

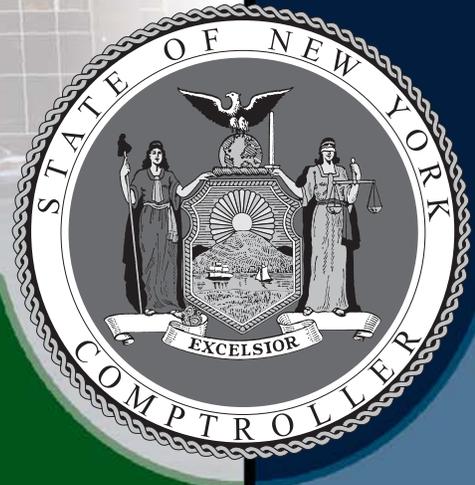
# SCHOOL DISTRICT ACCOUNTABILITY INITIATIVE

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2007 ANNUAL REPORT

OFFICE OF THE  
NEW YORK STATE  
COMPTROLLER

Thomas P. DiNapoli  
State Comptroller



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**Date of Issue: December 2007**

**RMD33**

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# OFFICE OF THE NEW YORK STATE COMPTROLLER

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## DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

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### MISSION AND GOALS

The Division of Local Government and School Accountability's mission is to serve taxpayers' interests by improving the fiscal management of local governments and schools in New York State.

To achieve our mission we have developed the following goals:

- Enable and encourage local government and school officials to maintain or improve fiscal health by increasing efficiency and effectiveness, managing costs, improving service delivery, and accounting for and protecting assets.
- Promote government reform and foster good governance in communities statewide by providing local government and school officials with up-to-date information and expert technical assistance.

Our strategies to achieve these goals are to:

- **Identify Solutions.** To become the premier source of information and policy analysis relating to local governments, and assist local governments and schools in addressing operational, financial and economic development challenges.
- **Monitor Performance.** To provide high-quality financial accountability services.
- **Share Knowledge.** To provide studies, best practices information, technical assistance, training, reference materials, local government data and other information to local governments, schools, state government, and other customers using an effective communications strategy.
- **Target Efforts.** To build on our risk-assessment processes and employ other approaches to ensure that limited resources are effectively deployed to the most critical activities.
- **Train Staff and Sharpen Tools.** To provide our staff with the skills and resources they need, improve work processes through collaboration and innovation, and apply technology to enhance effectiveness.
- **Respond Dynamically.** To function as a mission-driven organization that responds to opportunities for leadership, changing circumstances, and the Comptroller's initiatives.

# A MESSAGE FROM New York State Comptroller Thomas P. DiNapoli

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New Yorkers spend tens of billions of dollars on education each year. The Office of the State Comptroller plays an important oversight role regarding how these dollars are spent. After three years of auditing how school districts manage their finances, we have seen dramatic progress.

In 2007, my Office issued 257 audits of schools. By 2010, we will have audited all of New York's 834 school districts, Board of Cooperative Educational Services, and charter schools pursuant to Chapter 267 of the Laws of New York State.

As part of our audit effort, we highlight the best practices of the school districts that are well managed so that others around the state can learn from them. For those needing more assistance, our audits also offer practical recommendations to help schools operate more effectively and efficiently. For schools that are really struggling, we have even conducted real-time audits to help them manage their finances on a daily basis.

We also are doing more to help school board members receive training to better understand their fiscal oversight responsibilities. My Office now offers online training options and has developed several in-depth financial publications.

Next year, my auditors will probe some areas in more detail that many schools seems to be struggling with. For instance, we continue to find problems with how schools are designing their controls for information technology and what employees are being paid when they leave.

As a former school board member, I understand that improving New York State's schools is not a one-person effort. It takes the efforts of involved parents, dedicated school officials and board members, and interested community members. My Office will continue to do its part to help assure taxpayers that their funds are being carefully managed.

Sincerely,

Thomas P. DiNapoli  
State Comptroller



## SECTION 1:

# SCHOOL FINANCIAL ACCOUNTABILITY OVERVIEW

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This report fulfills the Comptroller's statutory requirement under Chapter 267 of the Laws of 2005 to "inform and advise the governor and the legislature in December of each year regarding a review of all school districts, Board of Cooperative Educational Services (BOCES) and charter schools audits conducted during the preceding twelve months and any other pertinent information that the Comptroller deems appropriate." This is the third Chapter 267 report issued by the Comptroller since enactment of the law in July 2005, and covers audit work occurring through December 2007.

The legislation was enacted in response to a number of scandals in school districts that threatened public confidence. It restored the Office of the State Comptroller's (OSC) audit presence in schools and helps prevent fraud and mismanagement from the inside by ensuring that school district officials have the information and understanding they need to recognize and prevent existing or potential fraud and abuse.

## Legislative Requirements

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The state legislature passed bills to implement the Five-Point Plan and provide additional funding for school audits in June 2005, and the governor signed them into law in July 2005. The legislation charged OSC with auditing more than 800 school districts, BOCES and charter schools within five years. These audits help deter fraud, expose fraud where it exists and point out best practices in districts that are well run and can serve as models for other districts.

### Fiscal Audits of School Districts (Chapter 267, Laws of 2005)

The law requires the Comptroller to audit each school district, BOCES and charter school at least once by March 31, 2010. Thereafter, OSC will decide which schools to audit based on a risk-assessment process that may include investigations of alleged improprieties, previous audit findings, or other financial indicators. OSC is required to provide reasonable prior notice to districts before conducting these audits.

Other provisions of the legislation require all audit reports to be made available to the public by OSC, and by the audited districts, BOCES and charter schools. These audited entities must post the audit reports to their websites, and retain them on the websites for at least five years. The legislation also requires the Comptroller to refer any criminal misconduct to the appropriate authorities.

The purpose of OSC school audits is to review the internal controls, financial practices and operations of school districts to help ensure that there is adequate protection against fraud, theft or professional misconduct. These audits help strengthen accountability by reviewing how public resources are used, and can be used as a tool in the development of school district internal controls. When undertaking these audits, OSC examines and evaluates financial documents, assesses current financial practices, and determines whether adequate protections exist against abuse.

# SCHOOL FINANCIAL ACCOUNTABILITY OVERVIEW

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OSC school audits do not duplicate the work performed by school districts' independent auditors. For example, OSC audits do not express an opinion on the reliability of financial statements as an audit done by a CPA firm would. Rather, OSC audits focus on whether school districts' internal controls are adequately designed and operating effectively to provide adequate safeguarding of assets in areas such as cash receipts and disbursements, purchasing, claims approval, and payroll and personal services.

## Five-Point School Financial Accountability Plan (Chapter 263, Laws of 2005)

In 2005, OSC worked with the State Assembly, State Senate, New York State School Boards Association (NYSSBA), New York State Society of Certified Public Accountants (NYSSCPA), New York State Council of School Superintendents (NYSCOSS), New York State Association of School Business Officials (NYSASBO) and the New York State Education Department (SED) to produce the "Five-Point School Financial Accountability Plan." The Plan promotes stronger internal controls, improves school district audits and strengthens the roles of boards of education in conducting appropriate oversight.

The main components of the Five-Point Plan are:

- **Strengthen the internal claims auditor function:** Many boards of education delegate the duties of reviewing and authorizing payment for district expenses to an internal claims auditor. Nonetheless, these boards are still ultimately responsible for approving all payments. The law emphasizes this responsibility by requiring that the internal claims auditor report directly to the board of education.
- **School board member financial oversight training:** All school board members elected or appointed on or after July 1, 2005, must complete at least six hours of training on their financial oversight, accountability and fiduciary responsibilities. The training must be completed within a year of their election and can be provided by any SED-approved trainer.
- **More rigorous external audit standards:** The law requires that the external auditor present the annual audit report directly to the school board, and that the board prepare a corrective action plan in response to any findings from that report or from a State Comptroller's report. The law also requires all districts to use a competitive request for proposal (RFP) process for selecting external audit firms. After a district has selected an external audit firm, it may engage that firm annually for up to five years, at which point it must repeat the RFP process. The law does not forbid districts from hiring the same firm for consecutive five-year engagements as long as it follows the RFP process.

# SCHOOL FINANCIAL ACCOUNTABILITY OVERVIEW

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- **New internal audit requirements:** The law requires all but the smallest school districts to establish an internal audit function by July 1, 2006, to be in operation by no later than the end of the calendar year. This function must include developing, annually updating, and reporting on a risk assessment of district operations. At a minimum, the risk assessment must include a review of financial policies and procedures, and the testing and evaluation of district internal controls. Many larger districts already have this function, and smaller, nonexempt districts can use existing district staff or shared services agreements, or contract for the service.
- **Required audit committees:** The law requires all but the smallest districts to establish an audit committee by January 2006 to assist the school board with its financial oversight responsibilities. This committee may be made up of all or some of the members of the board of education, but it also can be made up in part or completely of non-board members. In fact, so long as they have requisite experience, committee members do not need to be residents of the district. The guiding principle is that this committee should be able to help the board in its responsibility to select and oversee external and internal auditors, exercise its financial oversight responsibility, and implement any necessary corrective reform.

## Increased Audit Presence

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Legislation passed in 2005 gave OSC funding to hire 89 new staff to audit the state's 700 school districts by March 31, 2010. However, the legislation passed in 2005 expanded OSC's five-year audit requirement to include school districts, charter schools and BOCES. Therefore, in May 2007, Comptroller DiNapoli, with the support of the Governor and the Legislature, secured an additional \$2.7 million in the 2007-08 state budget to hire and train 45 more staff members to fulfill this expanded mandate. We are now working toward filling those new staff positions.

## SECTION 2: ACTIVITY AND RESULTS IN 2007

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### Summary of Reports Issued in 2007 (Through December 31)

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The Office of State and Local Government Accountability (OSLGA) – which comprises the Division of Local Government and School Accountability (LGSA) and the Division of State Government Accountability (SGA) – spent more than 27,000 staff days using existing and new resources to conduct various school and school-related audits in 2007. These audits included audits of financial operations and school district budgets, as well as performance audits of various aspects of school district operations to identify revenue enhancements and/or cost savings. From these efforts, OSC issued 257 individual school audit reports in 2007.

<b>Internal Control Audits</b>	<b>217</b>
<b>Charter School Audits</b>	<b>9</b>
<b>Budget Review Audits</b>	<b>13</b>
<b>Audits of School Districts' External Audits</b>	<b>2</b>
<b>Special Subject Matter Audits</b>	<b>16</b>
<b>Total</b>	<b>257</b>

### Audits – Related to School Legislation and Other Purposes

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The school legislation calls for audits of the fiscal practices of each school district, including assessing current financial practices and determining whether the school districts have adequate internal controls to prevent fraud, theft or professional misconduct. Since the beginning of the school initiative, OSC has issued 334 audits in 332 different school districts that specifically conform to Chapter 267 of the Laws of 2005. OSC conducted 19 audits in 2005, 89 audits in 2006, and 226 audits in 2007 that met the requirements of the legislation.

OSC also performed other school district audits in 2007, including 13 audits that focused on school districts' budgets and financial condition. Because external annual audits are a significant part of the internal control process in each district, additional audits were performed focusing on the independent audit services at two districts, while conducting separate audits of internal controls. Finally, 16 special-purpose audits were conducted that assessed various aspects of school operations for cost savings, revenue enhancements and/or other program issues.

# ACTIVITY AND RESULTS IN 2007

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## Internal Control Audits

Internal control audits relate to the establishment of internal controls over specific areas of operations, including expenses incurred on the behalf of school district managers and members of the boards of education. These audits focus on high-risk areas identified through a risk assessment process and based on complaints, letters and requests from taxpayers and local and state officials. Although some districts had strong internal control systems, we also found a wide range of weaknesses in internal controls.

In 2007, we issued audits of the internal controls of the following schools and school-related entities:

<b>Addison Central School District</b>	<b>Clifton-Fine Central School District</b>
<b>Afton Central School District</b>	<b>Clinton Central School District</b>
<b>Alden Central School District</b>	<b>Clymer Central School District</b>
<b>Andover Central School District</b>	<b>Commack Union Free School District</b>
<b>Arkport Central School District</b>	<b>Dover Union Free School District</b>
<b>Ausable Valley Central School District</b>	<b>East Aurora Union Free School District</b>
<b>Averill Park Central School District</b>	<b>East Moriches Union Free School District</b>
<b>Avon Central School District</b>	<b>East Williston Central School District</b>
<b>Bainbridge-Guilford Central School District</b>	<b>Edinberg Common School District</b>
<b>Ballston Spa Central School District</b>	<b>Edmeston Central School District</b>
<b>Beaver River Central School District</b>	<b>Edwards-Knox Central School District</b>
<b>Bedford Central School District</b>	<b>Elba Central School District</b>
<b>Berne-Knox-Westerlo Central School District</b>	<b>Elmsford Union Free School District</b>
<b>Bethlehem Central School District</b>	<b>Enlarged City School District of Middletown</b>
<b>Brewster Central School District</b>	<b>Fabius-Pompey Central School District</b>
<b>Brockport Central School District</b>	<b>Fallsburg Central School District</b>
<b>Bronxville Union Free School District</b>	<b>Fishers Island Central School District</b>
<b>Brunswick Central School District</b>	<b>Fonda-Fultonville Central School District</b>
<b>Brushton-Moira Central School District</b>	<b>Fort Edward Union Free School District</b>
<b>Buffalo City School District</b>	<b>Fort Plain Central School District</b>
<b>Burnt Hills-Ballston Lake Central School District</b>	<b>Franklinville Central School District</b>
<b>Byram Hills Central School District</b>	<b>Freeport Central School District</b>
<b>Cambridge Central School District</b>	<b>Frewsburg Central School District</b>
<b>Canastota Central School District</b>	<b>Frontier Central School District</b>
<b>Cazenovia Central School District</b>	<b>Gananda Central School District</b>
<b>Central Square Central School District</b>	<b>Gates Chili Central School District</b>
<b>Chateaugay Central School District</b>	<b>George Junior Republic Union Free School District</b>
<b>Chatham Central School District</b>	<b>Georgetown-South Otselic Central School District</b>
<b>Cheektowaga-Sloan Union Free School District</b>	<b>Germantown Central School District</b>
<b>Clarkstown Central School District</b>	<b>Gilbertsville-Mount Upton Central School District</b>
<b>Cleveland Hill Union Free School District</b>	<b>Gilboa-Conesville Central School District</b>

## ACTIVITY AND RESULTS IN 2007

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<b>Gorham-Middlesex Central School District</b>	<b>Lansingburgh Central School District</b>
<b>Gouverneur Central School District</b>	<b>Lewiston-Porter Central School District</b>
<b>Greenport Union Free School District</b>	<b>Livingston Manor School District</b>
<b>Greenwich Central School District</b>	<b>Lyons Central School District</b>
<b>Guilderland Central School District</b>	<b>Malone Central School District</b>
<b>Haldane Central School District</b>	<b>Mamaroneck Union Free School District</b>
<b>Hampton Bays Union Free School District</b>	<b>Marion Central School District</b>
<b>Hannibal Central School District</b>	<b>Massena Central School District</b>
<b>Harborfields Central School District</b>	<b>Mayfield Central School District</b>
<b>Harpurville Central School District</b>	<b>Mechanicville City School District</b>
<b>Harrison Union Free School District</b>	<b>Menands Union Free School District</b>
<b>Harrisville Central School District</b>	<b>Mexico Academy and Central School District</b>
<b>Haverstraw-Stony Point Central School District</b>	<b>Mineola Union Free School District</b>
<b>Hermon-DeKalb Central School District</b>	<b>Minerva Central School District</b>
<b>Heuvelton Central School District</b>	<b>Mohawk Central School District</b>
<b>Holland Central School District</b>	<b>Monticello Central School District</b>
<b>Holland Patent Central School District</b>	<b>Moravia Central School District</b>
<b>Holley Central School District</b>	<b>Morris Central School District</b>
<b>Homer Central School District</b>	<b>Morrisville-Eaton Central School District</b>
<b>Hoosic Valley Central School District</b>	<b>Mount Markham Central School District</b>
<b>Hopevale Union Free School District</b>	<b>Mount Vernon City School District</b>
<b>Horseheads Central School District</b>	<b>Naples Central School District</b>
<b>Hudson City School District</b>	<b>Nanuet Union Free School District</b>
<b>Hudson Falls Central School District</b>	<b>New Paltz Central School District</b>
<b>Hunter-Tannersville Central School District</b>	<b>New Suffolk Central School District</b>
<b>Ilion Central School District</b>	<b>New York Mills Union Free School District</b>
<b>Iroquois Central School District</b>	<b>Newark Central School District</b>
<b>Jamesville-DeWitt Central School District</b>	<b>Newburgh Enlarged City School District</b>
<b>Jefferson Central School District</b>	<b>Newfane Central School District</b>
<b>Jefferson-Lewis-Hamilton-Herkimer-Oneida BOCES</b>	<b>Newfield Central School District</b>
<b>Jericho Union Free School District</b>	<b>Niskayuna Central School District</b>
<b>Keene Central School District</b>	<b>North Babylon Union Free School District</b>
<b>LaFayette Central School District</b>	<b>North Greenbush Common School District</b>
<b>Lake George Central School District</b>	<b>Northeastern Clinton Central School District</b>
<b>Lake Placid Central School District</b>	<b>Northern Adirondack Central School District</b>
<b>Lake Pleasant Central School District</b>	<b>Northville Central School District</b>
<b>Lakeland Central School District</b>	<b>Norwich City School District</b>

## ACTIVITY AND RESULTS IN 2007

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Nyack Union Free School District	Silver Creek Central School District
Oakfield-Alabama Central School District	Smithtown Central School District
Onondaga Central School District	Somers Central School District
Orchard Park Central School District	South Colonie Central School District
Oriskany Central School District	South Glens Falls Central School District
Ossining Union Free School District	South Kortright Central School District
Oyster Bay-East Norwich Central School District	South Seneca Central School District
Patchogue-Medford Union Free School District	Southern Cayuga Central School District
Pavilion Central School District	Southold Union Free School District
Peekskill City School District	Springville-Griffith Institute Central School District
Penfield Central School District	St. Johnsville Central School District
Pine Plains Central School District	Stamford Central School District
Pine Valley Central School District	Starpoint Central School District
Portville Central School District	Stillwater Central School District
Poughkeepsie City School District	Sullivan County BOCES
Pulaski Academy and Central School District	Three Village Central School District
Putnam Central School District	Tonawanda City School District
Putnam Valley Central School District	Trumansburg Central School District
Quogue Union Free School District	Uniondale Union Free School District
Ramapo Central School District	Victor Central School District
Randolph Academy Union Free School District	Wainscott Common School District
Ravena-Coeymans-Selkirk Central School District	Warrensburg Central School District
Red Hook Central School District	Warwick Valley Central School District
Rockville Centre Union Free School District	Washingtonville Central School District
Roosevelt Union Free School District	Waterford-Halfmoon Union Free School District
Roscoe Central School District	Waterville Central School District
Rotterdam-Mohonasen Central School District	Watervliet City School District
Roxbury Central School District	Watkins Glen Central School District
Salem Central School District	Webster Central School District
Saranac Central School District	Wellsville Central School District
Sauquoit Valley Central School District	Westport Central School District
Scarsdale Union Free School District	Wheelerville Union Free School District
Schalmont Central School District	White Plains City School District
Schodack Central School District	Whitehall Central School District
Scio Central School District	Whitney Point Central School District
Sewanhaka Central High School District	Worcester Central School District
Sherburne-Earlville Central School District	Wynantskill Union Free School District
Sherrill City School District	Yorktown Central School District

## ACTIVITY AND RESULTS IN 2007

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Following are brief descriptions of the scope and findings of some major internal control audits issued in 2007. The summaries not only illustrate the services, but also demonstrate the many ways that OSC provides an independent voice for taxpayers while, at the same time, educating school officials with its routine audits.

- **Newfane Central School District – Internal Controls Over District Operations (2006M-182)**

District officials and employees did not use district-owned laptop computers in accordance with board policy and sound business practices. Eight of 12 laptop computers we tested were used for personal purposes. Some of these computers were used to visit Internet sites for pornography, online dating, shopping, travel, banking, games, and music. For example, on one laptop there were over 2,000 pornographic web pages listed in its history report, which contained graphic pictures, movies, cartoons and games. It is particularly troubling that three of the eight computers were assigned to board members.

- **Hopevale Union Free School District – Improper Payments and Lack of Fiscal Oversight (2006M-222)**

The district's former business manager improperly enriched himself in the amount of \$108,650 by issuing himself an unauthorized vendor check and additional payroll checks, improperly increasing his salary, and using district funds to pay for his personal tax liability. We also found that the district inappropriately paid certain salaries, retirement incentives, and other benefits totaling \$55,200 to a former principal and two teachers. Finally, the district had inadequate controls over the processing and payment of claims.

- **Ballston Spa Central School District – Internal Controls Over Payroll (2007M-139)**

Our audit found that the District had developed a comprehensive set of procedures establishing an adequate internal control structure over payroll processing. Our audit included reviews of timesheets, employees' earning records, leave time records and payroll registers. In our review of payroll records for 20 employees, 53 occurrences of leave time taken by 15 employees, and 22 retroactive and merit payments and five separation payments, we found no significant deficiencies in the payroll records examined. We found that the District's system of controls over payroll processing, including accounting for leave credits and separation payments, to be well designed and operating effectively.

- **Mamaroneck Union Free School District – Internal Controls Over Financial Operations (2007M-78)**

The board did not exercise proper oversight over contractual payments for remote network administration services totaling \$685,000. The payments pertained to nine consecutive contracts running from January 1999 through June 2006. None of the contracts were entered into with board approval. Further, six of the contracts indicated that the district's former network administrator resided in the country of Greece while he was working for the district, and none of these contracts provided performance standards or required documentation of work performed. Finally, controls over the processing of a \$1,258 reimbursement for a trip to Greece may have been manipulated and overridden.

- **Roosevelt Union Free School District – Financial Condition (2007M-14)**

District officials have not taken appropriate action to address recurring deficits in the general fund. As a result, the district has continued to experience annual operating deficits and is now in severe fiscal stress. We estimated that the district could potentially end the 2006-07 fiscal year with an accumulated, unreserved, unappropriated general fund deficit of almost \$12.3 million.

## ACTIVITY AND RESULTS IN 2007

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- **Patchogue-Medford Union Free School District – Financial Condition and Internal Controls (2006M-172)** District officials did not accurately record and report the district’s financial activities to allow the board to monitor and evaluate the district’s financial condition in a timely manner. As a result, the general fund’s unreserved fund balance deteriorated from a positive balance some time prior to the 2003-04 fiscal year to a reported fund deficit of \$6.4 million as of June 30, 2006. In addition, the Board did not appoint a knowledgeable person to oversee and coordinate the district’s \$149.7 million capital project to help ensure the district received project-related goods and services. Our review of \$4.1 million in furniture purchases disclosed that 30 original claims vouchers, totaling \$3.5 million, were unavailable, and purchases totaling \$344,171 were not competitively bid as required. We also found that the claims audit function was inadequate. Claims frequently were not supported by receiving reports, and the claims auditor approved payment for goods totaling \$1,159 that were shipped to a non-district address.
- **Buffalo City School District – Professional Services (2006M-109)** We tested 30 payments to the Center for Applied Technology in Education (CATE) and the Education Innovations Consortium (EIC), totaling \$6.3 million, and found that contracts stipulating specific services to be provided, as well as the timing of payments to the service providers, were not executed between the district and either vendor. In addition, in many instances, claims submitted and approved for payment did not sufficiently itemize the work that was performed; in certain instances, the district paid the vendors before they provided services to the district.
- **Warwick Valley Central School District – Internal Controls Over Selected Financial Activities (2007M-33)** During the fiscal years July 1, 1990 through June 30, 2006, the board transferred approximately \$10.2 million from the general fund to an unauthorized health and safety account without required voter approval. Of the \$10.2 million, district management spent approximately \$7 million on capital expenditures, again without required voter approval. In addition, district management overpaid premiums for a life insurance contract on behalf of a former superintendent by \$96,373.
- **Jefferson Central School District – Payments to Former Superintendent and Controls Over Selected Financial Activities (2007M-64)** The district’s former superintendent was improperly paid \$88,502 for unauthorized salary, vacation and separation pay, and for reimbursements for administrative expenses. In addition, auditors questioned the propriety of additional reimbursement, vacation and separation payments made to the former superintendent totaling \$18,687. We also found that district purchases and the resulting claims were not properly approved, processed and audited. Finally, internal controls over cash receipts and disbursements were not appropriately designed.
- **Poughkeepsie City School District – Circumvention of Internal Controls and Fiscal Oversight (2007M-113)** The district had a weak control environment. The board approved transactions without asking appropriate questions and requiring appropriate supporting documentation. Certain employees were granted additional compensation and/or benefits without proper authorization and, as a result, the district made more than \$204,000 in questionable payments to these individuals. We also found that requests for proposals were not used by the former superintendent for three of the four professional service contracts examined. In addition, we found that the board approved a payment to a construction manager for additional services totaling \$224,867 even though the claim had not been audited.

## ACTIVITY AND RESULTS IN 2007

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In addition to examining the internal controls of public school districts, we also completed nine audits that examined the controls of charter schools in New York City and statewide.

Following are brief descriptions of the scope and findings of two charter school audits issued in 2007. These summaries illustrate this service provided to these schools.

**Beginning with Children Charter School**  
**Bronx Preparatory Charter School**  
**Enterprise Charter School**  
**Explore Charter School**  
**KIPP Academy Charter School**  
**Pinnacle Charter School**  
**Renaissance Charter School**  
**Sisulu-Walker Charter School of Harlem**  
**Westminster Community Charter School**

- **Enterprise Charter School – Payments to the Former CEO and Claims Processing (2007M-134)** LGSA’s audit found that the school had been making unauthorized, insufficiently documented and inaccurate salary, separation and contractual payments totaling approximately \$34,000 to its former chief executive officer (CEO). These various payments appear to have been an attempt to manipulate the former CEO’s reported salary and hide salary payments by making them through the school’s accounts payable system. In addition, we found that the board of trustees does not review the claims paid by the school and has not established an independent claims audit function. School officials in the administrative office initiate, authorize, and approve all claims, in effect controlling key aspects of a transaction. The internal control weakness associated with these inadequately segregated duties is further amplified by the lack of board oversight. We reviewed 69 judgmentally selected claims totaling \$417,527 and found that 54 of the claims (78 percent) lacked proper approvals, supporting documentation, itemization of expenses, evidence that goods or services were received, and/or an indication that the claim was a proper school expense.
- **KIPP Academy Charter School – Financial Management Practices (2006-N-15)** SGA’s audit found that the school director took the entire teaching staff on an off-site, five-day Caribbean retreat at the end of the school year for two years in a row. School personnel lodged at an all-inclusive resort that provided meals, alcoholic beverages, and overnight lodging, and the school paid for the airfare for the staff. There was scant evidence that any educational type of program was provided during the trip, or that any learning activities were involved. School officials contended that these trips were an appropriate use of donated funds, although they could not document that the trips were paid for by using donated funds. In addition, we found that only the school director, and not the board of trustees, approved salary raises and staff bonuses. The school director granted a 19 percent pay raise to the school’s chief financial officer without board approval.

# ACTIVITY AND RESULTS IN 2007

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## Budget Review Audits

A budget review is an audit of a district's budget prior to its adoption to determine whether information contained within the preliminary budget is supported, and whether estimates are reasonable and balanced. The audit includes gaining and documenting an understanding of the internal control environment and the specific controls that are significant to the budget process, and then assessing the reasonableness of major revenue and expenditures areas. The State Legislature mandates a budget review audit when a school is authorized for deficit financing (borrowing to pay off an accumulated deficit). In addition, as part of our efforts in assisting schools that are struggling, we began auditing the Roosevelt Union Free School District on an unprecedented real-time basis to determine whether the district was adequately monitoring its own spending and staying within its 2007-08 budget.

We performed mandated budget reviews in the following school districts:

<b>Amsterdam City School District</b>	<b>Liberty Central School District</b>
<b>Beacon City School District</b>	<b>Monroe-Woodbury Central School District</b>
<b>Campbell-Savona Central School District</b>	<b>Patchogue-Medford Union Free School District</b>
<b>East Moriches Union Free School District</b>	<b>Roosevelt Union Free School District</b>
<b>Enlarged City School District of Troy</b>	<b>Schenectady City School District</b>
<b>Fabius-Pompey Central School District</b>	<b>South Country Central School District</b>

Following are brief descriptions of the scope and findings of some major budget review audits issued in 2007. The summaries illustrate this service provided to school districts.

- **Roosevelt Union Free School District – Budget Review (B7-7-10)** Our audit found that the district's budgeted expenditures were significantly less than expenditures made in previous years. Given the district's prior spending patterns and its inability to function within the constraints of adopted budgets, we questioned whether the 2007-08 budget appropriations were reasonable. For example, the district completed the 2006-07 fiscal year with an accumulated general fund deficit of at least \$9.5 million. As of the completion of our audit, the district had not developed a viable plan to address the accumulated deficit.

## ACTIVITY AND RESULTS IN 2007

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- **Roosevelt Union Free School District – First Quarter Report on the 2007-08 Adopted Budget (2007M-267)** At the completion of the first quarter of the 2007-08 fiscal year, we found that the district's spending had generally been within the limits established by the board in its enacted budget. However, we identified several areas of concern that, if not addressed by district officials, could lead to the district overspending its budget later in the fiscal year. For example, district officials have not established accurate budget appropriations, even after one quarter of the fiscal year has ended. District officials had not encumbered appropriations for BOCES shared-service costs, which cost \$4.8 million in the prior year, or for known expenses – such as debt obligations, transportation costs, and fringe benefits – which will comprise about 60 percent of total other-than-personal-services costs. Although the district had already borrowed \$11 million to finance cash flow needs, we found that it may need to borrow additional amounts later in the fiscal year to address expected cash flow difficulties.
- **South Country Central School District – Budget Review (B7-7-06)** We found that the district's significant revenue and expenditure projections in the proposed budget were not reasonable. On March 27, 2006, the State Legislature authorized the district to issue serial bonds for 10 years on or before June 30, 2007, to finance a \$4.6 million deficit. Instead of the 10-year bonds, the district issued bond anticipation notes (BANs) to finance the deficit on January 18, 2007. The district plans to renew the BANs each year for five years (the maximum allowable by law) until January 18, 2012. However, the proposed budget for the 2007-08 fiscal year does not provide for the repayment of 20 percent of principal for the BANs; instead, it provides only for payment of the interest due on January 18, 2008 (\$172,000). In addition, the proposed budget includes estimated revenue of \$7.1 million for state building aid when only \$1.9 million will be received.
- **East Moriches Union Free School District – Budget Review (B7-7-09)** We found that the district's significant revenue and expenditure projections in the proposed budget were not reasonable. District officials did not have sufficient documentation to indicate that the district would complete the 2006-07 fiscal year with a surplus fund balance to appropriate for 2007-08. In addition, they did not have a viable plan to address the \$1.2 million of their accumulated deficit that is in excess of authorized deficit financing.
- **Campbell-Savona Central School District – Budget Review (B2-7-14)** We found that the district's significant revenue and expenditure projections in the tentative budget were not reasonable, because the district had not made a provision to repay the outstanding revenue anticipation note (RAN). In addition, we found additional issues related to inter-fund loans and state aid revenue estimates which the board should have reviewed and taken action on prior to adopting the budget.

## ACTIVITY AND RESULTS IN 2007

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### Audits of School Districts' External Audits

School districts in New York State are required by law to contract for an annual audit by an independent public accountant. This independent audit must be performed in conformity with generally accepted government auditing standards (GAGAS). The independent audit is considered a significant part of a school district's internal controls. The following school district audits relate to the acquisition of audit services and the audit work performed by their independent public accountants. We found that both school district audits did not meet professional standards.

We audited the annual external audits in the following school districts:

**Hopevale Union Free School District – Independent Audit Services**  
**Hudson City School District – Independent Audit Services**

Below is a brief description of the scope and findings from both school districts' external audits issued in 2007. These summaries demonstrate how this information serves as an educational tool to the school officials and external auditors.

- **Hopevale Union Free School District – Independent Audit Services (2007M-81)** The district did not effectively procure its annual audit services by obtaining requests for proposals. Instead, district officials contracted with a certified public accounting (CPA) firm – Fox & Company LLP (Fox) – that they had used for the past 20 years without seeking competitive offers from other firms. We reviewed Fox's 2004-05 audit work for the district and found that Fox did not conduct an audit in accordance with GAGAS as required by the New York State Education Department (SED). The deficiencies in obtaining an understanding of fraud risk factors and the district's internal control environment are so significant that we referred our report to the State Board of Accountancy for further investigation and disciplinary action.
- **Hudson City School District – Independent Audit Services (2007M-52)** The district did not effectively procure its annual audit services by obtaining requests for proposals. Instead, district officials contracted with a CPA firm that they used in the past without seeking competitive offers from other firms. In addition, we found that the CPA firm's annual audit of the district did not meet several professional standards.

# ACTIVITY AND RESULTS IN 2007

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## Special Subject Matter Audits

In 2007, LGSA and SGA conducted 16 school-related, special subject audits of 11 Boards of Cooperative Educational Services (BOCES), two state agencies, one New York City agency, one school district audit, and one follow-up to a school district audit. SGA assessed whether the New York City Department of Education (DoE) properly monitored the 23 charter schools (of the 47 total located in the City) that are required to report annually to DoE. Also, SGA examined whether SED improved how it is collecting and evaluating data on violent and disruptive incidents in schools after a state audit released in May 2006 found underreporting and other serious problems. Further, SGA audited the methods used by the Department of Motor Vehicles (DMV) to process fingerprints for school bus drivers and to ensure that drivers meet all licensing requirements before they are allowed to drive.

LGSA assessed whether district officials at the Roslyn Union Free School District implemented appropriate management controls over the district's capital construction projects. LGSA auditors also examined the information technology controls over financial accounting software and technology assets maintained by 11 BOCES Regional Information Centers. In one case, LGSA completed two different internal control audits of the Onondaga-Cortland-Madison BOCES controls over its technology system and assets. In addition, LGSA reviewed the corrective actions taken by the Hempstead Union Free School District to address the 29 recommendations made in 2005 in an internal control audit that found a significant lack of control over district operations and funds.

LGSA and SGA audited special subject matters in the following schools and school-related entities:

<b>Broome-Tioga BOCES</b>	<b>New York City Department of Education</b>
<b>Capital Region BOCES</b>	<b>New York State Department of Motor Vehicles</b>
<b>Erie 1 BOCES</b>	<b>New York State Education Department</b>
<b>Greater Southern Tier BOCES</b>	<b>Onondaga-Cortland-Madison BOCES</b>
<b>Hempstead Union Free School District</b>	<b>Roslyn Union Free School District</b>
<b>Madison-Oneida BOCES</b>	<b>Ulster BOCES</b>
<b>Monroe 1 BOCES</b>	<b>Wayne-Finger Lakes BOCES</b>
<b>Nassau BOCES</b>	

## ACTIVITY AND RESULTS IN 2007

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Following are brief descriptions of the scope and findings from some major special subject matter audits issued in 2007. The summaries illustrate the diverse topics covered by this particular service, and demonstrate ways that OSC provides an independent voice for taxpayers and identifies cost savings and revenue enhancement strategies for school officials and those agencies that monitor schools and school-related issues.

- **New York City Department of Education: Monitoring of Charter School Performance (2005-N-8)** The New York City Department of Education (DoE) sponsors and oversees 23 of the 47 charter schools located in the City. Although these 23 charter schools are required to report annually to DoE on their progress in achieving their goals and on certain other aspects of their educational and fiscal performance, we found that all 11 annual reports that we reviewed lacked critical, required performance information. We further determined that DoE lacks a formal process for reviewing the performance information that is reported. In our review of this information, we identified a number of instances in which a school's annual report narrative of progress in achieving goals was general, providing few specifics on how progress was actually determined. We also found that DoE does not require schools to develop corrective action plans if they are not making satisfactory progress in the achievement of their goals.
- **New York State Education Department: Improvements in the Collection of School Violence Data (2007-F-13)** Our audit found that SED significantly improved how it is collecting and evaluating data on violent and disruptive incidents in schools after a state audit released in May 2006 found underreporting and other serious problems. School districts around the state are required to submit data regarding violent and disruptive incidents to SED under the Safe Schools Against Violence in Education (SAVE) Act, which went into effect in 2000. SED is required to review the information to determine if any schools should be designated as persistently dangerous, and to publish an annual list of the state's most dangerous schools. In 2007, SED identified 17 new schools as "persistently dangerous" based on data provided by the schools, for a total of 27 schools statewide. Of the 14 prior audit recommendations, we found that SED had implemented 13 recommendations. The only recommendation that SED had not fully implemented was adopting procedures for assessing evidence presented by schools seeking to avoid being designated as persistently dangerous.
- **New York State Department of Motor Vehicles: Bus Driver Licensing and Oversight (2005-S-53)** Our audit found that the Department of Motor Vehicles (DMV), which oversees the bus licensing program, should use more efficient methods to process fingerprints for school bus drivers and make other improvements to the program. Auditors found that DMV was already using more efficient methods – such as fingerprint scanning technology to perform criminal history searches for drivers transporting hazardous materials – and recommended that it use similar methods for school bus drivers. State law requires all bus drivers to have a commercial license, pass a medical and driving test every two years, and maintain a safe driving record both on and off the job. New school bus drivers also are required to be fingerprinted and undergo a criminal history check. Employers are required to ensure that drivers meet all licensing requirements before they are allowed to drive.

## ACTIVITY AND RESULTS IN 2007

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Auditors recommended that DMV follow up with non-compliant transportation carriers to ensure that those carriers correct their deficiencies in checking licensing requirements and criminal history backgrounds. Auditors also recommended that DMV perform more unannounced reviews of carriers to ensure compliance, establish uniform policies for evaluating carrier compliance, and develop proactive methods to identify unregistered carriers and bus drivers.

- **Hempstead Union Free School District – Follow-Up Audit (F7-7-012)** Our first audit found that controls did not exist over most of the district’s operations, and that any number of district employees could purchase supplies or services totaling thousands of dollars with no central oversight or approval. This uncontrolled use of the district’s funds occurred at a time when district school buildings had closed or were in significant need of repair; classrooms were overcrowded; and many students were housed in inadequate, temporary classrooms. During our follow-up audit, we found that the district made limited progress in addressing the 29 recommendations contained in our initial audit report. The district took corrective action with regard to 10 recommendations, took partial corrective action to implement nine recommendations, and did not implement any corrective action for nine other recommendations.

### Common Themes in Audits

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Although the school districts audited have improved many internal controls, effective governance extends far beyond adopting policies and procedures. It requires a concerted effort on the part of those charged with district management and oversight to understand the business of the district. That understanding includes knowing how employment, personnel and other contracts are approved and modified; who performs and who supervises key financial-related duties; and when weaknesses exist that might preclude the board or its administrators from reasonably preventing and/or detecting the loss or misappropriation of district assets. Furthermore, it requires a considerable amount of attention to information technology (IT). Computer systems and data represent one of the most critical areas of vulnerability not only to schools, but to other entities as well.

LGSA identified several recurring themes in its audits in 2007. These common findings represent potential opportunities for individual school districts to improve their financial operations, as well as opportunities for OSC and its partner organizations to provide better guidance and education to school officials. It is clear from the patterns identified in our audits that not all administrators and boards of education are familiar with the full breadth of their internal control responsibilities. In addition, because some of the findings relate to the inappropriate actions of school administrators, it also is evident that not all districts were successful in establishing an environment where the possibility of management override has been fully considered.

## ACTIVITY AND RESULTS IN 2007

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### Design of IT Controls

Findings about weaknesses in a school district's IT system were included in 89 of 217 internal control reports (41 percent) issued. This trend that we identified at the end of 2006 emerged as a primary theme in the 2007 school district audits. These controls refer mainly to security issues and include policies and procedures specific to IT controls, and access to data and computer systems. Many districts did not have policies and procedures for acceptable-use standards for computers, the Internet, and e-mail; safeguarding data; anti-virus protection; password security; remote or physical access controls; data backup systems; and disaster recovery needs. We found that district officials did not require personnel to create or change passwords, allowed personnel to have access rights to financial software programs that exceeded the requirements of their duties, and did not use audit logs to identify or track the individuals who accessed the system or the transactions they processed. These control weaknesses create a situation that is similar to not segregating financial duties properly, because one employee could authorize all phases of a transaction without oversight.

Another major concern that focused on safeguarding data integrity was the lack of appropriate data backup procedures and disaster recovery plans. A basic internal control for IT is to protect data by backing up files regularly (i.e., creating a duplicate copy of information stored on computers and servers) to enable restoration in the event of loss. Auditors found that many districts neglected to back up data or failed to properly secure the back-up tapes. Also, many districts did not perform contingency planning to address the potential loss of computer equipment and data, and outline procedures for recovery.

Similar to other internal controls, a board of education must ensure that IT controls are designed and implemented to provide reasonable assurance that assets and resources entrusted to their care are used in accordance with laws and policies, and safeguarded against waste, loss and abuse. IT systems and data are valuable resources because school officials use them to make financial decisions and process transactions, and these resources serve as the basis for reporting to taxpayers and to state and federal governments. Access to computer systems must be controlled and monitored to reduce the risk of misuse and/or alteration of the data. In addition, if the computers containing the data should fail, not having the information properly backed up could prove catastrophic. School districts need a formal disaster recovery plan to provide guidance on the prevention of the loss of computer data, and the recovery of computer data in the event of disaster.

## ACTIVITY AND RESULTS IN 2007

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### Separation Payments

Findings about inappropriate separation payments were included in 21 of 217 internal control reports (10 percent) issued. Effective control over separation payments begins with adequate internal controls over payroll and leave time processing. Our audits found that officials did not provide sufficient oversight to ensure that employees' accrued leave balances were accurate and separation payments were made in accordance with employment contracts. As a result, employees were allowed to maintain vacation leave accruals in excess of what was allowed by employment contracts or policies, and separation payments were made based on those incorrect vacation leave balances.

Although effective control over separation payments begins with employment contracts and policies that contain guidance about employee benefit provisions, and adequate internal controls over payroll and leave time processing, it is important for school officials to ensure that school personnel adhere to established payroll processing policies, and to ensure that separation payments occur only when authorized by the board and in accordance with employment contracts. The board should review all employment contracts and policies and verify that vacation leave is provided as authorized and that employees are only credited with vacation leave in accordance with those authorizations. School officials should make separation payments only when specifically authorized by the board through resolutions, policies or employment contracts. Also, the board should establish and implement a policy for processing separation payments. As part of this policy, school officials should review leave accruals and separation payments to ensure that personnel follow district policies and procedures while processing payrolls.

### Payments for Personal Services Without Contracts

In 2007, 53 of 217 internal control reports (24 percent) issued on school district internal controls contained various findings about school employees receiving payments for personal services (including salary and unused leave payments) to which they were not entitled, or which the board had not authorized through a collective bargaining agreement, written contract, or resolution. Even with approved written contracts in place, some school district internal controls did not prevent payments not authorized by the contracts. Similar to inappropriate separation payments, this weakness is related to inadequate internal controls over payroll and leave-time processing and poor board oversight over payments to employees.

Payroll and personal services represent a large portion of school districts' annual budgets. As a result, it is important for districts to have adequate internal controls over the payroll process that consist of written policies and procedures, and to have written board authorization for payroll- and personal services-related payments. District-wide policies, collective bargaining agreements and/or individual employee contracts should stipulate each employee's entitlement to the accrual, use and payment of leave time. Merit and stipend payments should occur only as authorized by the board in policies, agreements or contracts, or by separate board resolutions. Transparency in all board-approved benefits is an important consideration, so well-structured documents should address all pertinent aspects of employment and contain all salary and benefits to which employees are entitled. In addition, school districts must establish procedures that ensure that employees receive only those payments authorized by contracts, and the board must monitor those procedures and oversee such payments.

## ACTIVITY AND RESULTS IN 2007

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### Claims Audit Deficiencies

In 2007, 104 of 217 internal control reports (48 percent) issued on school district internal controls contained findings about a deficient claims auditing function. Frequently these findings identified incompatible duties and inadequate procedures for the claims audit functions. Some claims auditors did not report directly to the board of education, while others had incompatible business functions where they authorized transactions as well as approved payment for them. When performing the claims audit, sometimes auditors failed to require department reviews and approvals, prior authorization of travel expenses and/or documentation to support the amounts claimed. We also identified school districts that made payments to vendors without the benefit of any claims audit to ensure the accuracy and propriety of the vendors' bills.

The claims audit is such a critical function that it was one of the main components in the Five-Point Plan legislation. Because a claims auditor assumes the powers and duties of the board with respect to auditing and approving claims for payment, the Five-Point Plan requires that the individual report directly to the board and not have an incompatible position or perform business-related duties. Moreover, Education Law specifies that districts should not pay any claims without audit and approval.

An internal audit should conduct a thorough review of the claims audit function as part of its risk assessment. Good claims auditing controls should ensure that every claim contains enough supporting documentation to determine that it complies with school district policies, and that the amounts claimed represent actual and necessary school district expenses. In addition, the boards that appoint claims auditors should provide them with written job descriptions, so they clearly understand their responsibilities and meet the boards' expectations.

### Financial Condition Problems

Findings regarding financial condition problems were included in 12 of 217 internal control reports (6 percent) issued. Although the development of realistic budgets is essential for school districts to avoid fiscal stress, we found that some districts had inadequate budgets that over-relied on appropriating fund balance or nonrecurring revenue sources to fund expenditures. In other cases, auditors found that district officials did not accurately record and report the districts' financial activities to allow the boards to monitor and evaluate the districts' financial condition in a timely manner. As a result, district officials subsequently over-expended appropriations and the districts' fund balances deteriorated to a deficit position.

A school district's financial condition determines its ability to provide public educational services to its students. The responsibility for effective financial planning and management of school districts rests with the board of education and district management. The board and district management must make sure that budgets are prepared, adopted, and amended based on reasonable and accurate assessments of resources that can be used to fund appropriations. They also must make sure that policies, procedures, and competent personnel are in place to ensure that financial information is recorded correctly and in a timely manner. Accurate financial information allows boards to perform periodic analyses of district appropriations and revenues, and to plan appropriately and act accordingly during the fiscal year.

### Response to Audits

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Although most schools have responded positively to our audit findings and school officials have taken actions to fulfill our recommendations, recently some charter schools have expressed concerns. In November 2007, the New York Charter Schools Association, the New York City Center for Charter School Excellence, Inc., and 13 New York City charter schools filed suit against OSC and the State of New York challenging the constitutionality of the Comptroller's authority to audit charter schools. While the litigation is pending, OSC will continue to seek ways to apply the learning opportunities inherent in the audits to help improve school finances. Audits remain a primary means by which OSC presents guidance to school officials and information to the public. OSC's audits, training services, financial toolboxes, and resource materials provide school officials with a range of OSC services designed to address general and specific school financial issues.

The audit process presents many occasions for OSC auditors to offer guidance to school officials. We provide school officials with opportunities throughout the audit process to communicate with our auditors and discuss audit results. We do this to ensure that the facts are accurate and complete, and to allow school officials to provide input and their views on the findings and recommendations. In addition, before the audit report is finalized, school officials are given the opportunity to respond in writing to the findings and recommendations in the draft report. During this process, we always reflect on criticisms made and, at times, we have corrected details in our reports or worked with officials to make other necessary changes. Further, we routinely offer technical advice and direction to school district officials to help them implement stronger internal controls, revise policies or procedures, and/or improve financial records and reports. OSC auditors provide this assistance during their onsite work, and sometimes return to help after the audits are completed.

At the end of an audit, the public receives information about school finances primarily through two documents that serve to summarize the conclusions reached during the audit process: the OSC audit report, and the board of education's corrective action plan. Upon receipt of the audit report, the district clerk or secretary should advertise in the district's official newspaper that the audit is available for public inspection. The audit reports also are available on the OSC website and some school websites. In addition, within 90 days of receipt of the audit report, the board of education (or board of trustees) should approve a corrective action plan that contains a statement of the corrective actions taken, or proposed to be taken, for each finding or recommendation in the OSC audit report. The corrective action plans should be available for public inspection in the office of the district clerk or secretary.

Contrary to any perception that audits are adversarial, for the vast majority of audit reports (80 percent) district officials have responded very positively to our findings and have worked expeditiously to correct and improve their internal controls. Many school officials have realized that strong internal controls produce more than enough cost savings and fraud prevention benefits to offset implementation costs. OSC guidance, as well as its audits and the resulting dialogue with school officials, are all about improving the public's support for education and the education of children. The audits that provide recommendations for improvements, and others that indicate districts are performing well, all serve a purpose by providing the public with vital information to allow them to participate in the system – either at meetings or through their votes for school board members and school budgets.

## SECTION 3: PLANS FOR 2008

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### Emerging Issues

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The Division of Local Government and School Accountability (LGSA) has identified several emerging issues that it will focus on in its audits in 2008. These issues represent potential opportunities for individual school districts to improve their financial operations and opportunities for OSC to provide better guidance and education to school officials. We will increase our presence in charter schools in 2008. The corrective action plans that school districts, BOCES, and charter schools submit in response to our audits have taken on an increased significance as a tool that we can use to assist school officials in their efforts to implement improvements recommended in our audits. Also, OSC auditors will closely examine the effectiveness of the internal audit function in place at school districts during audits performed in 2008.

### Charter School Audits

In December 1998, New York State authorized the creation of charter schools by instituting Article 56, Section 2850 through Section 2857, of the Education Law, which is known as the New York Charter Schools Act of 1998 (Act). Charter schools provide opportunities for teachers, parents and community members to establish and maintain schools that operate independently of existing schools and school districts. They are intended to provide increased learning opportunities for all students, especially those with serious academic deficiencies. They are funded on a per student basis by the local public school districts from which their enrollments are drawn.

In 2007, there were 97 authorized charter schools operating in New York State:

Charter Schools in New York State During 2007	
Location	Number of Charter Schools
New York City	61
Buffalo and Niagara Falls	16
Albany, Schenectady and Troy	10
Rochester	4
Long Island	3
Syracuse	2
Westchester	1
<b>Total</b>	<b>97</b>

## PLANS FOR 2008

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In 2007, OSC began auditing several charter schools. Similar to school district and BOCES audits, OSC follows generally accepted government auditing standards (GAGAS) as promulgated by the Comptroller General of the United States in the Government Accounting Standards publication commonly referred to as the “Yellow Book.” These standards include requirements to ensure the integrity of an audit’s results by addressing the independence of the audit organization and individual auditors, the competence and training of the audit staff, the sufficiency of the work performed, and the existence of quality control systems to review the audit work. These external standards, along with OSC’s internal quality assurance systems, help produce audit reports that are thorough, balanced, and objective.

When conducting such audits, the examiners’ review must include, but is not limited to, evaluating financial documents, assessing current financial practices, and determining whether adequate protections exist against fraud, theft or professional misconduct in each charter school visited. Examiners perform these steps using standardized procedures to ensure completeness and uniformity.

### Corrective Action Plans

In 2008, OSC will begin formally reviewing the corrective action plans (CAP) that each school district, BOCES, and charter school submits in response to OSC audit reports. Current statute and regulations require school districts and BOCES to submit a CAP within 90 days of receiving an audit report. Similarly, charter schools also may submit a CAP in response to their audit reports.

When conducting these new reviews, OSC will not conduct onsite testing or perform other procedures to verify the actions taken and/or statements made by school officials. Instead, OSC will acknowledge receipt of the CAP, and discuss potential concerns, if any, in a letter addressed to the school officials. CAP reviews will determine whether the board of education addressed each audit recommendation and involved its audit committee in the CAP development process. In addition, OSC will evaluate the actions taken or proposed to ensure that they are legal, communicated clearly, and carefully designed. Further, OSC will review the CAP for indications of who is responsible for implementing the planned corrective actions and when. Alternatively, if the CAP proposes not taking corrective action, OSC will assess whether the explanations for not acting are reasonable and complete.

These CAP reviews will supplement other OSC efforts designed to provide school officials with meaningful resources and guidance. The review letters issued by OSC will provide important feedback to school officials about their efforts to strengthen internal controls and improve financial management systems.

# PLANS FOR 2008

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## Internal Audit Function

School districts will be audited at least once by OSC before March 31, 2010, and generally are audited annually by independent auditors who express an opinion on the reliability of the school's financial statements. External audits are an important part of an effective control environment, but represent only a portion of a school's audit function. Internal audits are vital companions to external audits. All but the smallest school districts<sup>1</sup> were required to establish internal audit functions by July 1, 2006, and to ensure that this function was operational by the end of 2006.

A school district's internal audit function must include the development of a risk assessment of district operations including, but not limited to, a review of district financial policies, procedures, and practices, and testing and evaluation of internal controls. The internal auditor must review and update the risk assessment annually and periodically test and evaluate one or more areas of the district's operations. The legislative requirements of the internal audit function demonstrate that it is not intended to be a perfunctory process accomplished through the quick completion of a few checklists, but rather a comprehensive tool that allows districts to identify where their operations are most vulnerable.

When conducting its 2008 audits, OSC will closely examine school districts' internal audit functions. We will determine whether the internal audit function is performed in a manner that assists the governing board in ensuring that the district's risks are identified and that appropriate internal controls are in place to address those risks. The seriousness of the efforts devoted to establishing an effective internal audit process is a strong determinant of the control consciousness of district officials.

## Continue Audits

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Given that the legislation calls for OSC to perform all of these audits in five years, we will continue to conduct more than 200 audits per year to complete the task by the date required.

<b>New York State Schools</b>	
<b>School Districts</b>	<b>700</b>
<b>BOCES</b>	<b>37</b>
<b>Charter Schools</b>	<b>97</b>
<b>Total</b>	<b>834</b>

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<sup>1</sup> Education Law defines the smallest school districts as those with fewer than eight teachers, less than 300 students, or less than \$5 million in annual expenditures.

## SECTION 4:

# TRAINING, EDUCATION AND OUTREACH

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## Increased Education and Outreach in 2007

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During 2007, OSC continued its commitment to education and outreach for school district officials. Through November 2007, LGSA provided training to school district officials at 16 different training events. In addition, OSC, in collaboration with NYSSBA, launched a new low-cost, online distance-learning alternative to help school board members meet their training requirements. Responses to this training alternative have been excellent, reaching 364 school district officials. The sessions have filled up quickly and new sessions continue to be added to meet the demands for this online alternative.

Other training highlights in 2007 included:

- At the end of November, the Foundation for Accounting and Education held its Public Schools Accounting and Auditing Conference in Albany. OSC provided a session entitled “The Audit of the Auditors and Recent School Findings.” This session reviewed the audits completed to date by OSC and the implications of those audits’ findings. In addition, the session included a discussion on school boards’ fiduciary responsibilities relating to district financial operations and major internal control elements that board members must be aware of and act upon.
- OSC presented a statewide teleconference, “Cybersecurity – Information Under Attack: Don’t Be the Next Headline,” to local government officials, including many school district officials. This teleconference was broadcast to more than 30 sites statewide. The main topics for the broadcast included a discussion of lessons learned from previous cyber incidents, risk determination for a cyber attack, tips on how to get started in securing electronic information, and available resources.
- In cooperation with NYSASBO, OSC provided training sessions at five regional NYSASBO workshops. These training sessions helped update school district officials on OSC’s recent audit findings in school districts. Knowing what the auditors are finding is helping school district officials plan better for the future.
- OSC provided eight accounting schools (four basic and four advanced) throughout the state for local government and school district officials. OSC staff developed comprehensive accounting manuals for schools, and district officials expressed that this material has been helpful to them in addressing OSC’s recent audit findings in the schools. Topics covered at the accounting schools and in the accounting manuals for schools include cash management, purchasing and claims processing, capital projects, maintaining capital assets, and basic accounting principles.

## TRAINING, EDUCATION AND OUTREACH

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- In May 2007, OSC provided a session at the 2007 Government Accounting and Auditing Conference. The session was an update regarding state regulations, and many school district officials attended this conference.
- Approximately 3,000 school board members attended NYSSBA's annual meeting in New York City at the end of October. OSC provided technical assistance and valuable resource material to these officials. The technical assistance involved clarifying issues with audit committees, internal auditors, and roles and responsibilities of board members. Many school board members relayed to OSC staff that they were pleased with how we were all coming together to reinforce sound management practices.
- During 2007, OSC expanded the marketing of mass mailings for training events and teleconferences that could potentially interest or have an impact on school district officials. Examples include the statewide accounting schools and the "CyberSecurity" teleconference.

### Online Training

One component of the Five-Point Plan is that all school district and BOCES board members elected or appointed after July 1, 2005, must receive six hours of training from an approved provider on the basics of financial oversight, accountability, and fiduciary responsibilities. The approved curriculum consists of the following training modules: *School District Finances – Roles and Responsibilities*; *Revenue Sources and the Budget Process*; *Building School District Fiscal Fitness*; *Monitoring School District Fitness*; and *Preventing Fraud, Waste and Abuse of District Resources*.

OSC collaborated with NYSSBA and has launched a low-cost, online, distance-learning alternative for school board members to help them meet this training requirement. Board members can complete all five training modules using this online program, which is hosted by Hudson Valley Community College (HVCC). They can register for the training online through HVCC, complete the online modules (including related examinations), and receive a certificate from NYSSBA upon completion. Each session is available for a six-week period. Board members may complete all five modules online or use a mix of online and other approved training alternatives to meet their certification requirement. Based on the response received so far regarding this training alternative, we anticipate that these sessions will continue to fill up and that new sessions will be added to fulfill an even bigger demand in 2008.

# TRAINING, EDUCATION AND OUTREACH

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## School District Financial Toolbox

OSC released various publications designed to be responsive to school officials' needs during 2007, which included the *Local Government Financial Toolboxes*, a series of "how-to" guides that provide local government and school officials with advice and assistance on cost-saving ideas to implement within their operations. While OSC released five financial toolboxes this year, of particular interest to school officials was the financial toolbox entitled *School District Auditing: Roles, Responsibilities and Resources*.

This brochure is designed to serve as a quick reference to the different audit roles and responsibilities resulting from the Five-Point Plan, and to provide a brief description of some of the guidance and tools available to school district officials. While it is not intended as a comprehensive guide to the new requirements, it provides much needed descriptions and definitions of the claims auditor and explains how that position differs from the internal auditor. It describes the basics of conflicts of interests and explains when it is necessary to use a request for proposals (RFP).

## Local Government and School Management Guide Update

The newly designed and cutting-edge series of publications, collectively called the *Local Government and School Management Guide* (LGSMG), address a variety of management and operational issues faced by small- to medium-sized local governments and school districts. The LGSMG has 16 sections, each referred to as a "guide." Each guide is concise, user-friendly and written in plain language that is accessible to a variety of users. Legal citations, if any, are included in the appendixes.

OSC released the guide: *Multi-Year Financial Planning* in 2007.

- ***Multi-Year Financial Planning***. Multi-year planning can be a vital tool for local governments and schools, especially those struggling with difficult financial conditions. It allows decision makers to set long-term priorities and work toward goals, rather than making choices based only on the needs and politics of the moment. This guide is intended to help local governments and school districts create effective multi-year plans. Developed with input and assistance from local officials across the state, this document provides general guidelines for the development of multi-year financial plans, including suggestions for how to make good long-term revenue and expenditure projections, and how to draw those projections together in a useful document for decision makers.

# TRAINING, EDUCATION AND OUTREACH

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## Professional Associations' Educational Efforts

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OSC was joined in its efforts to train school officials by state agencies and professional associations. SED developed a wide range of training materials and conducted numerous school accountability workshops for various school district officials, including school board members, school superintendents, business administrators, district treasurers, certified public accounting (CPA) firms, purchasing agents, claims auditors, internal auditors, and audit committee members. These workshops and seminars are designed to train these individuals on how to maintain the fiscal health of school districts and to ensure that school districts adhere to all legal mandates relating to financial transactions.

SED's extensive ongoing training efforts are supported by the development of guidance documents and reference manuals which are available online for easy access. These guidance documents include the Overview of Claims Audit and Internal Audit Function, Audit Reference Manual, Fiscal Fitness, School Budgeting, Internal Controls, Purchasing, Payroll, and School Taxation.

NYSSCPA strives to provide the highest quality educational information to CPAs that offer audit services to local school districts and to interested school board members and school district officials. Another of NYSSCPA's goals is to raise the level of practice awareness to protect the public tax funds provided for student education. The association sponsors an annual Public Schools Accounting and Auditing Conference designed for accounting and auditing practitioners, staff accountants, government and public schools executives, school board members, and financial employees to provide updates in areas of interest in the government and public schools sector, and to provide essentials to those less familiar with the accounting and reporting requirements.

In 2006, the joint government and public schools audit conference reviewed the statutory requirements, regulatory issues, and standards essential in the effective auditing of public schools and government entities. It provided essentials to those less familiar with the accounting and reporting requirements. Attendees were provided with information on the new procurement lobbying act, newly enacted legislation and regulations affecting public schools and government entities, information from the State Comptroller's Office, emerging Governmental Accounting Standards Board (GASB) issues, government accountability information, and newest Federal Governmental Auditing Standards ("Yellow Book") developments.

The 2005 conference addressed the "nuts and bolts" of school district audits; the role of the internal audit and internal controls; school boards' expectation of the independent audit; best practices of practitioners around the country and how to improve audit planning, performance, and communications; implications of ethics and regulations; and Federal Governmental Accounting Office requirements. The objective was to teach CPAs how they and their firms can respond to RFPs for audit services from public school districts in New York State to provide professional auditing services.

# TRAINING, EDUCATION AND OUTREACH

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## Education and Outreach Plans for 2008

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To assist school officials in their efforts to improve safeguards over school assets and strengthen operations, OSC is in the process of developing additional revisions to its *Local Government and School Management Guide* and training sessions for local government and school officials that are focused on needs that have been identified by OSC auditors during audit fieldwork performed in 2007.

### Local Government and School Management Guide Revisions

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During 2008, OSC will continue to revise and expand the *Local Government and School Management Guide* (LGSMG). In the first quarter of 2008, OSC expects to release five updated LGSMG guides: *Travel and Conference Expenses*, *Auditing Claims*, *Operating Budget Development*, *Internal Controls*, and *Cash Management*.

- **Travel and Conference Expenses.** This guide covers the need for adequate policies for travel and conference expenses. It provides discussions on the appropriateness of certain expenses, and explains why documenting travel and conference expenses and cash advances for travel is important. It provides guidelines for usage of credit cards for travel and conference expenses and explains how to audit claims for these types of expenses.
- **Auditing Claims.** This guide provides an overview of the best practices for auditing claims. While it will not discuss who can or should be the claims auditor, it will provide instruction on how to audit the different types of claims and the different risks involved with each type.
- **Operating Budget Development.** This guide provides information on appropriate budget development, which closely follows OSC's budget review guidance provided to field examiners.
- **Internal Controls.** In this guide, school officials can find a discussion of internal controls that is meant to support OSC's audit findings and educate local government and school officials. Also, the guide provides an understandable presentation of the five elements of internal control as described by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 5).
- **Cash Management.** This guide covers traditional issues of cash management such as appropriate cash polices, collateralization, banking practices, and cash risk assessment.

## TRAINING, EDUCATION AND OUTREACH

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By the end of 2008, OSC plans to release more updated LGSMG guides including: *Types of Debt*, *Capital Reserves*, *Internal Controls for Computer Systems*, *Seeking Competition in the Purchasing Process*, *Financial Condition*, *The Practice of Internal Control*, and *Fiscal Oversight*.

- ***Types of Debt***. This in-depth guide provides information on the types of debt that are available to different governmental units. High-quality graphical charts make this guide user-friendly for local government and school officials alike. Appendixes will include legal references for further information.
- ***Capital Reserves***. This is an in-depth guide to the types of reserves that are available to different governmental units. High-quality graphical charts make this guide user-friendly for local government and school officials alike. Appendixes will include legal references for further information.
- ***Internal Controls for Computer Systems***. This guide provides an overview on information technology (IT) security. The publication will be based on the IT Systems Questionnaire that OSC auditors use during audits, and covers key areas of concern addressing general and application controls for the non-technical user.
- ***Seeking Competition in the Purchasing Process***. This useful guide covers bidding, the request for proposal (RFP) process, using state and county contracts, and it discusses obtaining verbal quotes. It also will cover the importance of a meaningful procurement policy.
- ***Financial Condition***. This is a beginner's guide to interpreting financial condition. It explains how to use analytical tools to evaluate financial condition, identify the causes of fiscal stress, and to improve financial condition through corrective action.
- ***The Practice of Internal Control***. This guide provides a discussion of internal control practices as they relate to operating cycles and departments, including departmental reporting and risk assessment.
- ***Fiscal Oversight***. This guide discusses fiscal objectives and responsibilities, risk assessment, the need for appropriate polices, monitoring operations, and describes annual audit requirements. Included in the guide are checklists for reviewing various departments.

# TRAINING, EDUCATION AND OUTREACH

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## Additional Educational Efforts

Working with its partner organizations, OSC will continue to identify emerging school district financial issues in coming years, and provide additional specific training and guidance to school district officials to help them continue improving their financial operations.

In addition, we are planning to offer training on the following:

- Other Post-Employment Benefits (OPEB) implementation for school districts. The Governmental Accounting Standards Board's Statement Number 45 (GASB 45) has had a significant impact on school districts. Many larger school districts must now record a liability for OPEB in their financial statements, and OSC will be developing training to help with the recording/implementation of GASB 45.
- Regional presentations (including accounting schools) throughout the state for local government and school district officials on such topics as internal controls, purchasing, fraud, reserves, cash management, and accounting for capital projects and capital assets.
- Recommended financial practices for effective management and cost savings ideas such as cash management, establishing effective purchasing policies and procedures, and monitoring health insurance premiums for current employees and retirees.

As OSC auditors find more common themes emerging from our school district audits, OSC staff will continue to develop specific training modules to address these issues, and will use these issues when developing the topics for the Comptroller's 2008 Statewide Teleconference Series. Going forward, OSC will continue to expand the marketing of mass mailings to include various types and titles of school district officials when the topics apply to or affect them.

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