should ensure that all disbursements are for district related business and provide a benefit or add value to the district and its students. However, we determined the District paid for some personal expenses which were not appropriate or related to District business. Some specific examples follow.

- The District paid an additional \$133 in airfare for a Board member to stop over for several days in Las Vegas, prior to attending a conference in Los Angeles.
- The District paid for personal expenses such as long distance phone calls, movies, and \$54 for a fruit basket for a Board member in the hospital. Documentation was not available to show the long distance phone calls were District related expenses.
- The District reimbursed the Superintendent for the costs of a hotel room for four nights to attend a conference in Florida. However, the flight ticket showed he was in Florida for only two nights. In addition, receipts for that trip indicated food costs for two guests were charged to the District, but the names of the guests and the purpose of the dinner (meeting) were not provided. The Superintendent also flew from Florida to Portland for a six-day visit then back to New York at District expense. Documentation was not available to show the flight to Portland was related to District business.

- The District used Title 1 grant funds to reimburse a consultant approximately \$623 for lodging and meals at a conference. We questioned the appropriateness of the expense since it is not a customary practice to pay such expenses and it was not a requirement of the consultant's contract.
- The District paid \$51 for personal expenses including the sports channel for the Superintendent while attending a conference in New Orleans. The District also paid \$130 for personal expenses including a massage and cosmetics for the former District Clerk while attending the District's retreat. After notification by the auditors during fieldwork, the District was reimbursed for the personal items.

Inadequately Documented Expenses

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

- The District paid certain travel and conference expenses based on monthly statements of credit card charges. However, actual hotel bills, flight tickets, and receipts for meals were not routinely required for Board members and others. As a result, the audit questioned \$11,400 for credit card expenses in the 1997-98 school year. Without adequate documentation, the District cannot justify that the expenses were necessary, reasonable, and directly related to District business.
- The District did not maintain adequate documentation to support costs for two Board members and the Superintendent to attend a three-day conference in Dallas in March 1997. The Superintendent claimed \$1,844 for hotel charges for the three individuals and \$410 for food. The hotel charges were supported by a \$1,331 hotel bill, but documentation was not available to explain the additional \$513. In addition, the hotel bill showed that the charges were paid with a \$3,500 check, but documentation was not available to show the

source of the check or an accounting of the payment. In regard to the food bill, no detailed documentation was available to show the names of the diners and the purpose of the meals (meeting). Some of the food charges may have been for the two Board members attending this conference even though each received a \$240 advance for meals and incidentals.

- The District did not maintain adequate documentation to show the purpose of a three-day conference in Albany costing \$2,000, a one-day conference in Cambridge (Boston) costing \$487, round-trip airfare between NYC and Miami costing \$372, and payments to a Board member for "consultant related services" for \$208.
- The District also did not maintain adequate documentation such as mileage logs to monitor use of its vehicles including sedans, pickups and other trucks. Without the mileage logs, the District has less assurance the vehicles' usage is appropriate.

The District needs to improve its processes to ensure meeting, travel, and conference expenses are approved, accounted for, related to District business, and adequately documented.

Recommendations

1. Require Board members and the Superintendent to obtain approval to attend conferences.
2. Establish a formal resolution empowering the Board, the Superintendent or an administrative board to authorize staff to attend a conference.
3. Assess the necessity and appropriateness of the travel advances for Board members who are authorized to receive District credit cards for their official use.
4. Require Board members and others to account for travel advances by providing invoices and receipts to show actual costs and refunding any amounts in excess of actual costs.
5. Ensure Board members and District employees provide reports including benefits to the District from attendance at conferences.

6. Ensure all conference expenses paid by the District are reasonable, necessary, directly related to District business, and adequately documented.
7. Recover all expenses that are unnecessary or excessive, inappropriate or not related to District business or inadequately documented.
8. Obtain reimbursement for any overpayments.
9. Establish a formal policy addressing the provision of food and beverages at District meetings and events.

Comments of Hempstead Union Free School District Officials

District officials agreed with the recommendations.

Personnel and Payroll Practices

The District spent almost \$51 million or 70 percent of its general fund expenditures in 1997-98 on salaries and fringe benefits for its employees. Employees are responsible for taking action to ensure the District achieves its goals and objectives. The Superintendent and the Board have primary responsibility for identifying staffing requirements, and for recruiting and selecting staff. Certain District actions related to staffing raise a question as to the effectiveness of the District's personnel and payroll practices. The District also needs to implement additional internal controls in the personnel and payroll area.

Staffing

Districts should identify their staffing needs and hire the most qualified individuals for the positions consistent with education, prior work experience, and past accomplishments. Improvement opportunities exist for the District related to staffing interim administrators, the district clerk, and curriculum specialist and special assignment positions.

Interim Administrators

The District's senior management, including the Superintendent, Assistant Superintendents, directors and principals have key responsibilities for managing, directing and overseeing the District's operations. The positions should be filled with qualified permanent staff to help ensure the District meets its goals and objectives and to help establish stability, consistency and continuity in the District's operations.

Our review found that the District filled six senior management positions with temporary appointment or "interim" administrators rather than permanent staff. The interim administrators are responsible for managing staff and other duties of the position as defined in the job description. They work on a per diem basis without the benefit of a written agreement or contract, and receive \$450 per day. The positions were filled with interim administrators for an extended term which in one case was for over two years. The use of interim administrators does not serve the best interest of the District and we recommend the District strive to fill these key management positions with permanent staff to provide for stability, consistency and continuity in District operations.

In filling one of the positions, the District hired a qualified Assistant Superintendent for Curriculum and Instruction (C&I). The District, however, continued the Interim Superintendent for C&I (a District retiree receiving a full pension) on the payroll at \$450 per day for several weeks after his successor was hired. The District may have been able to avoid some of the costs for the Interim Superintendent for C&I if it had terminated his employment when his successor was hired.

As of January 1999, the District has filled all but two of the positions with permanent staff. One of the positions which is still vacant is the Director of Technology position. In the absence of a Director of Technology, the District used a group of three consultants costing a total of \$950 per day. Without a permanent Director of Technology to direct and coordinate technology activities, the District may not be optimizing use of its resources and may be incurring unnecessary costs.

District Clerk

The District should hire experienced individuals to the extent possible rather than spend time and money on training inexperienced individuals. The District hired a District Clerk (Board clerk) on March 16, 1998 at a salary of \$36,000 and continued to pay the former District Clerk through June 30, 1998, the remainder of her contract even though she no longer performed this function. Our review of the new Board clerk's personnel file shows this individual has no previous school district or Board clerk experience. To prepare the individual for the job, the District hired a consultant to train and assist the new employee in her duties. The consultant's contract states that services will be provided over nine months at a cost of \$600 per week for 15 hours and \$75 per hour for additional time. The District could have avoided some of the \$10,476 in consultant costs if they hired a more qualified individual.

Curriculum Specialists and Special Assignments

The identification of the need for staffing should be documented and reviewed on an annual basis. The District should ensure the number of teachers assigned to curriculum specialists, special assignments and administrative positions is limited to the optimal amount. The District should minimize the number of teachers that are placed in non-teaching positions.

Our review found that the District assigned 33 teachers/principals to curriculum specialist and special assignment positions with responsibility for public relations, inventory maintenance, administrative assistant, teacher mentoring, attendance, staff development, and teacher coordination. Some of the District's practices related to staffing these positions led us to question the effectiveness of the District's use of these employees.

- Employees in these positions may not be the most qualified individuals since some of the positions were appointed, rather than subject to the District's established hiring and selection process. Also, the District did not establish or maintain the criteria used to fill the positions.
- Salaries for some of the positions may not be commensurate with the responsibilities. For example, a former principal receiving a salary of \$111,000 was appointed to the position of Principal - Assigned to Special Services (Administrative Assistant to the Superintendent) and his responsibilities were significantly reduced from that of a principal, although his salary remained the same. This individual was made responsible for the audio-visual technology program, inventory, purchase of BOCES services, and community and public relations.
- The District did not clearly identify in the budget or the accounting records the positions and cost for curriculum specialist and special assignment positions. For example, the position and cost for a principal on special assignment were included on the budget line for principals. As a result, the various cost centers do not accurately reflect the positions or cost of providing the services.
- Some employees assigned to special projects may have overlapping duties and responsibilities. For example, an employee was appointed to a special assignment related to public relation activities, even though these activities are performed by a consultant and the Superintendent. Four other employees in special assignment positions have responsibility for various aspects of staff development.
- Although the special assignments are renewed on an annual basis, documentation was not available to show the District analyzes its need for these positions on a regular basis.

The District's practices related to interim administrator, the District Clerk, and curriculum specialist and special assignment positions raise a question regarding the effective deployment of its personnel and efficient use of resources. The District needs to minimize its use of interim administrators and ensure qualified staff is hired. It also needs to assess whether the duties of the special assignment positions may be more efficiently performed by part-time employees, teachers with reduced class loads, or consultants used on an ad hoc basis. The District also needs to document its staffing need analysis, and its selection and hiring process.

Internal Control for Personnel and Payroll

The District has opportunities for improvement in internal controls over its personnel and payroll practices. The District did not maintain all the necessary documentation in its personnel files, complete payroll changes in a timely manner, accurately report perquisites (perks), and periodically conduct payouts of employees' checks.

Documentation in the Personnel Files

The District should maintain adequate documentation to support personnel and payroll transactions. This information is necessary to show the District adhered to its personnel and payroll procedures. Our review of a sample of personnel files showed the District did not maintain all the necessary documentation to support personnel transactions. The sampled files did not contain:

- résumés or letters of interest used to apply for positions,
- interview documentation such as candidate ratings and recommendations,
- evidence of District contact with references provided by job candidates,
- performance evaluations for administrators, or
- certain personnel worksheets such as employee terminations and changes in salary or grade.

Without complete and accurate documentation, there is less assurance the District hired the most qualified staff, provided feedback to administrators on their performance, and adequately documented its personnel and payroll changes.

Payroll Changes

In order to add or delete an individual to the payroll or change the pay rate, the Personnel Office must notify the Payroll Office of the change. Without such notification, the Payroll Office should not make any changes. The Personnel Office does not routinely notify the Payroll Office of all changes in payroll such as new hires, reinstatements, terminations, or retirements. As a result, there is an increased risk that employees may not get paid the correct amount or in a timely manner. In fact, between 10 and 15 out of 971 employees (mostly professionals and teacher assistants) did not get paychecks for the first payroll in September 1998 due to poor communications between the Payroll and Personnel Offices, inconsistent data, or missing paperwork. The District needs to ensure the Personnel Office routinely notifies the Payroll Office of all changes in the payroll on a timely basis.

Perquisites (Perks)

The Internal Revenue Service (IRS) requires employers to include in employees' gross income certain fringe benefits or perks such as use of cars, moving expense reimbursement and travel allowances. The benefits are subject to income and employment taxes as outlined in the IRS Publication 535.

The District provided several employees including the Superintendent with certain benefits that may be taxable. These benefits include use of cars, reimbursement of moving expenses and temporary lodging expenses, and car and travel allowances. However, the District did not include the value of these perks on the employees' W-2s and therefore did not accurately report wages and benefits to the employees and the applicable government agencies.

Paycheck Distribution

One control over payroll includes distributing paychecks to each employee in person and requiring each employee to sign for the check. The District has about 971 employees at over 13 locations. The Business Office gives the paychecks to designated representatives from the various locations for distribution to employees at those locations. In addition, the Business Office also mails other paychecks to certain employees. As of September 1998, the District instituted a new control requiring all employees, except for those who have their checks mailed to

them, to sign for their check. The control also requires each location to return the signed sheets along with any undistributed checks to the Business Office for review. This significantly improved controls over distribution of paychecks.

However, controls could be further improved if the District implemented a policy requiring the Business Office or the Internal Auditor to periodically account for and distribute paychecks to employees (payout). As part of the payout, the District would require the employee to sign for the paycheck, follow-up on any unclaimed checks, and follow-up on all employees who have given special instruction on disposition of their checks. For any employee requesting that the check be mailed, the District should require that the employee return a signed form indicating the check was received. While the District has not conducted payouts in the past several years, it has budgeted funds in the 1998-99 school year to hire a firm to conduct a full payroll audit including a payout.

Recommendations

10. Strive to fill key management positions with permanent staff as opposed to using interim administrators on an extended basis.
11. Consider hiring a Director of Technology to direct and coordinate the District's technology plan.
12. Establish and adhere to policies and procedures to help ensure the District selects the most qualified person at a reasonable salary.
13. Ensure salaries paid to employees are commensurate with responsibilities.
14. Ensure the positions and cost for staff assigned to curriculum specialist, special assignment and other administrative positions are properly identified and reported in the budget and accounting records.
15. Ensure staff members assigned to curriculum specialist, special assignment and other administrative positions understand their responsibilities and eliminate any duplication of effort.

16. Analyze and document the need for special assignments on a regular basis.
17. Maintain adequate documentation to support personnel and payroll transactions.
18. Ensure the Personnel Office routinely notifies the Payroll Office of changes in employee status.
19. Accurately report perks to employees and the applicable government agencies.
20. Conduct a payout to help verify the appropriateness of the payroll.

Comments of Hempstead Union Free School District Officials

District officials agreed with the recommendations.

Status of the Prior Audit's Recommendations

The Board and the Superintendent are responsible for establishing and maintaining an effective internal control structure. The objectives of internal controls are to help to ensure that assets are safeguarded against loss from theft or unauthorized use; ensure compliance with laws, regulations and policies; maintain the reliability and integrity of reports and data; and ensure operational efficiency, economy and effectiveness. The effectiveness of internal controls is impacted by many factors including management's overall understanding, awareness, and actions related to internal controls and the specific policies and procedures which are implemented.

Our prior audit in 1996 resulted in 81 recommendations for improvements related to the District's financial condition (revenue and expenditures), State aid claims, and internal controls for certain area including budgeting and expenditures, the accounting system, purchasing, and inventory. At that time, the District agreed with the recommendations and stated action would be taken to implement the recommendations.

As part of this audit, we followed up with District officials to determine the status of the implementation of those recommendations. The audit found the District has fully implemented 55 recommendations, partially implemented 20 recommendations, and did not implement 6 other recommendations. Although the District has made significant improvements since the prior audit, the District needs to do more in this area including making managers aware of the importance and necessity of controls and accountability in order to improve and strengthen the existing control environment. This section of the report highlights the actions taken by the District in response to the recommendations of the prior audit and the additional work that needs to be completed. A complete list of the prior recommendations, the status of the recommendations and any additional actions required was provided to the District under separate cover.

Fully Implemented Recommendations

The District implemented 55 recommendations and made significant improvements in the following areas:

- The District has improved the monitoring of its financial position. This included implementing a state-of-the-art accounting system, encumbering all obligations as soon as they become known, ensuring expenditures are charged to the correct accounts, projecting year-end budgets, ensuring budget status reports are provided to all managers, and limiting the unreserved fund balance up to the allowable amount.
- The District has improved its grant management. These improvements include monitoring continuously to avoid overspending, transferring fringe benefits and indirect costs from the general fund where appropriate, ensuring budget amounts for grants are based on grant awards, closing out grants on a timely basis, and using a standardized account coding system.
- The District has established procedures to help ensure Average Daily Attendance (ADA) data are accurate for home and hospital bound students, and Medicaid billings are timely and complete.
- The District has instituted budgets for all funds including the School Lunch Fund and also has documented the budget process and budget amendments.

Partially Implemented Recommendations

The audit determined 20 recommendations have been partially implemented. Although some improvements have been made, additional actions should be taken to complete the implementation process as follows:

- The prior audit recommended the District control spending, limit expenditures to available funds, and ensure budget transfers are made timely. These recommendations are consistent with Section 1718.1 of the Education Law which states a board may not incur a district liability in excess of the amount appropriated unless specifically authorized by law to do so. This law has been interpreted to apply to specific appropriation lines as opposed to higher levels such as the total budgetary appropriation or appropriations by major functional areas. This is also consistent with the guidance given by the Department in its purchasing handbook for schools. Although the District has drastically reduced the number of accounts that carry negative balances,

it has continued to incur obligations without available funds in specific appropriation lines. For example, our review showed that up to 33 non-payroll accounts were overspent in the first half of the school year including \$246,443 in a textbook account and \$78,550 in a computer/contractual services account. District officials were aware of this situation and approved the purchase requisitions without making budget transfers. While we do not question the purchase of textbooks, we do question the appropriateness of exceeding the budgeted amounts by \$246,443. This increases the risk that the budget may be overspent.

- The prior audit recommended establishing a procedure to verify students' actual attendance in classes and the appropriateness of inclusion in ADA. The accuracy of the attendance data is critical since it is one of the key factors in determining State aid. The District recently purchased and installed a new computerized attendance system and assigned one individual responsibility for District attendance. In conjunction with the new system, policies and procedures have been put in place that, if used consistently, will accurately record daily attendance and will verify actual student attendance in classes. However, the District still needs to establish procedures to periodically verify the accuracy of the attendance counts reported for ADA.
- The District hired a consultant to assist in implementing the recommendations related to improving controls over fixed assets. The consultant is developing an inventory record of all fixed assets, tagging all assets, and developing written policies and procedures. We were not able to determine the accuracy or completeness of the inventory controls since the controls have not been completed or fully implemented. However, a cursory review of the inventory listing disclosed that several descriptive items were not included in the inventory listing. Those items include the condition, replacement cost, useful or remaining useful life, and financing source (general fund, grant, and donation) for each asset.
- The prior audit recommended the District budget fringe benefits and indirect costs for all funded programs and ensure the final expenditure reports for grants are verified by program coordinators and agree to the District's accounting records. The District now budgets fringe benefits and indirect costs for funded programs except for the Pre-K

program. District officials stated they will budget these costs in the Pre-K program in the 1999-00 budget. In regard to ensuring the accuracy of the final expenditure reports for grants, the audit found the final expenditure reports do not agree to the accounting records for two out of four sampled grants. The final expenditure report for one grant did not agree with accounting records because of a budget amendment that was not posted. The final expenditure report for an adult education grant was submitted more than two months late and also did not agree to accounting records. In both cases the problems were resolved with contact between District officials and the Department staff. However, these kinds of exceptions could be eliminated if program coordinators verify the accuracy of the final expenditure report.

- The prior audit recommended the District file the necessary 58 reports for completed projects for Building Aid, some of which dated back as far as 1986. The District has recently submitted all but two of the required reports.
- The prior audit recommended the District establish additional controls over petty cash accounts. The Board policy states the District shall maintain three petty cash funds not to exceed \$100 each. Board policy further defines the type of expenditures that can be reimbursed from petty cash. However, the District had ten petty cash accounts in use with funds exceeding the \$100 limit and certain expenditures, such as food for meetings, that were not consistent with the Board's policy. Also, no periodic cash counts or reconciliations were completed during the year. In response to the audit, the District updated its policy to reflect the actual number of petty cash funds, set a dollar limit on reimbursement amounts, and set guidelines on allowable types of expenses for petty cash. However, the District's procedures still need to be revised to require periodic surprise cash counts during the year.
- The prior audit recommended the District obtain the necessary documentation to support the appropriateness of expenditures and the authorization of payments. The Board has delegated the responsibility for auditing claims for payment to its Internal Auditor. As such, the Internal Auditor should approve, for payment, only invoices with complete supporting documentation. However, based on our findings regarding meeting, travel and conference expenses,

it appears the Internal Auditor did not require complete supporting documentation. Also, the Internal Auditor did not review contracts or assess the appropriateness of expenditures prior to payment. As a result, there is less assurance the District is only paying for reasonable expenditures that are directly related to District business. In addition, the Internal Auditor does not always stamp or cancel all paid bills and related documentation to prevent duplicate payment. The independent auditor's management letter also noted this finding and recommends the District review the job description and responsibilities of the Internal Auditor and ensure that he is made aware of his specific responsibilities.

- While the District has taken some action related to its written policies and procedures, it needs to update its written policies and procedures and distribute them to appropriate staff. The District also needs to develop and issue policies and procedures for business office staff, use of the postage machine, and for reimbursement of unused vacation and sick leave accruals. In addition, the District needs to further limit the use of confirming purchase orders and determine the appropriateness of payments for vacation accruals to former employees.

Recommendations Not Implemented

The District has not taken steps to implement any of the following six recommendations. We believe implementation of these recommendations can improve the District's controls.

- The District has not reviewed documentation to support equivalent attendance or disability weightings for the 1994-95 school year as previously recommended. Without such a review the District has less assurance the reported data are accurate.
- The District has not reviewed 1994-95 grants for accuracy and allowability of claimed expenditures. District Official indicated it is not cost beneficial or feasible to review final expenditure reports for grants for this period. Instead they have concentrated on improving grant management for periods subsequent to this period.
- The District has not implemented procedures to review contracts prior to issuance of payments. Neither the Internal

Auditor nor the accounts payable staff routinely review contracts prior to making contract payments. The District needs to implement this recommendation to help ensure payments made are not in excess of the contracted amount or authorized prior to the due date. In reviewing contract payments made in 1998, we noted the District did not solicit bids for a \$275,000 contract to update the audio and video systems in the middle and high schools. This is both contrary to GML requirements and a circumvention of the District's policies and procedures. We also noted that the project was not budgeted for or included on the District's capital facilities plan.

- The District has not prepared and issued an employee handbook to each employee as previously recommended. While, the District provides copies of employee contracts and various packets of information to new employees as well as other information at annual teacher orientation meetings, it has not put together an employee handbook to guide employees in the performance of their duties.

Due to the passage of time, implementation of the recommendations related to the 1994-95 disability weightings and grants may no longer be warranted. However, the District should implement the recommendations related to contracts and the employee manual.

Recommendations

21. Ensure funds are available in specific appropriation lines before incurring additional obligations.
22. Establish a procedure to periodically verify the accuracy of the attendance counts reported for ADA.
23. Ensure the inventory records include all required descriptive items.
24. Budget fringe benefits and indirect costs for the Pre-K program.
25. Ensure the amounts reported on final expenditure reports agree to the accounting records.
26. Require that program coordinators verify the accuracy of the reported amounts on the final expenditure report.

27. File all the necessary reports for Building Aid by the June 30, 1999 deadline.
28. Conduct periodic surprise cash counts for the petty cash funds.
29. Review the Internal Auditor's job description and responsibilities and ensure his review and approval of claims are appropriate.
30. Update the District's policies and procedures and distribute them to appropriate staff.
31. Limit the use of confirming purchase orders.
32. Determine the appropriateness of payments for vacation accruals to former employees.
33. Review contracts prior to issuance of payments to help ensure compliance with the terms of the contract.
34. Solicit bids as required by the GML and ensure capital projects are budgeted for and included on the District's capital facilities plan.
35. Prepare and issue an employee handbook to guide employees in the performance of their duties.

Comments of Hempstead Union Free School District Officials

District officials agreed with the recommendations.

Hempstead Union Free School District
Contributors to the Report

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

Auditor Notes



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July 8, 1999

Daniel Tworek, Director
Office of Audit Services
The State Education Department
The University of the State of New York
Room 524 EB
Albany, New York 12234

Dear Mr. Tworek:

Thank you for sharing the June 8, 1999 Draft Audit Report with us. At the time of our closing meeting with the audit staff in October 1998, we expected to receive the report forthwith, especially since there seemed to be an urgency to schedule the audit for July.

As you know, the audit took place between July and October even though we had advised you that it was inappropriate timing. During that period the district was engaged in many major activities which in addition to working with your auditors, the Business Office was specifically involved in:

1. Closing of the books for the 1997-1998 school year.
2. Working with a new CPA firm.
3. Preparing for the new school year with staffing and purchasing.
4. Implementing the new Finance Manager Accounting System for the first full fiscal year.

Except for those constraints, the audit was an appropriate follow-up to the 1996 report.

The report contains some valid and invalid information. It also contains comments and judgements apparently based on conjecture and surmise, while others were irrelevant and out of context. Nonetheless, we have taken the criticisms to heart and have implemented policy and procedure activity to respond organizationally to such criticisms. We also note, that the audit period was July 1, 1996 - May 28, 1998 and some audit comments exceeded those parameters. Further, this was as the reports indicates, "...A financial related audit...", but many of the comments and judgements were on educational organization issues.

Attached are our comments concerning the detailed draft audit report submitted for the period July 1, 1996 through May 28, 1998.

Sincerely,

Nathaniel Clay, Ph.D.
Superintendent of Schools

NC:nc
Enclosure

C: R. Cate
K. Ahearn
J. Kadamus
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Hempstead Board of Education
S. Donato, Assistant Superintendent for Business
R. Lewis, Ass't. Sup't. for Curriculum & Instruction
J. McClendon, Associate Superintendent

The Mission of the Hempstead School District, a Long Island Model suburban-urban culturally diverse public school system is to ensure that students achieve personal growth and academic success and become productive citizens in a global society, by engaging students, staff, family and community in a comprehensive, challenging curriculum and effective instructional program which responds to each student's needs and aspirations in a safe and nurturing environment.

Audit Report Response

1.

Executive Summary

#1

The significance of the first paragraph of the executive summary is not easily understood. The relevance of the cost per student and the district's tax rate, vis-avis, other districts in the state and Nassau County, is not clear. Regional cost of living (CPI) extant in Nassau County, is and has been higher than virtually all of the other areas of the state. The CPI is not referenced by the auditor, and other differences between the Long Island region and other regions of the state are also not referenced. Since this is a major differentiation between areas, the auditor should have provided some explanation. Why that was not done is not clear. The reasons for these statements cannot be easily put into perspective unless there is an intent beyond the scope of the audit which we do not currently comprehend.

What is the significance of the statement that the District's tax rate may be twice the state wide average? That statement alone is misleading and should be eliminated, modified or explained in the report. Major contributing factors other than regional CPI, are the inequitable Transitional Adjustment in state aid also known as the State Aid Cap, and the inequitable distribution of assessed value for commercial properties. The first of these two, state aid, affects our district by over 12 million dollars annually and in the past four years alone, 50 million dollars. Assessed valuation in the district plummeted in the past two decades close to 25 % (over 20 million dollars). Eliminate the transitional adjustment and the tax rate would be substantially reduced.

Commentary as to the relationship of tax rate to state-wide average without explanation is an invalid comparison and calls for further explanation on the part of the auditor.

Audit Report Response

2.

Audit Results

The commentary opening this section which recommends that more controls and improvements in the district should be implemented we agree with. An organization of the size and scope of the Hempstead School District, especially one whose mission is the education of its 7,000 children, and further, based on, the need for achievement of higher standards of performance, not only to the state requirements but local aspirations as well, dictates the essentiality of continued improvement.

#2

Comments on the specifics as reflected in the Audit Results Section follow. A particular concern of ours, is the use of "tone at the top" expression as if this were standard in exemplary management circles. Neither my immediate staff nor I with over 200 years of management experience have ever seen this expression used in an audit. We believe it is inappropriate and should be deleted.

#3

Paragraph two of this section reflects an auditor's judgement that "Retreats " for Board of Education Members and for members of the administrative staff including principals, chairman of various departments, and the expenditure involved was unnecessary and inappropriate. This is a judgement that flies in the face of generally accepted management practices throughout industry, education and government.

#4

It is flawed judgement on the part of the auditor. Conduct of a board retreat to assure that the plans for progress are in place is totally appropriate. The audit comment relevant to the stopover in Las Vegas is in error. There were actual savings to the district, insofar as the airfare paid by the district for the board member was one way only. The New York to Las Vegas expense was incurred by HUD for the Board Member who was attending a National HUD conference in Las Vegas before proceeding to Los Angeles. The fact that a Board member should not only serve the school district as a volunteer board member, but should also provide public service to residents as reflected in his HUD activities should more appropriately result in commendation rather than criticism.

We agree with the first two sentences of paragraph 3. Information and documentation reflected for the audit period could have been better maintained and improvements are being made. In any organization that functions at a 90 to 100 million dollar level, information problems do take place. Correction of these items requires continuous attention. The last comment is an opinion which in the dimension of a 90 -100 million organization is not supported empirically.

Audit Report
Page3

This section again cites the need for improvement. It also questions the judgement relevant to hiring "interim administrators... inexperienced District Clerk..... and assigning 33 teachers, principals to curriculum specialist and special assignments positions."

#5

The auditor did not recognize the reason for interim administrators having been appointed. The fact is that interim administrators were a proposal submitted by the then superintendent of Nassau BOCES. He in conjunction with members of the State Education Department devised the program and recommended the implementation of a BOCES team of interim administrators. This was implemented in 1996. Since then, many of the positions have been filled with permanent personnel. Please note that the Superintendent of Schools was not willing to fill the positions with persons that were less than competent as long as competent interim administrators were available. That same judgement continues and the criticism in that regard is rejected.

The district continues to carry two interim administrators. It appears that within the next few months, at least one of those positions will be filled with a competent permanent administrator. The second of the positions continues to be pursued.

#6

The judgement made by the auditor that it was inappropriate to hire an "inexperienced District Clerk" was tantamount to saying that no new people should ever be put into position. The audit report did not reflect that the Superintendent's secretary served in the role of District Clerk for over 7 years. The burden was extensive and as competent as she was in handling this position, it was clear that it was appropriate to have a second person take the District Clerk position. With the exception of the Superintendent's Secretary, there was no one in the district, nor the municipality who had School District Clerk experience and was available.

Let us further point out, that the District Clerk works solely for the Board of Education and is one of the two officers recognized in law with requirements of maintaining appropriate organizational information and records. This is a major function and cannot be minimalized.

#7

Assigning of 33 teachers/principals to Curriculum Specialist and special assignment positions, has been, is and will always be a prerogative of the superintendent of schools with Board of Education approval. This is an effective managerial process used to attend to various aspects of school district needs. Each district approaches their needs from this standpoint individually in consideration of cost benefit impact.

Audit Report

Page 4

Paragraph 5 makes mention of controlling district spending and we think that has been done reasonably well. There is no question that other improvements can take place. There is also no question that from time to time well trained professional personnel will have different opinions as to various items of expenditure. That hopefully will continue to exist so that we can ultimately evolve the best systems possible for our district and student body. Differences of opinion are appropriate to a well-managed organization.

Filing of outstanding building projects reports before the deadline is another item that the auditor indicated we need to address. Insofar as over 50 reports had not been filed from the 1987-1992 period, and insofar as there were many managerial financial changes during that period of time, gathering of the information and reconstructing of the operating scenarios has taken extensive time. As of this date, all of the old projects have been attended to with final building reports for all having been submitted and with the exception of two for which extensions have been requested. The district is up to date with the filing of these reports.

The extensions were necessary because the architect of record on these two projects did not complete the necessary reports, and that architect is not longer in business. Tracking down employees of the firm, and the old records of the firm is not easy. Nonetheless we have received some indication that the architects' files might be accessible in dead storage. We expect resolution of this matter by October 1999.

The Fixed Asset Inventory is under control of one of our administrators who has physical inventories and updates of the records being conducted in accordance with procedures as recommended by the inventory professionals. This is necessary to meet fiscal closing requirements and CPA audit guidelines.

Establishing and disseminating numerous policies is another area where we have taken action by the appointment of a Board Consultant who has extensive background and experience in Board of Education policy work and with the NYSSBA

There is audit commentary that the "the district should pursue implementation of the prior audit recommendations related to contracts and an employee manual.

The recommendation as to contracts appears appropriate and is being pursued. The employee's manual is in development with scheduled completion in September 1999.

INTRODUCTION

Background

#8

The commentary in paragraph one of this section is similar to that as reflected in the Executive Summary. It is duplicative and not appropriate for repetition.

Paragraph 2 - is not within the scope of the audit and should be excised. The scope of the audit was specifically "...financial management, records and documentation.."

Paragraph 2 is educational management which we are addressing appropriately.

#1

Paragraph 3 is irrelevant since it makes comparisons to other areas of the state and to tax rates without providing full and appropriate information and also without providing information as to its relevancy in this report (see our comment to the executive summary.)

Scope, Objective and Methodology

The overall commentary reflective in this section appears appropriate with the sole reservation that I have concerning the audit being conducted "...in accordance with Government Auditing Standards..." We believe that the use of surmise and conjecture goes beyond the scope of such standards.

Audit Results

#2

We agree with paragraph one of this section. Paragraph 2 again reflects "...tone at the top..." and before we can make a judgement on that expression, other than as

reflected previously, there should be some professional derivation reflected by the auditor. At this time it appears to be an opinionated approach without substance.

As to the bulleted items in the audit results section of the report, let me note the following:

1st bullet - We agree with

2nd bullet - Is a repetition of that reflected in the audit results and with the possible exception of one item the Hawaii conference, the commentary is inappropriate. It seeks to substitute an inexperienced auditor's opinion for that of well trained educational administrators.

3rd bullet - Totally inappropriate as reflected above.

4th bullet - This item is outside of the audit period, but does reflect a lack of an understanding on the part of the auditor as to both the goals and the processes of contemporary or state of the art school district systems. The textbook criticism emanates from the auditor even after explanation had been made to the auditor that funds from other areas of the budget were available and were being reallocated. The purpose was to provide textbooks to meet the New York State Education standards. Insofar as there were funds in the overall budget to handle this item, and insofar that it was an area of contingent expense, the statement of the auditor is unfounded.

Relevant to the "55 accounts," to be overspent. This also was an item of criticism covering a period outside of the time scope of the audit (August 1998). It should be noted that the report involved is a managerial tool which assists a large organization to maximize its funds without carrying contingencies. Information from the report is provided on an ongoing basis from which accounting corrections, budget transfers and appropriate reallocation can take place.

#9

Most of the 55 accounts in question were payroll accounts for which the 1998-99 payroll was being encumbered. Expenditures relevant to these encumbrances for the most part, did not take place until later in the year and were primarily for teacher payroll. Teachers do not begin getting paid until September of each year. Expenditures relevant to computer contractual services were also made to meet the requirements of the state relevant to technology. Funds were available from other line items to cover this expenditure and budgetary transfers were made to provide for same. The auditor was advised relevant to these factors at the time of her visit.

Bullet #5 was for expenditures outside of the audit period, which were for essential services at the middle and high schools. Nonetheless we have established procedures that this will not take place again without the solicitation of bids and appropriate budgetary planning.

The conclusion drawn "...that the district does not promote an environment of necessary and reasonable use of public funds...", is a conclusion not supported by report or the facts. The auditor's criticisms do not reflect how or where savings could take place, and would probably be minuscule if at all.

We do agree in retrospect that the Hawaii conference might have been eliminated and possibly some money saved. That of course could depend on whether a comparable conference were available in the continental US during the summer and at a cost which was less than the \$2,724. This program was a 7-day international advanced placement program providing training on a direct teaching and administrative basis. To our knowledge there were no other program available covering the subject during the summer. If there were a program attended in the regular school year, it would result in one administrator and one teacher having been out of the classroom for an excess of one week. The remainder of the commentary in this section is duplicative and appears to serve no audit purpose.

Comments of Hempstead Union Free School District Officials

We expect that the comments that we have made will be included in the audit report specifically and unabridged.

We do not wish them to be reflected as an appendix, but rather within the location and framework of the report to which the comment is directed.

Meeting Travel and Conference Expenses

#10

First paragraph reflects empirical data.

Paragraph two ends with a statement that appears empirical but is nothing more than opinion. It was constructed to reflect judgements that are surmise and conjecture. There is no question that many of the required reports which were verbal were not reflected in the records. Some of the approvals, travel advances, and expenses were inadequately documented. Those are appropriate in the closing sentence. To also include however, that the expenditures "...were unnecessary, excessive, inappropriate," is not valid. The auditor did not engage in dialogue relevant to the purposes of the various travel and therefore should not have made such comment.

The total travel expenditures of \$113,271 dollars, were for the entire staff of the school district, which approach 1,000 members. The expenditures for travel and conferences which were covered under labor and union contracts, with teachers, administrators, teaching assistants and others and were derivative from the Gen. Fund budget, from grant funds and state and federal funds, which were provided specifically for conference and travel expenses.

The auditor may be willing to substitute her judgement for that of professional educational administrators, and the Board of Education, but she is not responsible for the total operation os the school district and the education of over 7,000 children. We cannot accept her substitution of judgement in that regard.

The Board Did Not approve attendance at Conferences or Require Reports

The Board did approve attendance at conferences and verbal reports were made, the fact that the reports were not reflected in the Board minutes will be corrected in the future.

#11

There may have been some instances where the documentation did not specify authorization or reports relevant to attendance at conferences. Within the minutes of the board of education, specifically at the reorganization meeting of the board, there was, and continues to be specific designation of attendance of board members and the superintendents at various conferences. There is within the policy of the board of education, and within the powers of the Superintendent, authorization to allow staff members to attend conferences. The Superintendent exercises that power, and delegates where appropriate within the Board of Education Policy.

Board Members do not account for Travel Advances

There were cases where this criticism is found to be valid. The District Clerk is responsible for assuring that attention is given by all board members to any advances.

Travel Conference and Meeting Expenses were Unnecessary, Excessive, Inappropriate, and Inadequately Documented

Again we are in a section of commentary that is substantially duplicative of previous commentary. There is no apparent justification for such duplication. Again there are judgements reflected in paragraph (3) of this section which makes a statement concerning "...meals for non-district employees..." which is not substantiated.

#12

Bullet #1 duplicates previous statements.

Bullet #2 does the same but also substitutes the auditors judgement for bringing the entire school district staff together on orientation day at the opening of school in September and the expenditure involved for the entire staff. Extant practices and state of the art administrative procedures for school districts statewide provide for such activity and expenditure.

#13

The \$655 spent for a school celebration at the Library, emanated from a SED suggestion that a celebration in recognition of the Middle School coming off the SURR list was an appropriate activity. That celebration took place at the Hempstead Public Library in order to assure that there is a recognition on the part of the total community which shares in the progress of the student body. Let's not forget the First Lady's comments, "It takes a whole village to raise a child".

This recognition on the part of the School Board the Superintendent and community leaders was totally appropriate.

#14

Bullet #3 - The Superintendent's charge for an additional four nights at this conference was for district business. To be more specific about the conference, the superintendent charged rooms on his credit card for staff members who did not possess credit cards. The reason for the Superintendent and Board member renting a car in Scottsdale was due to the fact that they arrived at different times and transported twelve (12) staff members who were also attending the conference. This required two cars as opposed to everyone renting a vehicle or using cabs or public transportation for the staff.

Bullet #4 This is duplicative and again an attempt by the auditor to substitute judgement for the Board of Education and Superintendent of Schools.

Bullet #5 - The question of the Hawaii trip is again repeated. Why is it necessary to keep repeating this item. Is it to fill this document and give it an appearance of importance beyond the scope of its true value.?

#15

Bullet #6 - The conference in San Diego wherein 50 individuals were authorized to attend was discussed with the auditor who substituted her judgement again. The facts are that the attendance of this program was to begin the implementation of the America's Choice NCEE school district redesign. Monies were provided through grants to implement same, and much of the background and experience and initiation proceeded from the SED.

Inappropriate Expenses

Bullet #1 - The Las Vegas Trip has already been referred To and is a misrepresentation of the facts.

#16

Bullet #2 - Is a diminimus criticism. It also does not reflect the significance of the need for recognition of Board members individually and their roles in the school district. A \$54 expenditure for a fruit basket to encourage the wellness of a board member who is in the hospital is totally appropriate. Criticism reflects lack of interpersonal skills on the part of the auditor.

#17

Bullet #3 - The Superintendent did attend this conference for four nights. The original ticket showed two nights, however, plans were changed. The original ticket was submitted to the Business Office as opposed to flight charge.

#18

There was only one guest staying at district expense. The Superintendent with Board authorization does periodically take people to dinner to discuss the district and explore new grants and programs.

#19

The Superintendent's flight to Portland was paid by the district because the Superintendent was invited to Salem, Oregon to present several district initiatives at an

Oregon school Administrators Conference. Documentation was apparently misplaced, however, it was submitted and the Board informed regarding the nature of the trip.

#20

Bullet #4 - The consultant who attended the conference for which the criticism was reflected is filling a role for which the district has not had an adequate candidate for permanent appointment. It is an interim position and permanent appointment will take place when appropriate candidates are available.

Bullet #5 - Reimbursement have been made for those items.

Inadequately Documented Expenses

Bullet #1 We agree that documentation could have and should have been better and are taking steps to assure that.

Bullet #2- The Superintendent and sixteen staff members attended a Host (Help One Student to Succeed) conference in Dallas, Texas. The additional \$513 was spent in either meals and/or room accommodations for staff above and beyond the \$3,500 hotel bill. Additional documentation may have been misplaced prior to submission of all final receipts, but all charges were valid. The Superintendent and staff explained this during the exit briefing along with most of the items cited.

Bullet #3 - The 3-day conference in Albany as we best recollect is a conference with the State Education Department concerning funding for the district. The one-day conference in Cambridge (Boston) was in order to check out references of the prospective High School principal. Round trip airfare between Miami was for a school board conference. Payments to the board of education member were for expenses related to a teacher's retirement recognition dinner.

#16, #18

#21

Bullet #5 - Mileage logs were available were available and maintained for all but two district vehicles. They are now included.

Recommendations

1. Are included in the reorganization agenda in July.
2. Same as #1.
3. Included as part of the new board of education policy on travel and conferences.
4. Same as number 3
5. Same as number 3
6. Same as number 3
7. Recovery is made whenever know.
8. Reimbursement is demanded when overpayments are known.
9. Policy is to be developed.

The comment closing out the first paragraph is as valid for the Hempstead District as it is for any other school district, organization, state department, etc. All organizations need to implement and modify internal controls on an ongoing basis.

Staffing

The first sentence in the report is valid and was and is being done during and after the audit period. *Sentence #2* also is valid, but the decision as to the most effective method of staffing is the responsibility of the board of education and the superintendent.

Interim Administrators:

#5

The second sentence is valid only when qualified permanent staff are available, if not, then interim and temporary personnel may be the better course to follow. *Paragraph #2* in this section makes a judgement which is incorrect. The use of interim administrators does serve the best interest of the district, when experienced competent administrators are not available for permanent positions.

#22

Paragraph #3 reflects a criticism which again is invalid. The practice allowing for personnel overlap, especially at very high levels in the organization, provides for continuity of programs and articulation between incumbents and successors and is in the best interest of the organization.

Paragraph #4 in this section reflects a judgement that again is erroneous. Use of consultants to provide necessary services in technology is not unusual. If the universities produced adequate numbers of trained technology directors, then

permanent directors would be commonplace. They are not.

District Clerk -

#6

The criticism in this case is invalid. The District Clerk function is one which is recognized in state law as a major officer of a school district. The District Clerk is one of two officers specified in the law. Except for incumbents, all district clerks must learn a great deal of information and procedures on the job. With the high volume of records in the Hempstead Schools, three months of District Clerk overlap is not an option, but is essential. If a more qualified candidate were available, such would have been appointed. The candidate who was appointed was the best available.

Curriculum Specialist and Special assignments

The Superintendent and his staff, and the board of education do comply with the comment made that "...special assignments and administrative positions is limited to the optimum amounts..."

#23

Bullet #1 - The auditor's comment is "...may not..." But the District Administrations judgement is contrary. The auditor has not supplied empirical data to support the supposition.

#24

Bullet #2 - See response to bullet #1 for Bullet #2. In addition please note: that the auditor's judgement relevant to assignments is faulty. Responsibilities for this position was substantially increased above and beyond the principal level.

#25

Bullet#3 - Budget allocation for curriculum specialist and special assignments personnel are subsumed within the generic class of i.e., teachers and principals. They do accurately reflect the cost of providing these services.

#26

Bullet #4 - Please note the same comment as in bullet #1 above....some may and some may not! The example reflected is faulty because it misstates the role of the individual on special assignment, the consultant and the superintendent of schools.

#7

Bullet #5 - The auditor never asked for this information and therefore could not make this judgement. It is a fact that special assignments are reviewed after discussion and analysis of the special assignments and the district's needs.

Closing paragraph of this section reflect principles which are standard operating procedures. Effective deployment of personnel and efficient use of resources is continually pursued and discussed. The comment has validity, because it should be a standard in any organization. The comment relevant to duties of special assignment positions and the assessment as to whether they may be more efficiently performed by part time employees, etc., is an ongoing process. The last sentence in this section require delimitation specifically, as to what cost should staffing needs analysis selection and hiring processes documentation be maintained.

Internal Control for Personnel and Payroll

Comment of the auditor in the opening paragraph is valid. At the time that the auditor was in Hempstead, the certified public accounts were also present. They in their first audit of the district, reflected the commentary about perks. Correction of that specific has been put in place.

Payroll Changes

#27

The comment that the personnel office does not routinely notify payroll of changes is invalid. The report references a short period of time when

paperwork for new hires between 10 and 15 of the 971 total employees who did not receive their paychecks on the first payroll in September, 1998 was inadequate. The reasons given by the auditor were not complete. However, as the primary reason for paychecks not having been issued in the first payroll was that new employees did not submit their W'4s retirement data, etc. in a timely manner. It is proper for the district to withhold payments until appropriate documentation is in place.

The IRS requirements which were reference by the auditor have now been established. And the district is complying with such regulations.

Paycheck Distribution

This is one of a number of payroll type audit controls which can only be done or which require some outside intervention. In this case, a CPA audit activity.

The board has directed such audit to be done subsequent to the regular CPA audit for the subsequent school year.

Recommendations:

We agree with all the recommendations in this section.

Status of the Prior Audit's Recommendations

We are in substantial agreement with the status of prior audit recommendations as reflected in Appendix A. Our comments are therefore pointed to the six recommendations which have not been implemented:

Recommendations #'s 5, 10, 11, 47 - These cover the 94-95 fiscal period. There appears to be no cost benefit to analysis, review and correction of such data. No action will be taken on these recommendations.

Recommendation #61 - This is underway. Discussions with the internal claims auditor were held in the Fall of 1998 on this matter. Additional meetings are scheduled for July/August 1999.

Recommendation #78 - This is underway. The Employee Handbook is scheduled for completion in September 1999 with distribution to follow.

Hempstead Union Free School District
Auditor's Notes

1. The data are provided as background information on the District. The Hempstead tax rate is almost twice the average rate in Nassau County. Because Hempstead is one of the higher taxed districts in the county and State, it is all the more reason the District must be judicious about how resources are committed to the education of students.
2. "Tone at the top" is a phrase used in describing the control environment of an organization. The phrase is referenced in Internal Controls - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission (COSO), September 1992. This document was authored by Coopers and Lybrand with the oversight of the American Institute of Certified Public Accountants, American Accounting Association, the Institute of Internal Auditors, the Institute of Management Accountants, and the Financial Executive Institute. It is one of the key documents referenced in the current discussion of internal controls.
3. The audit does not question the necessity and appropriateness of the retreats themselves. However, the audit does question the amount of money the District spent to host the retreats. There are more economical ways to provide the same benefit to a large number of people. For example, if retreats were held at a closer location, the District would reduce travel and lodging expenses. In addition, expenses for alcoholic beverages are an inappropriate use of public funds. It should be noted that Regents Strategic Plan #5 states "Resources under our care will be used or maintained in the public interest." This matter, in part, is cited based on this goal statement. I have enclosed a copy of the Regents Strategic Plan for your reference.
4. The Office of the State Comptroller's Financial Management Guide (Guide) Subsections 8.1020 and 8.1025 provide guidance for the audit of claims and the reimbursement of expenses. The guiding principle states that the claim must contain sufficient detail to permit a satisfactory audit by a person who is entirely unfamiliar with the transaction. Documentation provided by the District did not indicate that HUD paid any portion of the airfare.
5. The audit did recognize the reason for the appointment of interim administrators. However, competent individuals could have been found if the District increased its outreach efforts to identify and secure those qualified candidates in a timely manner.
6. The audit does not question the District's need for a District clerk. However, the audit questions the costs involved in hiring and training an inexperienced clerk. With the former District clerk still available and being paid as clerk, the audit questioned the need for a consultant for nine months at a cost in excess of \$10,000 to train and assist the new clerk. In addition, the District could have obtained less costly training through other means such as NYS Association of School Business Officials' 3-day Summer Business Management Workshop, sponsored by ASBO, SED, and SUNY or by making contacts with other local district clerks through a Long Island district clerks' organization. In addition, Section 2114 of Education Law states that a vacancy in the office of clerk may be filled by appointment by the trustees of the district, and the appointee shall

hold office until the next annual meeting of the district, and until a successor is elected and has qualified. Under the circumstances, the Board does not have the authority to hire a new District clerk before the former District clerk had completed her term.

7. The audit does not question the authority of the District to have curriculum specialists and special assignments. However, the audit questions the process used to fill some of those positions. Special assignments should not continue year after year without a needs evaluation and analysis. The District indicated an annual analysis of positions currently held and the need to eliminate, continue, or create new positions is made, but it was not provided to the auditors.
8. The comment relates to student performance data presented in the background section of the report. As stated previously, Regents Goal 5 states “Resources under our care will be used or maintained in the public interest.” To achieve that goal, the Regents identify strategy 1 which is to “Expand the Department’s audit and program review functions; and focus these efforts on education, training, and rehabilitation programs with low performance or poor financial practices.” As such, references to School Report Card data indicating low student performance are provided as background information.
9. In determining the status of the 81 recommendations from the 1996 audit report, we considered all actions taken by the District prior to the issuance of the audit report. We will, however, substitute “up to 33 non-payroll accounts “ for “up to 55 accounts” in consideration of the payroll rollover from the prior year. As stated in the report, we are not questioning the textbook purchases. However, school districts should not encumber funds or incur expenditures in excess of available funds. Since funds were available in the overall budget to cover the textbook and other costs in negative balance accounts, the District should have made the transfers before the encumbrance or expenditure exceeded the budget appropriations approved by the voters. In addition, there were other accounts in which the negative balance increased over several consecutive months without timely transfers to mitigate the negative balances.
10. The District was given several opportunities to provide documentation in support of travel and conference expenses in question. Spreadsheets with the details of all travel and conference questioned items were provided at the exit conference. However, with the exception of documentation of three travel advances, the auditors were not provided with adequate explanations or documentation for the findings in this section of the report.
11. For the audit period, July 1, 1996 through May 28, 1998, the Board minutes do not contain a resolution delegating authority to the Superintendent to authorize attendance at conferences or specifically authorizing Board members and the Superintendent to attend specific conferences. OSC has issued opinions requiring approval for Board members to attend conferences to be specifically enumerated in resolution.
12. The audit does not question the appropriateness of bringing the staff together on orientation day; rather it questions the amount of money spent on this activity.

13. The audit does not question the appropriateness of a community-wide celebration recognizing the middle school removal from the SURR list; however, it does question the amount of money spent on this activity and whether the District was acting in a cost conscious manner.
14. Adequate documentation was not provided to the auditors to support the District's positions.
15. The audit does not question the requirement to send specific staff from each school participating in the program. However, the audit does question the need to send Board members and Central Office staff to such a training program, regardless of the fact that funds for these activities were made available through grants.
16. Expenses such as a fruit basket for a hospitalized Board member are of a personal nature and clearly not an appropriate use of public funds. Such expenses should be the personal financial responsibility of the individuals who desire to send well wishes. As such, it is not uncommon for employees of public entities to establish "sunshine" funds whereby employees' contributions are used to accommodate this type of expenditure.
17. Adequate documentation was not provided to the auditors to support the District's positions.
18. OSC's Guide states that cost of meals for any guests may not be paid for unless the cost for a lunch or dinner meeting with guests will promote a valid school district purpose. The claim should state the names of the guests and the topics discussed. Adequate documentation was not provided to the auditors to support the District's positions.
19. Adequate documentation was not provided to the auditors to support the District's position. Also, the audit questions whether the Oregon School Administrators should reimburse expenses for this trip.
20. The audit maintains the District should not pay expenses to send a consultant to training. The consultant who attended the training was one of three consultants hired by the District to provide technology services to the District.
21. Adequate documentation was not provided to the auditors to support the District's position.
22. While there is some benefit to allowing for personnel overlap, the additional cost of paying for the two positions may outweigh the benefit.
23. Without written criteria for some of the positions, it could not be determined if salaries were commensurate with the responsibilities.
24. The new responsibilities of the former principal appear to be significantly less. As principal of the middle school, this individual was responsible for about a \$7 million budget, 1,080 students, 90 professional staff, and a 123,200 square-foot building. In his new role, the individual was not responsible for supervising professional staff and had minimal involvement with students.

25. While the curriculum specialists and special assignments may be reported as teachers and principals, they are not correctly reported for the school location. For example, the accounting records show the position and cost for the Principal-Assigned to Special Services as a middle school cost, even though this individual's duties are now related to district-wide administration activities.
26. Adequate documentation was not provided to support the District's position that the roles of the individuals were misstated.
27. The report will include the primary reason for paychecks not having been issued in the first payroll. However, effective controls require that the personnel department would follow up on any incomplete records to ensure employees were paid timely.

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

Requests for Audit Review

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

An organization requesting an audit review must make a written application to the Associate Commissioner for Planning and Policy Development within 30 days of receiving the final audit report. An organization may request a review of an audit whenever the final audit report directs the recovery of funds from the organization and one or more of the following conditions is met:

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

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

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