

# ***NEW YORK STATE OFFICE OF THE STATE COMPTROLLER***

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**H. Carl McCall  
STATE COMPTROLLER**



***GREENBURGH-NORTH CASTLE UNION FREE  
SCHOOL DISTRICT***

***REPORTING COSTS AND ENROLLMENTS  
FOR TUITION RATE-SETTING PURPOSES***

***2001-S-8***

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**DIVISION OF MANAGEMENT AUDIT AND  
STATE FINANCIAL SERVICES**

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**H. Carl McCall**  
**STATE COMPTROLLER**

**Report 2001-S-8**

Mr. James G. Donlevy, Ph.D.  
Superintendent  
Greenburgh-North Castle Union Free School District  
71 South Broadway  
Dobbs Ferry, New York 10522

Mr. Richard P. Mills  
Commissioner  
New York State Education Department  
State Education Building  
Albany, New York 12234

Dear Mr. Donlevy and Mr. Mills:

The following is our report addressing the policies and practices used by the Greenburgh-North Castle Union Free School District to report program costs and enrollments to the State Education Department for tuition rate-setting purposes for the period July 1, 1997 through June 30, 2000.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article III, Section 33 of the General Municipal Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller*  
*Division of Management Audit*  
*and State Financial Services*

**December 3, 2002**

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***Division of Management Audit and State Financial Services***

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## **EXECUTIVE SUMMARY**

### **GREENBURGH-NORTH CASTLE UNION FREE SCHOOL DISTRICT**

### **REPORTING COSTS AND ENROLLMENTS FOR TUITION RATE-SETTING PURPOSES**

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#### **SCOPE OF AUDIT**

The Greenburgh-North Castle Union Free School District (District) is located in Dobbs Ferry, Westchester County. The District was established by a special act of the State Legislature in 1969 and is one of 14 special act school districts in the State that serve children with special needs, including children with behavioral and learning problems. The District's students come from the nearby counties and New York City. As of March 2001, the District had 139 residential students and 26 day students. For the 1999-2000 year, the District reported educational expenditures of about \$6.2 million. The home school districts of students placed at the District pay tuition based on rates established by the New York State Education Department (Department). The rates, which must also be approved by the State Division of the Budget, allow the District to recover all costs considered reimbursable by the Department's Reimbursable Costs Manual (Manual). In turn, the localities are reimbursed by the State (through the Department) for about 50 percent of the amounts paid to the District.

Our audit addressed the following questions relating to the expenditures and enrollments of the District for the period July 1, 1997 through June 30, 2000:

- Are the District's reported costs reasonable, necessary and consistent with the Manual?
- Has the District accurately reported enrollments for the calculation of tuition rates?

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#### **AUDIT OBSERVATIONS AND CONCLUSIONS**

As a result of our audit, we disallowed \$381,157 in reported costs because they were not in compliance with the Manual. We also found that the District submitted incorrect enrollment data to the Department that caused tuition rates charged by the District to be incorrect. (See pp. 5-11 and 15-17)

Our disallowance included \$183,389 in construction renovation costs that were not formally pre-approved by the Department and were not competitively procured by the District and, therefore, were not in compliance with the Manual. In addition, we disallowed \$83,695 for student and staff uniforms and \$33,538 for overnight travel to destinations including Disney World and Sea World. We also disallowed \$29,599 in reported costs because they lacked the required supporting documentation, such as invoices and/or receipts. (See pp. 5-11)

To determine whether the District's reported payroll costs (excluding fringe benefits) were in accordance with the Manual, we reviewed a sample of 15 payrolls during our audit period. Although our review did not result in disallowances, we did note serious deficiencies in District compliance with time and attendance controls. Many time and attendance records were missing or had not been prepared and some of the records that we found lacked supervisory or employee signatures or had incorrect calculation of the hours worked by employees. (See pp. 11-12)

We also concluded that District officials had not implemented an adequate system of internal controls, including formal job descriptions, comprehensive policies and procedures, as well as formal monitoring and quality assurance. Moreover, we believe that weaknesses in internal controls contributed to many of the problems identified in this report. We also noted other areas where the District needs to improve its operating practices. (See pp. 19-25)

Our report contains detailed recommendations to both the Department and the District to ensure the accurate reporting of cost and enrollment data, as well as to improve other operating practices.

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## ***COMMENTS OF DISTRICT AND DEPARTMENT OFFICIALS***

District officials responded that they welcomed our audit recommendations in furtherance to their own commitment to self-assessment and self-improvement. They acknowledged some past operational weaknesses, but concluded these were immaterial and did not compromise the District's fiscal or programmatic integrity. District officials disagreed with most of our cost disallowances. According to District officials, a majority of disallowed costs were consistent with the District's educational program objectives or were pre-approved by the Department.

Department officials agree with the four recommendations we address to them. Most notably, the Department agrees with our recommendation to consider the audit allowances identified in this report and take appropriate action.

Auditors' Comments: The costs that we disallowed were expressly prohibited by the Manual and/or were not formally approved by the Department.

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# INTRODUCTION

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## Background

The Greenburgh-North Castle Union Free School District (District) is located in Dobbs Ferry, Westchester County. The District was established by a special act of the State Legislature in 1969 and is one of 14 special act school districts in the State that serve children with special needs, including children with behavioral and learning problems. The District serves the educational needs of the residents of St. Christopher's, Inc., a nonprofit, nonsectarian organization that serves troubled children and families. Most of the District's students have behavioral and learning problems. Generally, students are referred to the District by the courts in New York City, Westchester County and other nearby counties. As of March 2001, the District provided instruction to 139 resident students and 26 day students. The following table summarizes the District's educational expenditures for our audit period, according to cost data submitted by the District to the Department.

Fiscal Year	Personal Service	Other Than Personal Service	Total
1997-98	\$3,579,190	\$1,441,416	\$5,020,606
1998-99	\$5,059,230	\$1,531,304	\$6,590,534
1999-00	\$5,001,277	\$1,246,512	\$6,247,789
Total	\$13,639,697	\$4,219,232	\$17,858,929

For each of the 148 Full-Time Equivalent (FTE) students who attended the District during the 1999-2000 year, it cost about \$42,000 per FTE student to operate the District's educational programs. These costs do not include the costs to operate the residential program of St. Christopher's, Inc.

The District operates three distinct educational programs: the Residential Treatment Center, the High School, and the Non-Secure Detention Center. The home school districts of students placed at the District pay tuition based on rates established by the New York State Education Department (Department). Each of the District's programs has its own individual rate. Programs have separate rates for the regular school year and summer sessions. The rates, which must also be approved by the State

Division of the Budget, allow the District to recover all costs considered reimbursable by the Department's Reimbursable Costs Manual (Manual).

Section 305 of the Law authorizes the Department to oversee and examine the operations of all institutions that are subject to the provisions of the Law. The District's financial statements must be audited annually by a certified public accountant for compliance with generally accepted accounting principles. Such audits are not intended to ensure that costs are reasonable, necessary and consistent with the Manual. In addition to the standard financial statements, the District must prepare and submit to the Department reports that summarize the educational costs of the District. Pursuant to the State Education Law (Law), the Department reviews these cost reports to determine the tuition rates to be charged to the students' home districts. Students' home districts are subsequently reimbursed by the State (through State aid from the Department) for about 50 percent of the amount paid to the District.

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### ***Audit Scope, Objectives and Methodology***

**W**e audited the reported expenditures and enrollments of the District for the period July 1, 1997 through June 30, 2000. The objectives of our compliance audit were to determine if the District's reported costs were reasonable, necessary and consistent with the Manual and also to determine if the District reported enrollments correctly. To accomplish these objectives, we reviewed financial records, student records, and other supporting documentation and interviewed District management and staff. To determine compliance with the Manual, we selected a judgmental sample of the reported expenditures for the three fiscal years ended June 30, 2000. Our sample took into account the materiality and relative risk of individual transactions. Our audit did not include costs associated with the residential program operated by St. Christopher's, Inc.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the District which are included within our audit scope. These standards also require that we understand the District's internal control structure and compliance with those laws, rules and regulations that are relevant to the District's

operations included in our audit scope. An audit includes examining, on a test basis, the evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability of needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient and effective. As a result, our audit reports are prepared on an “exception basis.” This audit report, therefore, highlights those areas needing improvement and does not address those activities that may be functioning properly.

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### ***Internal Control and Compliance Summary***

Internal controls are the integrated activities, plans, attitudes, policies, and efforts of the people of the organization working together to provide reasonable assurances that an organization will fulfill its mission. They encompass a comprehensive system that helps an organization manage risk and enables its programs and administrative activities to operate efficiently and effectively. An effective internal control system typically sets standards in five critical areas: control environment, information and communication, control activities, risk assessment, and monitoring. Our evaluation of the District’s internal controls identified weaknesses in all areas. We provide details of these matters throughout this report.

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### ***Response of Department and District Officials to Audit***

We provided draft copies of this report to District and Department officials for their review and formal comment. We considered the District’s and the Department’s comments in preparing this report and have included them as Appendices B and D, respectively. The District’s response included a series of attachments that we did not append to this report. However, we

have retained these attachments on file for inspection at the Office of the State Comptroller. Our rejoinders to the District's response are presented in Appendix C, State Comptroller's Notes.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Education shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein to the Department, and where recommendations were not implemented, the reasons therefor. We also request officials of the District to provide comments within 90 days advising what steps were taken to implement the recommendations to the District contained herein and where recommendations were not implemented, the reasons therefor.

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## DISALLOWED COSTS AND COMPLIANCE DEFICIENCIES

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The Manual states that costs will be reimbursed if they are reasonable, necessary, sufficiently documented, and directly related to the educational program. The Manual prescribes what costs are reimbursable and the related record keeping requirements (e.g. vendor invoices, receipts). The Manual also states that costs will not be considered to be reimbursable upon field audit (by the Commissioner of Education, the State Comptroller, or other authorized agencies) without appropriate written documentation of such costs. Section 200.9 (d) of the Commissioner's Regulations requires approved programs to retain all pertinent accounting, allocation and enrollment/attendance records for seven years following the end of the reporting year. Further, Section 200.9 (f) requires that adjustments be made to any reported costs that cannot be substantiated, upon field audit, by adequate written documentation. In addition, competitive procurement practices should be used, as prescribed by the General Municipal Law and the Manual, and documentation of compliance with such requirements must be kept on file for such costs to be allowable.

Payments for staff salaries and fringe benefits are classified as personal service costs. To determine whether the reported payroll costs (excluding fringe benefits) were in accordance with Manual guidelines, we sampled 15 payrolls (5 per fiscal year) during our audit period. We selected our sample to ensure we included at least one payroll from each quarter of each fiscal year. Although our review did not result in disallowances, we did note serious deficiencies in compliance with time and attendance controls.

Other-than-personal-service (OTPS) costs are those incurred to purchase goods and services. OTPS costs exclude staff salaries, wages and fringe benefits. Types of OTPS expenditures include equipment purchases, consultant services, repairs, and other operating expenses. To determine whether reported costs were allowable in accordance with the Manual, we reviewed the records of a judgmental sample of OTPS expenditures for the three fiscal years ended June 30, 2000. We

selected our sample based on the amount of each expenditure and whether the expenditure appeared educationally related. The District reported OTPS expenditures of \$1.44 million, \$1.53 million and \$1.25 million, respectively, for the three years we reviewed. We reviewed \$2.13 million of the total \$4.22 million in OTPS expenditures. Based on our review, we determined that \$381,157 in OTPS expenditures included in our sample was not allowable according to the Manual. Specifically, these costs were either not eligible, not supported with adequate documentation, or were not formally pre-approved and competitively procured, as required. The following table summarizes the disallowed costs by reason and year.

Disallowed Costs	FY 1997-98	FY 1998-99	FY 1999-2000	Total
Not Eligible (per Manual)	\$29,904	\$47,694	\$90,571	\$168,169
No Invoices/Receipts to Support Expense	\$14,258	\$5,893	\$9,448	\$29,599
No Department Approval/No Bidding	\$0	\$183,389	\$0	\$183,389
Total	\$44,162	\$236,976	\$100,019	\$381,157

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***Costs Not Eligible According to the Manual***

The Manual specifically states that certain expenditures are not eligible for reimbursement. For the audit period, we determined that \$168,169 in reported OTPS costs was ineligible, as follows:

- The Manual states that the costs of uniforms for students and staff are not reimbursable – even if School policy requires uniforms. We found \$83,695 spent for student and staff uniforms, uniform rentals, and business attire for students.
- The Manual states that ordinary living expenses, such as the cost of overnight class trips or other expenses that are normally assumed by parents of students attending public day schools, are not reimbursable. We found \$33,538 in hotel, meal, and travel expenses for District

staff and students. This included overnight trips to Disney World, Sea World, Washington D.C., and Dallas, Texas.

- The Manual states that costs resulting from an entity's failure to comply with applicable laws and regulations are not reimbursable. We found a \$25,000 legal settlement (expense) was incurred because the District did not file a Notice of Claim with its insurance company within the time limit established by law. As a result, the insurance company denied the District's claim for the loss.
- The Manual states that costs for food, beverages, entertainment and other related costs for meetings are not reimbursable. Yet \$7,483 was expended for food and beverages for purposes such as business meetings and administrative luncheons.
- While \$4,510 was spent for work stipends for students, the Manual states that these expenses are not reimbursable.
- The District paid \$1,270 in sales taxes. The Manual states that payments for Federal, State and local taxes are not reimbursable.
- In accordance with the Manual, \$12,672 spent for miscellaneous expenses are not eligible for reimbursement. Such expenses include \$1,627 of the costs of the parent entity (St. Christopher's, Inc.), entertainment and gifts for residents totaling \$1,788, \$1,201 for flowers that were not used for commencement, and residents' learner permits costing \$773 and other small items.

(In their response to our draft audit report, District officials indicated that many of the costs in question were reasonable and ordinary for the educational programs they were operating.)

Auditors' Comments: The Manual specifically states that the costs in question are not eligible for reimbursement.

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## ***Costs Without Invoices or Receipts***

The Manual requires that all purchases be supported with documentation listing the items purchased, as well as the date of the purchase. However, invoices or receipts were not available to support a number of reported expenditures totaling \$29,599 as follows:

- The District paid its employees \$22,960 as advances to purchase goods or to reimburse their expenses. However, there are no receipts or invoices to support these payments. For example, one employee was given \$1,800 to purchase construction supplies for the District; however, there were no receipts, invoices or other documentation to account for the use of the money.
- While \$6,639 in checks were made payable to private companies, including over \$2,600 for credit card expenditures, there were no receipts, invoices, or statements to identify the items purchased and their costs.

(In response to our draft audit report, District officials indicated that the relocation of the District's educational facilities, as well as staff turnover, probably resulted in the misplacement or loss of the supporting documentation for the transactions in question. District officials indicated that procedures have been strengthened to avoid this problem in the future.)

Auditors' Comments: The Manual specifically states that costs are not eligible for reimbursement without adequate supporting documentation.

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## ***No Prior Department Approval and/or Competitive Procurement***

### **Repair and Renovation Costs**

The Manual requires the District to use competitive procurement practices as prescribed by law. Specifically, the General Municipal Law states that all public works contracts of more than \$20,000 shall be awarded to the lowest responsible bidder. Furthermore, the Manual requires any proposals for renovations, alterations, and major repairs to be submitted to the Department for its review and approval before

any costs for such work are incurred. The Manual also requires school districts to keep all bidding documentation on file.

During the 1998-99 year, the District repaired and renovated the property it rents for its junior high school and high school programs. The District planned to use the rental property on a temporary basis until a new school was built. However, the District did not seek or obtain formal prior Department approval for the sampled repair and renovation costs of \$183,389. Furthermore, the District did not use any form of competitive procurement to obtain materials for this project and the contractors that worked on it.

District officials acknowledged that they did not competitively procure the construction work in question. They noted that in 1997 a Department program official directed them to address serious deficiencies at the District's former school buildings (located on the campus of St. Christopher's, Inc.) and to relocate its junior high program within a period of several weeks. District officials maintained that these time constraints precluded formal bidding of construction work for the new site. We noted that a Department official did formally authorize certain program-related and building rental costs associated with the relocation of the District's junior high school (but not the high school) program. However, the Department-approved plan did not include costs for major repair and renovation work. Furthermore, the District's relocation, in accordance with the 1997 Department-approved plan (with its associated costs), did not happen until 1998 when the District entered into an agreement with a local parish to rent a school building for the District's junior high school and high school programs starting in September 1998. In addition to paying rent (of \$22,917 per month or \$275,004 annually) for the new site, the District repaired and renovated it as well. However, as noted previously, the District did not obtain formal prior Department approval for the repair and renovation costs, nor did it use any form of competitive procurement to obtain construction materials and the contractors that performed the work. As such, sampled construction and renovation costs of \$183,389 are disallowed.

(In response to our draft audit report, District officials state that the Department had approved each phase of the junior high school relocation as costs were incurred, and that the renovation costs for the senior high school were approved for recovery through the rate reconciliation process. District

officials indicated that the Department Regional Associate provided verbal approval. District officials also indicated that the District was not obligated to use competitive procurement for the renovation costs because emergency conditions existed at District facilities.)

Auditors' Comments: The total cost of renovation was over \$200,000. The renovation was, therefore, a capital project cost. Accordingly, the District should have sought and obtained the prior written approval of the Department as required by the Manual. Verbal approval of the Regional Associate would only have been appropriate if the costs were minimal. In fact, the Regional Associate had indicated that the rental property required only minimal renovations for use by the junior and senior high schools.

Also, the District occupied existing facilities for a least an entire school year before renovation at the new site was commenced. Thus, we maintain that the District had the time to use competitive procurement for any major renovation work at the new site.

#### Transportation and Cleaning Services

The General Municipal Law states that all purchase contracts of goods and services (versus public works contracts) for more than \$10,000 shall be awarded to the lowest responsible bidder. The District is required to retain documentation of competition for contracts that exceed \$10,000. However, we determined that the District did not competitively procure contracts totaling about \$75,000 for student bus transportation and about \$66,000 for cleaning services.

District officials acknowledged that these contracts were not competitively procured but believed that the services in question were obtained at reasonable costs. After we brought this matter to the attention of District officials, they competitively procured contracts for transportation and cleaning services for a period subsequent to our audit. Officials further noted that the costs in question were consistent with the costs for the same services obtained through bidding, and therefore, such costs were reasonable. Thus, based on documentation provided by the District and advice from the Department, we do not recommend disallowance of these costs. Nonetheless, the District should obtain vendor competition for major purchases and maintain

documentation of that competition, as required by the General Municipal Law, in the future.

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## ***Time and Attendance Controls***

The Manual requires that personal service costs be based on payrolls that are approved and documented. Payrolls must be supported by employee time records (timesheets) prepared during the time period the employee was paid. Further, employee timesheets must be signed by the employee and a supervisor, and must be completed at least monthly. During our audit period, the District's payroll costs, including fringe benefits, totaled about \$13.6 million.

For each of the three years covered by our audit, we selected 5 payrolls for review (a total of 15 payrolls for our audit period). Based on our review of the 15 payrolls, we determined that 789 of 1084 of the required time and attendance records (corresponding to about \$1.7 million in payroll costs) had not been prepared or were missing. Of the 295 time and attendance records we did find, 185 had significant deficiencies, such as the lack of supervisory or employee signatures.

District officials informed us that some of the missing time and attendance records related to teachers and administrators who do not fill out traditional timesheets. Instead, they entered their times in and out in logs located at the District's various school locations. We attempted to obtain and review the logs for the sampled pay periods. However, officials could not provide us with the logs for the payroll periods we selected in fiscal years 1997-98 and 1998-99. In addition, the District was not able to provide us with complete logs for two (of the five) selected payroll periods for 1999-2000 year. For the logs that we were able to review, we found that, on average, about 49 percent of District employees did not sign in and out each workday.

District officials attributed the missing time and attendance records to high staff turnover. Officials added that timekeeping records might have been lost, misplaced or misfiled as a result of multiple moves to new facilities in recent years. Thus, based on advice from the Department, we reviewed other evidence such as the employees' personnel records, class rosters, leave request slips, and other documentation that would indicate the person worked at the District. Consequently, we did find evidence that the employees performed work at the District

during the payroll periods we selected for review, and therefore, we are not disallowing the associated costs. Nonetheless, District officials should ensure that time and attendance records are maintained to support payroll expenditures, as required by the Manual. (In responding to our draft audit report, District officials indicated that they have strengthened procedures to assure that all employees prepare and submit time and attendance records.)

## **Recommendations**

### **To the Department:**

1. Consider the audit disallowances identified in this report and take appropriate action.

(Department officials agree with recommendation number 1.)

2. Periodically perform field site visits to ensure the District is complying with the Manual, and has implemented the recommendations contained in our report.

(Department officials agree with recommendation number 2, and indicate that they will periodically visit the District as staffing resources permit.)

### **To the District:**

3. Ensure that all costs reported to the Department are allowable pursuant to the Manual.

(District officials asserted that the costs disallowed in the report were reasonable and ordinary for the District's programs.)

4. Maintain adequate supporting documentation, including vendor invoices and receipts, for all purchases of goods and services.

(District officials agreed with recommendation number 4.)

### **Recommendations (Cont'd)**

5. Use competitive procurement practices, as appropriate, to obtain services, consistent with the provisions of the Manual and the General Municipal Law.

(District officials respond that they have competitively procured transportation and cleaning services.)

6. Formally seek and obtain the written approval of the Department for all capital projects as required.

(District officials contend that they had sufficient Department approval to renovate the school that the District rented.)

7. Ensure that all employees prepare and submit time and attendance records as prescribed by the Manual. Ensure that such records are reviewed and formally approved by supervisors and maintained on file.

(District officials agreed with recommendation number 7.)



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## ENROLLMENT REPORTING

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Section 175.6 of the Regulations of the Commissioner of Education prescribes the methodology for the calculation of FTE student enrollment. Specifically, Section 175.6 defines enrollment as the period commencing on the first day a pupil is enrolled in and is physically present at (or legally absent from school) and terminating on the last day such pupil is enrolled in and is physically present at (or legally absent from) school. For example, a student who is enrolled from September through June is deemed to be in attendance during that period and is calculated at 1.000 FTE. If a student is enrolled for less than the full program duration, then the full time equivalent enrollment is calculated by dividing the total weeks of enrollment by the total number of weeks the program operated - calculated to three decimal places without rounding. Enrollments must be counted separately for the regular school year and summer sessions.

The Department requires schools, such as the District, to report the enrollments of their various programs to calculate tuition reimbursement rates. For each program, the District's tuition rate is determined by dividing its reported eligible expenditures by the number of FTE students enrolled. For example, if total eligible costs were \$100 and the number of FTE students enrolled was 25, the tuition rate would be \$4 per student. Because the District operates three distinct programs, it has three tuition rates – one for each of the programs. Program 9003 is the Residential Treatment Center; Program 9004 is the High School; and Program 9005 is the Non-Secure Detention center.

To determine whether the District reported FTE enrollments accurately, we reviewed the enrollment amounts that were submitted to the Department and compared those to the District's summary attendance records. Using the available attendance summaries, we calculated the FTE enrollments for the District and determined that the enrollments reported by the District were incorrect. The following chart summarizes the reported and the correct figures for the audit period.

Fiscal Year	Program Code	Semester	Reported FTE	Correct FTE	Difference (under)
1998	9003	Summer	12.967	23.333	(10.366)
		Fall/Spring	29.100	24.575	4.525
1998	9004	Summer	102.533	92.000	10.533
		Fall/Spring	102.533	102.650	(0.117)
1998	9005	Fall/Spring	19.672	19.672	(0.000)
1999	9003	Summer	24.000	22.667	1.333
		Fall/Spring	26.520	26.050	0.470
1999	9004	Summer	122.50	89.167	33.333
		Fall/Spring	101.790	107.525	(5.735)
1999	9005	Fall/Spring	20.590	20.590	0.000
2000	9003	Summer	24.000	24.333	(0.333)
		Fall/Spring	28.495	26.700	1.795
2000	9004	Summer	122.500	95.000	27.500
		Fall/Spring	101.194	108.300	(7.106)
2000	9005	Fall/Spring	18.769	18.769	0.000

As the table indicates, the District often submitted incorrect enrollment data to the Department for its programs during our audit period. District officials told us that their CPA firm calculated the FTE enrollments based on attendance data they provided to the firm. However, District officials (not the CPA firm) are responsible for accurately reporting data to the Department, and officials could not document the methodology the CPA firm used to calculate their reported FTE enrollments. Moreover, when we presented our calculations to District officials, they acknowledged that the CPA firm may have incorrectly calculated the enrollment data. Because incorrect enrollment figures were reported to the Department and used to calculate tuition rates, the District has most likely used incorrect rates to bill client districts. As such, the Department will have to revise the District's tuition rates based on the correct enrollment data presented in our report.

(In responding to our draft audit report, District officials indicated that they have requested their accounting consultant to recalculate the corrected FTE enrollment in compliance with Regulation 175.6.)

Auditors' Comments: Our audit report has been updated to reflect these results.

## **Recommendations**

### **To the Department :**

8. Consider the corrected enrollment figures identified in this report and take appropriate action.

(Department officials agree with recommendation number 8.)

9. Take appropriate steps to help ensure that the District calculates its FTE enrollments accurately.

(Department officials agree with recommendation number 9.)

### **To the District:**

10. Ensure that District staff and/or consultants use the proper methodology to accurately calculate FTE enrollments and that accurate FTE enrollments are reported to the Department.

District officials requested their accounting consultant to recalculate reported FTE enrollments to ensure that they were correct.)

11. Adjust future bills and/or issue refunds to client districts and agencies commensurate with any tuition rate changes made by the Department resulting from the application of the corrected enrollment figures.

(District officials did not respond to recommendation number 11.)



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# INTERNAL CONTROLS

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Internal controls are the processes designed to provide reasonable assurance that financial statements and reports are reliable, operations are effective and efficient, and agency personnel have complied with applicable laws and regulations. To help ensure compliance with the Manual, management must establish and maintain adequate systems of internal controls for administrative and accounting functions. The objective of these systems is to provide members of the Board of Directors and administrators with reasonable assurance that transactions are properly authorized and recorded, thus facilitating the preparation of financial reports according to applicable laws and regulations, as well as the Manual. We concluded, however, that District officials had not implemented an adequate system of internal controls. Moreover, we believe that weaknesses in basic internal controls contributed to many of the problems identified in this report. We noted the following control weaknesses:

- Formal job descriptions are necessary to ensure that employees know the full range of their work responsibilities. Job descriptions also help ensure that management hires qualified staff to fill vacant positions. However, the District did not have written job descriptions for some of its fiscal administration employees.
- Comprehensive written policies and procedures are critical to a system of internal control because they help ensure that all employees within an organization understand the tasks to be accomplished and the acceptable methods for use in performing these tasks. However, during our audit period, the District did not have an approved comprehensive policy and procedure manual. Consequently, key supervisors and staff were not fully aware of the policies and procedures that they should have followed to administer the District's business affairs. Officials also stated that there has been significant employee turnover in the District's business administration unit. As a result, District officials have less assurance that the routine, day-to-day tasks of business administration are performed properly. If the high

turnover of key staff and supervisory personnel continues, it will be even more important that essential policies and procedures be documented. (In October 2001, after we brought this matter to the attention of District officials, the District's Board of Directors formally approved a policy and procedure manual for business affairs. The approved manual is the same one used by St. Christopher's, Inc.) Further, the District did not provide formal training to fiscal administration staff, including employees that were relatively new to their job assignments. Such training is necessary to help ensure that proper fiscal administration practices are used consistently.

- Management should ensure proper fiscal administration functioning through formal monitoring and/or quality assurance. However, at the time of our review, the District did not have an internal control officer; nor did it perform any internal quality assurance reviews on fiscal operations to verify compliance with the Manual. Moreover, the District has not designated staff to perform such reviews. Given the weaknesses identified in this report, we concluded that District officials should develop a formal quality assurance function to ensure that proper fiscal administration procedures are established and consistently followed.

(In responding to our draft audit report, District officials indicated that they believed that the internal controls in place prior to the audit were sufficient. District officials stated that the District strengthened its existing system of internal controls with guidance from the Department. Officials also indicated that steps have been taken, subsequent to our audit fieldwork, to further improve the District's system of internal controls.)

Auditors' Comments: While some controls did work adequately, the results of our audit demonstrate that other controls did not.

## **Recommendations**

### **To the District:**

12. Establish formal written job descriptions, including areas of responsibility, for all fiscal administration staff.

(District officials indicate that they maintain a Policy and Procedure Manual that contains employee job descriptions.)

13. Establish comprehensive written policies and procedures for all fiscal management functions.

(District officials indicate they maintain a Policy and Procedures Manual that contains internal control procedures.)

14. Develop formal training programs for fiscal administrative staff to ensure that proper policies and procedures are followed.

(District officials indicate that the Board adopted a program of scheduled staff training in fiscal policies and procedures in October 2001.)

15. Develop a formal quality assurance program to ensure compliance with the Manual, including the use of proper policies and procedures for fiscal administration functions and enrollment reporting.

(District officials indicate that existing protocols have been enhanced by the Board's October 2001 resolution to improve internal monitoring and control, establish and audit committee, conduct risk assessments, and have regularly scheduled reviews by auditing consultants.)



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## OTHER MATTERS

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We noted other areas where the District needs to improve its operating practices, as follows:

- Billing districts for students served. The Department establishes and formally notifies the District of the tuition rates that it should charge client school districts or other government agencies. The Department also requires the District to send a copy of the official rate notification to its client districts and agencies. However, the District did not routinely provide copies of the Department's rate notifications to its client agencies. Moreover, the District billed the New York City Board of Education and several other districts \$887 per week per student for Program 9004 for the 1999-2000 year. This was \$40 above the approved rate of \$847. In total, we determined that the District over-billed clients about \$171,000 for the 1999-2000 year. District officials told us that over-billings resulted from a clerical error. (Note: This amount is not included in amounts recommended for disallowance because it does not impact costs reported to the Department for tuition rate-setting purposes. Nonetheless, the District should refund or credit amounts over-billed to client agencies, as appropriate.)
- Payments to contractors and consultants. The Internal Revenue Code requires employers to issue Form 1099 to all independent contractors and consultants earning more than \$600 in a year. The independent contractor or consultant must then pay any income taxes on such earnings, as appropriate. A copy of Form 1099 should also be submitted by the payer to the appropriate taxing authorities to help ensure that all income is reported on a contractor's or consultant's tax return. However, the District did not issue Form 1099s for payments to consultants and contractors, from July 1997 through June 2000, amounting to about \$233,000. In total, the District should have issued 46 Form 1099s for these payments. However, because the Form 1099s were not issued to either party, there was no assurance that applicable taxes were paid on the income earned. District officials

could not explain how the oversight occurred, but stated that they corrected this problem in July 2000, when we brought this to their attention. However, the District did not issue Form 1099s to independent contractors and consultants who were paid prior to July 2000.

- Non-payroll payments to employees. The District is required to withhold Federal and State income taxes, social security, and Medicare taxes from employee wages. In addition, the District is required to pay social security, Medicare, and unemployment taxes on employee wages. Therefore, all wages earned by employees must be processed through the District's payroll system to ensure that all applicable taxes are properly withheld and paid. However, the District paid four employees about \$22,000 in overtime payments as independent contractors during our audit period, without issuing corresponding Form 1099s. Also, because these wages were not processed through payroll system, taxes were not withheld and employees may not have paid them. During our fieldwork, we advised officials of this matter and the District stated that they would make the appropriate payroll adjustments. Officials added that all future overtime payments will be processed through the payroll system. However, the District did not issue revised wage reports for the payments prior to July 1, 2000.
- Cost Allocations. As noted previously, the District operates three distinct educational programs, and consequently, must report costs for each of those programs separately to the Department for rate determination purposes. The Department determines a separate tuition reimbursement rate for each of the District's three programs. Any costs that cannot be charged directly to an individual program must be allocated among the District's three programs. However, for the period covered by our audit, District officials were generally unable to readily provide us with allocation schedules and related accounting data for allocated costs. In fact, District staff attempted to create a considerable amount of allocation data after we requested it during the audit fieldwork. Nonetheless, officials sometimes were still unable to provide adequate support for reported cost allocations.

- Equipment Inventory. The District did not maintain a system to control equipment inventory. According to the District's cost reports, the District spent almost \$186,000 for equipment during our audit period. Therefore, they were unable to provide us with an accurate listing of equipment – including computers. Moreover, without a complete and accurate equipment inventory listing, District officials cannot periodically verify the presence of items, and thereby ensure that equipment is adequately controlled and protected.

## **Recommendations**

### **To the District:**

16. Use the most recent Department-approved tuition reimbursement rates to bill client districts and agencies for services provided to students. Issue refunds or adjust future bills for any over-payments made by client districts or agencies because the District billed them incorrectly.

(District officials indicate that steps have been taken to ensure that client districts are billed at the correct rates.)

17. Issue Form 1099s for the consultants and contractors who were paid by the District prior to July 2000. Notify tax authorities as appropriate.

18. Issue revised wage reports for employees who were paid overtime that were not processed through the District's payroll system. Notify tax authorities as appropriate.

(District officials did not respond to either recommendation number 17 or to recommendation number 18.)

19. Prepare and maintain sufficient documentation for expenses that must be allocated among the District's three educational programs for financial reporting purposes.

### **Recommendations (Cont'd)**

(District officials indicate that they have provided the Department with accurate cost allocations for the District's three programs with assistance from its accounting consultant and the Department's rate-setting office.)

20. Develop and maintain an effective inventory control system for equipment.

(District officials indicate that a formal asset management module was added to the District's financial software package.)

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## MAJOR CONTRIBUTORS TO THIS REPORT

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**VIA OVERNIGHT DELIVERY**

Mr. Tony Carbonelli  
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Re: Written Response to Draft Audit Report // Report 2001-S-8  
Greenburgh-North Castle UFSD

Dear Mr. Carbonelli:

We are writing on behalf of Greenburgh-North Castle UFSD (the "District") in response to the Draft Audit Report (2001-S-8) on the policies and practices used by the District to report costs and enrollments to the State Education Department for tuition rate-setting purposes for the period July 1, 1997 through June 30, 2002 (the "Report").

There are a number of adjustments that the District does not dispute. However, in the areas outlined below, we challenge the summary results of the examination and maintain that the Audit disallowed in excess of what was appropriate.

**I. Historical Background of Greenburgh-North Castle UFSD**

As a Special Act School District (SASD), Greenburgh-North Castle (GNC) UFSD has been faced with challenges unlike any facing its colleague public school districts. In 1997, the District requested a full program review by the State Education Department (SED) to identify operation strengths and weaknesses and, with guidance from the Department, to determine the most appropriate corrective actions.

The SED formal review was conducted in 1997 and included a comprehensive assessment of the District's physical facilities, policies and procedures, committee on special education operations, and all programs and services. The Report issued in November of 1997 detailed areas of non-

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compliance with Part 100 and 200 Commissioner Regulations. Of particular concern to the Department were the "serious health and safety hazards for students and staff" presented by building on both existing campuses. (See: Appendix "A": "Program Review Report"). The Report also noted that in addition to health and safety issues, the education program on both campuses presented numerous compliance issues including, but not limited to, inadequate classroom space, instructional materials/equipment/furniture and insufficient staff in the instructional, behavioral management and clinical areas.

The District immediately prioritized the many areas of non-compliance identified by the Report and with the Department, developed a comprehensive relocation plan to address the immediate health and safety issues.

The District was directed to vacate the existing Junior High School Dobbs Ferry Building immediately. The District was also directed to immediately secure additional appropriated space for the Senior High School and the Valhalla Non-Secure Detention Program after the relocation of the Junior High Program. Clearly, the Department, through the Report, not only authorized but directed the relocation of all District facilities - - the relocation of the High School facilities under no less emergency circumstances than the relocation of the Junior High School facilities. Specifically, we note the findings of the Department as presented by the Regional Associate Roland Smiley in the Program Review Report (Appendix "A" to the aforementioned Response):

"This school has two campuses. The main campus is referred to as the Dobbs Ferry campus and the remaining campus is referenced as the Jennie Clarkson campus. The main campus has primary residence for those students attending the Junior High/High School program. On this campus, there is the high school building, gymnasium building which houses the junior high program and a dining hall. The Jennie Clarkson campus consists of four residences and an educational building. *Prior to this site visit report, the Greenburgh-North Castle administration Board of Education was notified that the buildings on **both** campuses represented serious health and safety hazards for the students and staff.* In addition to health and safety issues, the education programs on **both** campuses represented numerous compliance issues including, but not limited to, inadequate classroom space, instructional materials/equipment/furniture and insufficient staff in the instructional, behavioral management and clinical areas."

(Appendix "A", page 249) (Italics, bold added)

The Report is replete with specific references to the health and safety findings, including:

"...classrooms on the Dobbs Ferry and Valhalla campuses are out of compliance, due to their design and substandard square footage." (Pg. 252)

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“...this situation represents a hazardous environment placing staff and students at serious risk of injury due to the inappropriate classroom space”. (Ibid)

“...(these) structures ...did not meet local building codes”. (Ibid)

The list of non-compliance specific to the physical facility is set out in the Report and includes failings related to the certificate of occupancy, 504 accessibility, general health and safety, appropriate learning environment and residential and health/safety issues. In all, 66 issues had been identified as being non-compliant. Importantly, the Department noted that although the issues were critical and needed to be addressed by the School’s administration, the School had not allowed these challenges to impede or deny any special education services to their students.

In addition to facility relocations, the Report directed extensive program modifications including an increased number of crisis intervention workers, reductions in class sizes, increased clinical support, development of adequate vocational and extra-curricular offerings, and a general strengthening of the educational programming.

A formal corrective action plan was submitted to the Department by the District in March, 1998, detailing the several phases of remediation developed in coordination with the Regional Associate. (See: Appendix “C”: “Corrective Action Plan”).

The corrective action plan was implemented in phases beginning with the relocation of the physical facilities of the Junior High School Program to a rented school located three miles away from the Dobbs Ferry Campus. That phase completed, the District continued to look for adequate school space for the Dobbs Ferry high school program since the Regional Associate directed the immediate relocation of these students as well. At the same time, the District continued working with the Dormitory Authority to address the physical facility needs of the Dobbs Ferry Campus as a whole, as identified in the Report. In the interim, the Valhalla program site (particularly the non-secure detention program) required relocation as directed by the Report.<sup>1</sup>

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<sup>1</sup>“The School’s administration Board of Education will need to develop a plan of correction that addresses the health, safety and inadequate instructional space for both campuses prior to the completion of the new Dobbs Ferry campus school building” (Report).

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The District attempted to locate suitable space throughout the Westchester area. Administrators explored several cost-effective options: visited a number of Catholic schools, examined school space in synagogues and, at the suggestion of the Regional Associate, considered renovating an office building space and warehouse space in a number of locations.

Although suitable space was not found for the non-secure detention program near the Valhalla campus, adequate instructional space was found for re-locating both the Junior High School (from Ardsley) and the Senior High (from Dobbs Ferry) programs in the Sacred Heart Parish School at 108 Shonnard Place in Yonkers. The Ardsley program was consolidated with the Yonkers site in the interest of cost-effectiveness. Each separate phase of the relocation project was in coordination with the Regional Associate, Mr. Smiley, in response to the emergency circumstances identified in the Report. In fact, each of the several phases of remediation, including multi-phased relocations, was undertaken with the advise and approval of Mr. Smiley, as reflected in Mr. Smiley's correspondence to Mr. Tom Hamel relative to the relocating the Junior High School, specifically the reference that "(b)y copy of this memorandum the Superintendent of the Greenburgh North Castle USFD has been given approval to initiate the relocation activities." SED's own Report clearly directed the School's Administration to "[address] the health, safety and inadequate instructional space for both campuses prior to the completion of the new Dobbs Ferry campus school building" ( pg. 249). There can be no question that the School responded as quickly as possible to the Department's demands in crafting its multi-phased relocation project. A single phase relocation plan -- presumably preferred by all parties -- was not possible given the lack of alternate sites adequate to accommodate both campuses. To suggest that one phase of the project was undertaken in emergency circumstances while the subsequent phases were not is unreasonable and baseless.

Clearly, the Department understood each campus relocation phase to be part of the multi-phased project and, importantly, approved the costs of each phase as they were incurred, as was the case with the relocation of the junior high school, or through the rate reconciliation process, as was the case with the high school. In fact, the costs of the Yonkers relocation was verbally approved by the Regional Associate with the explicit understanding that reimbursement would follow in reconciliation with the Department.

* Note 1
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Over the years subsequent to the 1997 Report, the District has committed its resources to providing quality programming within a suitable environment in the most cost effective way.

In spite of the many obstacles confronting the District, quality programming has remained its central focus. The District recently achieved Candidacy status with the Middle States Association and has now received formal accreditation from the Association. (See: Appendix "H"). The accreditation process involves comprehensive planning and accountability measures in all areas of the District that will build upon improvement steps already taken.

\* See State Comptroller's Notes, Appendix C

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Also, the District was recognized by the New York State Lottery and the *Journal News* for its innovative educational design. The District captured First Place in the 2000 Leaders of Tomorrow Technology Awards competition open to all public school districts throughout the area. The award was presented to teachers and administrators of the District by officials of the New York State Education Department, including the BOCES District Superintendent and the Deputy Commissioner.

In the same year, Greenburgh-North Castle was recognized by the Council for Exceptional Children's Chapter at Manhattanville College. Additionally, the District received an award for its technology programming from the International Computing Technology Industry Association (CompTia) in 2001, in recognition of innovative programming for special needs students.

The technology programs of Greenburgh-North Castle have been described in the *Journal News*, *The New York Times* and were highlighted recently in the main publication of the Association for Career and Technical Education, *Techniques*, which is distributed nationally.

Further, in recognition of the strength of its educational program design, Greenburgh-North Castle School District was invited by the Regional Supervisor of the New York State Education Department to meet with an "853" school on Long Island. Greenburgh-North Castle was asked to help this school replicate the Greenburgh-North Castle design.

Currently, GNC is partnering with United Parcel Service (UPS) and the Annie E. Casey Foundation to develop an industry-recognized certification for use in schools modeled on the design piloted at Greenburgh-North Castle.

With guidance from SED, Greenburgh-North Castle has developed an extraordinary educational program with strong ties to the community.

## **II. Summary of Specific Challenges**

We challenge the summary results of the Audit in the following areas:

### **A. System of Internal Control**

The objective of internal accounting control is to provide reasonable, but not absolute assurance as to the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments made by management.

We challenge the Audit conclusion that Greenburgh-North Castle officials have not implemented a system of internal control that would enable them to provide adequate public

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accountability. We believe the auditors did not have available to them all relevant information, materials and documents necessary to properly assess the District's system of internal controls.<sup>2</sup> We further believe that many of the inaccurate statements made by District employees have been clarified and corrected through subsequent discussions with the auditors. Specifically: as auditors are aware, the District does maintain a Policy and Procedure Manual which contains employee descriptions and internal control procedures. (Copy provided to auditors). A BOCES Manual had been under review as a complement to the existing manual prior to the Audit. Thus, the District challenges the finding, noted as a control weakness, that the District "does not have written job descriptions for most administrative employees."

\*  
Note  
2

At a meeting of the Greenburgh-North Castle Board of Education held on June 12, 2001, in addition to other matters, the Superintendent advised the Board of progress in reviewing the BOCES Policies and Procedures Manual presented to the School Board for adoption. Development of the comprehensive manual followed the site review and Program Review Report conducted by the Regional Associate and was a continuation of Greenburgh-North Castle's efforts to come into full compliance. (See: Appendix "D": Minutes of the School Board Meeting of June 12, 2001).

As the Report reflects (pg. 16), at a special meeting of the Greenburgh-North Castle Board on October 30, 2001, a Resolution was adopted regarding the following areas of fiscal accountability and control:

- ▶ Policies and Procedures;
  - ▶ BOCES Manual;
  - ▶ Fiscal Accountability;
  - ▶ Accounting and Consulting Contracts;
  - ▶ Establishment of an Audit Committee; and
  - ▶ Scheduled Training regarding fiscal policies and procedures.
- (See: Appendix "E").

At that meeting, the Board formally approved a policy and procedure manual. As noted, "formal training programs for fiscal administrative staff to ensure that proper policies and procedures are followed" were also directed and have, in fact, been developed and implemented.

Thus, we believe that the Audit finding was based on mis-information and is largely incorrect. However, the District has strengthened its existing system of internal controls, with the guidance of the Department. For example:

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<sup>2</sup>The primary contact and source of information to the auditors has since left the District. In subsequent discussions with the auditors, both parties have agreed that information provide by this employee was inaccurate and misleading.

\*  
Note  
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\* See State Comptroller's Notes, Appendix C

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Greenburgh-North Castle continues to conduct weekly management meetings to review program and fiscal matters to enhance fiscal accountability and assist in risk assessment. Importantly, the SED Reimbursable Cost Manual governing internal controls and procedures for programs such as the District's does not require the conduct of risk assessments. However, the District has accepted the auditor's recommendation of COSO as a source of guidance in this regard.

Greenburgh-North Castle also conducts weekly telephone conferences and frequent meetings with its auditing consultants, BDO Seidman, and has received regular interim reviews of its finances for the past few years from BDO to enhance fiscal accountability and assist in risk assessment. Based upon these discussions with BDO, Greenburgh-North Castle believed the internal controls in place prior to the audit were sufficient to protect their assets and ensure that the organization's objectives were being met. However, as noted, the internal controls have been strengthened still further based upon preliminary findings of the audit and in furtherance of the District's goal to seek out and correct identified weaknesses immediately.

Existing protocols have been enhanced since the audit pursuant to the October 31<sup>st</sup> Board Resolution directing improved internal monitoring and control, manual and job description update, establishment of an Audit committee, conduct of risk assessments, regularly scheduled reviews by auditing consultants and conduct of an inventory.

In October, 2001, a formal asset management module was added to the financial software in preparation for initiating a physical inventory of the District. A bar coding system and interface are under development and a physical inventory of the District will be completed no later than June 30, 2002.

#### **B. Disallowed Costs and Compliance Deficiencies**

The District acknowledges that some of the reported costs received by the auditors lacked sufficient substantiating documentation as a result of clerical error or oversight. Weaknesses in the District's record keeping is a result of several factors. First, the administrative and business offices of the District have been relocated 3 or 4 times, creating a substantial challenge for the District's record keeping protocols. The multiple moves obviously interrupted normal routines and organizational controls.

Secondly, the District has experienced high turnover in administrators, business office leadership, office support staff and secretarial support for the past several years. These frequent changes in staffing creates another challenge to adequate record keeping protocols. However, through the course of the Audit, the District has provided additional materials, records, invoices and documents sufficient to substantiate most of the costs challenged in the Preliminary Audit Report. Specifically:

**1. Costs Not Eligible According to the Manual**

The District challenges many of the expenditures the Audit finds not allowable:

*\$83,695 expended on student and staff uniforms* - - As discussed above, the District and Regional Associate worked closely together in the development of the Corrective Action Plan designed to strengthen the educational programming at GNC. The District's educational model was designed to replicate an "academy" setting with mandatory uniforms for both students and crisis intervention staff to impose structure on students whose behavioral needs demanded such regiment. The approximately \$80,000 spent on student uniforms over the three year audit period reflected the State approved strategy to regain control of the District's programs and eliminate "Gang Colors" since the District serves predominantly inner-city adolescents from New York City characterized by referring sources (psychologists and special educators) as oppositional and defiant. This strategy has been proven successful, removing the threat of student riots which occurred at the District in 1997 and, through structure, stimulated a safe, learning environment.

The use of uniforms was clearly noted in the Corrective Action Plan approved by the Regional Associate. (See: Plan, pg. 157, et seq.). The cost of crisis interventionist staff uniforms - central to the educational environment of the District - was included in the District's detailed schedule of projected relocation costs submitted to the Department relative to the Dobbs Ferry relocation. (See: Appendix "B": "Smiley to Hamel Correspondence"). Clearly, the Regional Associate determined these itemized costs to be reimbursable. The costs were, in fact, included in the rate adjustment made by the Department. The costs were incurred upon the direction and approval of the Department both programmatically through the RA and fiscally, as reflected by the corresponding rate adjustment.

\*  
Note  
4

Please note that GNC did not request additional reimbursement for the cost of the student uniforms.

For these reasons, the District believes the disallowance of these costs is inappropriate. However, the District has discontinued the use of student and staff uniforms.

The District also challenges the audit finding that business attire for students is an unreimbursable expense. Business attire purchased for students was part of regular curriculum activities as students experienced real-world job placements in the District's career and technical programs. Placements have included the Marriott and Hilton Hotels, the American Place Theatre, Grey Line Tours, The Times Square Visitors Center, a number of local travel agencies and the Empire State Building. We believe these costs were reasonable and ordinary given the education curriculum of the District - - a curriculum developed closely with Mr. Smiley in response to the Program Review Report.

\*  
Note  
4

\* See State Comptroller's Notes, Appendix C

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*Approximately \$30,000 in expenses for Travel Academy staff and students* - - In response to the Department's Report, the district developed the Travel Academy program to strengthen its educational and vocational programming. This model program is part of the ELITE Schools (Everyone Learning with Information Technology) that serves inner-city children with special needs. In addition to the Travel Academy, career and technical program offerings include AutoCAD, A+ and Microsoft. These technology-based programs provide young people at-risk of school and work failure genuine opportunities for 21<sup>st</sup> Century careers. The ELITE School's model includes internships in the workplace and a community college articulation agreement for the awarding of college credits to students completing appropriate high school course sequences. The model has been the subject of many articles in the International Journal of Instructional Media.

Travel Academy is a component of the ELITE program. GNC implemented the program at its Yonkers site through the High School of Travel and Tourism. The American Airlines Travel Academy anchors the program. The Travel Academy of American Airlines is in operation in more than 25 public schools and community colleges throughout the country. It prepares young people for **real** careers in the travel and tourism industry. The program consists of a structured, 360-hour curriculum developed by American Airlines. Students enrolled in the program learn SABRE, the online reservations system pioneered by American and in use throughout the world.

The curriculum includes a strong class component linked to the SABRE mainframe computer maintained by American; it is accessed by professionals in travel and tourism throughout the world. In the program, all student work producing reservations uses real inventory online - airlines reservations, hotel reservations, rental car reservations, cruise ship reservations, and so forth. Students learn real skills.

In addition to the classroom component, there is an actual travel curriculum. Students and their teachers have traveled to different parts of the country, using reduced-price tickets with the assistance of grants. When they travel, by train, plane or bus, they have specific assignments to monitor different jobs - reservations agents, drivers, airline staff, hotel workers, porters, tourism hosts, restaurant workers, etc. From these direct travel experiences, many of which have been day-trips to the Dallas hub of American Airlines, students see first-hand what the world of work entails in travel and tourism.

These real travel experiences were the culmination of intense classroom instruction. During the travel component, students were required to complete assignments related to the various travel employment positions observed, the quality of customer service they experienced and other related curriculum assignments.

GNC believes it is reasonable and ordinary to "travel" when one attends a High School of Travel and Tourism and to visit tourist locations just as it would be reasonable and ordinary to "eat" and to go to a restaurant when involved in a culinary arts program. The grant support and reduced-

price tickets used by programs underscore the District's commitment to providing quality programming in the most cost-effective way.

Many programs spend far more than \$30,000 on vocational programming that does little to create opportunities for the future. A visit to comparison schools and some BOCES programs supports this assessment.

The District developed this programming in coordination with the Regional Associate whose support for the project is clearly demonstrated by his photographed attendance at the "ribbon cutting" ceremony. In fact, Mr. Smiley spoke at the news conference, in full support of the program he assisted in developing. It is confusing to the District how such a heralded program design would now be deemed an "unreasonable" and unreimbursable expense. Perhaps had SED not been as intricately involved in developing and publicly supporting the program, this finding would be less offensive. Mindful of the increased need to trim operating costs, however, the District has revised the Travel Program by eliminating over-night trips unless alternative means of paying for them can be found. Greenburgh-North Castle also will seek to partner with other local school districts to share some of the costs and benefits of the program.

\*  
Note  
5

The Audit also reports excessive staff recruitment costs by the District when initiating the Travel Academy program. We challenge this finding since the costs were hotel costs and car travel costs to the New York Airport for pick-up for two Dallas-based teachers (former American Airlines employees) when they interviewed for the Travel Academy position at Greenburgh-North Castle. Both candidates were hired and relocated to our area to start the program. It was a reasonable and ordinary expense given the circumstances - and the interviewing teachers paid their own airfare. These costs are clearly reimbursable staff recruitment costs.

\*  
Note  
6

- *Approximately \$7,500 spent for food and beverages.*

As mentioned above, these costs were incurred as part of the travel program, as behavior management rewards for students, and as commencement events for students in special education. These costs are not re-occurring. The Audit allegation that some of these costs were Board meeting related is baseless.

\*  
Note  
7

- *Almost \$4,500 spent on stipends for students.*

The District actively promotes work experiences for its students and paid certain qualified students for internships and work program participation. These costs were reported inappropriately and will be subsequently reported as payroll.

**2. Costs without Invoices or Receipts**

- *Almost \$30,000 in payments to individuals without invoices or receipts.*

\* See State Comptroller's Notes, Appendix C

The dollar amount identified by the auditor has been reduced significantly from the preliminary draft as the District supplied receipts and/or invoices.

In the past, when a teacher requested to purchase a special item for classroom use, a check for the estimated amount was made payable to the teacher. The teacher would purchase the item and give receipts to the building administrator. The administrator would forward the receipts to the business office.

Given the multiple relocations and high turnover of program and business office administrators referenced above, many of the receipts for the items purchased could not be located. Greenburgh-North Castle has strengthened purchasing procedures to avoid this problem in the future.

*Almost \$31,000 in payments for electrical work without invoices.*

\*  
Note  
6

All invoices have been submitted to the State Accounts Auditor.

*Over \$10,000 in computer/computer service payments without invoices.*

\*  
Note  
6

All invoices have been supplied to the auditor.

### **3. No prior Department Approval and/or Competitive Procurement**

As noted above, the District was directed by the Regional Associate to vacate the Dobbs Ferry campus immediately and to relocate under extreme and emergency circumstances. (See: Appendix "B"). The District proceeded to relocate the Junior High School under the clear direction of the Department. At no time did the Regional Associate suggest to the District compliance with any general or specific statutory or regulatory requirement governing procurements in response to the Report's "health and safety" findings. GNC undertook its several phased relocation project under emergency circumstances which are clearly excepted from customary procurement requirements.

\*  
Note  
8

The Report acknowledges that a State Education Department official (Mr. Smiley) did authorize certain program-related and building rental costs associated with the relocation of the District's Junior High School. However, the Report finds that subsequent costs - - including costs associated with the relocation of the high school - - were not duly authorized and are therefore, unreimbursable. We believe this fractured review of acknowledged multi-phased relocation projects strains common sense. Clearly, SED recognized the project would be undertaken in steps and would conceivably take several years to fully implement. Given the costs involved, the District approached SED for "up-front" funding for the first phase of the relocation - - funding that was clearly provided. The District did not make similar requests for "up-front" funding of the high school relocation attempting instead, to maximize existing reimbursable rates. Now, seemingly, the District is being penalized for attempting to "make due with available resources" and not asking for

\* See State Comptroller's Notes, Appendix C

an additional “up-front” rate accommodation. Now, seemingly, the District is to be sanctioned for following the directives of SED. Mr. Smiley clearly requested a budget for anticipated costs associated with the Junior High School relocation so that these costs could be immediately reflected in the District’s rate. There was no discussion of such immediate relief as to reimbursement for the high school relocation, the understanding being that such costs would be addressed through the rate reconciliation process. As a result, SED did not require that a formal budget be developed nor approved for this phase of the project. Instead, Mr. Smiley simply directed the District to “do what is necessary”. We believe it strains credibility to suggest that the high school relocation was any less an “emergency” because it required a longer period of time to effectuate. We believe it equally unreasonable to suggest that SED did not authorize nor approve the costs associated with the high school relocation because no immediate rate adjustment was requested for it.

\*  
Notes  
1 and 8

The purpose of obtaining bids or quotations is to encourage competition in the procurement of supplies, equipment and services which will be paid from public funds. Through competition, fraud is prevented, as well as the favoring of one vendor over another. It is well-settled law that in the absence of fraud, corruption or abuse of discretion, the judgment or discretion of the proper officials will not be disturbed by the courts. There is no evidence of fraud or corruption in the actions of the District in furtherance of its relocation plan. In fact, the general interest of the taxpayers and the economical and efficient operation of the District dictated the actions taken. Moreover, both the General Municipal Law (§103(4)) and Education Department guidance documents support the District’s actions by allowing emergency purchases without bidding.

*Purchasing: School Business Management, Handbook No. 5* published by the New York State Education Department (p. 17, Section 9, undated) provides:

Emergency purchases without bidding are also provided for in an amendment to the advertising law. A public emergency may arise out of an accident or other unforeseen occurrence which could affect the life, health or safety of children and where immediate action cannot await competitive bidding.

Section 9 goes on to explain that “accident” and “unforeseen occurrence” should be interpreted by school boards under strict definition as regards the need to competitively bid in the face of an emergency condition.

It is therefore clear, based upon the findings of the New York State Education Department in its Program Review Report, particularly the requirement to move immediately from the school facilities and to hire a twenty-person crisis intervention team, that GNC was operating under emergency conditions, and therefore acted properly in support of its students and staff when effecting the various moves to new facilities for the Junior High School and Senior High School programs, excepted from customary bidding protocols.

\*  
Notes  
8 and 9

\* See State Comptroller's Notes, Appendix C

These emergency conditions persisted for the calendar period covering the move to both the Ardsley and Yonkers locations (beginning in October, 1997) and continued until the District was fully operational with combined programs at the Yonkers site - - approximately December 15, 1998.

\*  
Note  
1

Also, many of the minor renovations at the Yonkers site were completed by Greenburgh-North Castle maintenance staff and should not be included in the dollar amounts referenced by the State Accounts auditor.

Greenburgh-North Castle submitted documentation to the auditor that renovation costs, busing costs, cleaning and maintenance contract costs, professional contract costs and other cited items were at market or below when incurred by Greenburgh-North Castle. Clearly, the integrity of procurement requirements have been preserved in this case and the State's interest in cost-effectiveness furthered. (See: Appendix "F": "Minutes of the School Board Meeting of October 2, 2001").

\*  
Note  
10

Importantly, the District has actually saved the taxpayers thousands of dollars by performing the multiple relocations without the assistance of professional moving companies. Additional thousands of dollars were saved by the District serving as general contractor when cleaning the Yonkers building, painting it and fixing broken stairs, windows and other parts of the building using its own staff. Greenburgh-North Castle continues to provide the auditor with documentation to support this claim.

\*  
Note  
1

#### **4. Time and Attendance Controls**

The District had, as indicated, strengthened its procedures for assuring that all employees prepare and submit time and attendance records and appreciates the auditors acceptance of alternative evidence of employment.

#### **5. Enrollment Reporting**

On behalf of Greenburgh – North Castle UFSD (“Greenburgh”) BDO Seidman, LLP reviewed the August 29, 2001 letter from the Associate State Accounts Auditor, Stephen C. Lynch regarding the Audit’s allegation that enrollment data may have been incorrectly calculated and recalculated the number of FTE’s that should have been reported. The re-calculation of all the FTE’s were determined by strictly following the guidelines enumerated in Section 175.6 of the Regulations of the Commissioner of Education.

The 1997-98, 1998-99 and the 1999-00 school years were reviewed in accordance with Section 175.6 of the Regulations of the Commissioner of Education, which provides the framework for the calculation of the FTE’s. Section 175.6 defines enrollment as the period commencing on the first day a pupil is enrolled in the program and is physically present, or legally absent from school and terminating on the last day the pupil is enrolled and is physically present, or legally absent from school. A child is considered legally absent for personal illness, illness or death in the family,

\* See State Comptroller's Notes, Appendix C

impassable roads or weather, religious observance, quarantine, required court appearances attendance at health clinics, approved college visits, military obligations, disciplinary detention of an incarcerated youth, or for such other reasons as may be approved by the Commissioner.

A pupil is calculated for FTE purposes if they are present or legally absent under Regulation 175.6. A child not meeting the requirements for legally absent are considered illegally absent and are not considered in the FTE calculation.

Subsequent to reviewing the reported FTE calculation and taking the above into consideration, BDO concluded the following: (See: Appendix "G").

\*  
**Note**  
11

**6. Other Matters**

With assistance from its auditing consultants and the rate-setting office of the State Education Department, the District provided accurate cost allocations for its three programs. It is only recently that the District was required by SED to retroactively break-out costs for its three different programs. The failure to account for three separate cost centers was, in fact, a retroactive requirement of SED, as part of a legal settlement.

Through clerical error, certain districts were billed at the wrong rate. Greenburgh-North Castle has received rate adjustments in the same year and apparently the staff member handling billing at that time understood that the revised rate was applicable to certain districts only. This practice has been corrected.

Greenburgh-North Castle advised the State Accounts Auditor that the rates in that year were prospective rates and that the reconciled rate anticipated would be a higher rate than the two rates in question. In other words, the final rates to be retroactively billed to the districts would be higher than the ones they had actually paid. Therefore, the districts may have been under-billed not over billed. As indicated, this weakness in billing protocol has been addressed.

\*  
**Note**  
12

**C. Conclusion**

As stated above, the District welcomes the recommendations made in the preliminary Audit in furtherance of its own commitment to self-assessment and self-improvement. GNC acknowledges that some operational weaknesses may have existed in the past, but such opportunities for improvement, we believe, have been immaterial and have not compromised the fiscal or programmatic integrity of the District. We have welcomed the opportunity to work closely with the Auditors and to seek their guidance.

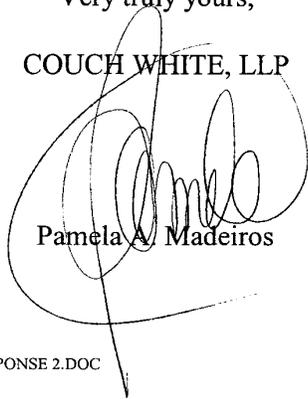
\* See State Comptroller's Notes, Appendix C

May 6, 2002  
Page 15

For all the reasons stated above, however, GNC firmly believes many of the Audit preliminary findings must be revised and disallowances reinstated.

Very truly yours,

COUCH WHITE, LLP

A handwritten signature in black ink, appearing to read 'Pamela A. Madeiros', is written over the typed name. The signature is highly stylized and cursive.

Pamela A. Madeiros

PAM/mdw  
Attachments

J:\DATA\CLIENT2\10011\CORRES\MDW03 AUDIT RESPONSE 2.DOC

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## ***State Comptroller's Notes***

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1. The Department's formal approval was limited to certain program-related and facility rental costs associated with a relocation of the junior high school. The District did not request written prior approval from the Department for the building renovation associated with the junior and senior high school relocations. Further, the Department advised us that it did not provide the District with any written prior approval of the renovation. Consequently, there was no explicit understanding that the District would be reimbursed for all costs associated with a renovation program of this nature. Also, the Regional Associate's verbal approval of the renovation costs would have been appropriate only if the cost of such renovation was minimal. In fact, the Regional Associate indicated that the rental property required only minimal renovations for use by the junior and senior high schools. Nonetheless, the District spent over \$200,000 to renovate it. It should be noted that we allowed certain costs associated with the relocation, including those of District staff for cleaning, painting, fixing chairs and windows, and other minor maintenance items. However, because a building renovation (capital project) of this magnitude is not a routine operating cost (and should not be included in the District's permanent operating cost base), the District should have sought and obtained formal prior Department approval for it, as required by the Manual.
2. At the outset of our audit fieldwork (March 2001), the District's controller (at that time) advised us that the District did not have formal policies and procedures for its fiscal administrative functions. Rather, officials advised us that they intended to review a BOCES manual and use sections of it to prepare a manual for the District. Thus, at the time of our fieldwork, the District staff did not have a Manual to follow to ensure that staff followed proper policies and procedures. According to District Board minutes, GNC adopted a fiscal accountability and control resolution (which included the BOCES Manual) in October 2001, after our audit fieldwork was completed. In addition, we are pleased that District officials have taken steps to improve the existing system of internal controls with guidance from the Department.
3. We did not agree that the information provided by the District's former controller was inaccurate and misleading. Moreover, we believe that District officials took actions to develop a manual and improve their internal controls because they recognized that there were control weaknesses that needed to be addressed.
4. The Manual states that: "Ordinary living expenses, such as the cost of clothing and uniforms that are normally assumed by parents or legal guardians of students...are not reimbursable. Clothing expenses for staff such as uniforms ...even if required by school policy are not reimbursable." On a one-time basis, the Department approved (and therefore we allowed) \$3,000 for uniforms for crisis intervention staff to use when a student exhibited severe behavioral problems. Therefore, we disallowed the difference (\$83,695) between the amount the District spent and the amount the Department approved.

5. The relationship of travel to the District's travel education program is not the issue. The Manual states that: "Ordinary living expenses such as the cost of overnight class trips or other expenses that are normally assumed by parents of students...are not reimbursable." Moreover, although Department program staff may have expressed general support for the travel program, there is no evidence that the Department approved the specific travel costs in question.
6. This matter was included in preliminary findings that we provided the District during our fieldwork. However, based on additional information provided to us by the District and advice from the Department, we deleted this matter (and the corresponding disallowance) from the draft audit report and this final report as well.
7. The language in the draft audit report paraphrased the Manual and was not intended to allege that the costs in question were Board meeting-related. Thus, we have amended the report to clarify what the food and beverage costs in question were used for. Moreover, these costs are not allowable per the manual.
8. We question the District's assertion that an emergency situation existed at the District's schools. Neither during the course of the audit or in their response to the draft audit report did District officials provide us with details of any "accident" or other "unforeseen occurrence" that took place at District schools and posed an immediate and significant safety risk to students. Further, the District continued to use its own facilities for an entire school year before the renovations of the rental site took place. Moreover, the renovations were made at the rental site (and not at the District's schools) where conditions did not constitute an emergency situation. (In fact, another public school district held regular classes at the site throughout the school year prior to the District's lease of it.) Therefore, the District should have used competitive procurement processes to perform the major components of the renovation of the rented property.
9. The twenty-person crisis intervention team was not required primarily because of structural problems with district facilities. Rather, the main purpose of the crisis intervention team was to help the District handle students with severe behavioral problems who posed a significant threat to District staff and fellow students.
10. Contracts for busing, cleaning and maintenance, and professional services were matters included in preliminary findings that we provided the District during our fieldwork. However, based on additional information provided to us by the District and advice from the Department, we allowed all costs related to these contracts. As noted previously, we disallowed certain renovation costs because they were not pre-approved by the Department, and the District did not use competitive processes to procure the related materials and services. (Also, see notes #1 and #8.)

11. The District requested its accounting consultant to recalculate the corrected FTE enrollment figures for the audit period in compliance with Regulation 175.6. Those figures differed somewhat from those we presented in the draft report. Thus, we amended the FTE enrollment amounts, based on the information provided by the District, for this final report. Moreover, the amended enrollment amounts still indicate that the District's original enrollment reports to the Department were generally incorrect.
12. The District's comment is speculative. The reconciled (final) tuition rate, as determined by the Department could have been either higher or lower than the errant rate the District actually charged some of its clients. Moreover, the District acknowledges that it charged certain districts at the wrong rate (which exceeded the rate approved by the Department at the time of the billings in question) and has taken action to address this problem.



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

Chief Operating Officer  
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August 5, 2002

Mr. Jerry Barber  
Audit Director  
Office of the State Comptroller  
Division of Management Audit  
and State Financial Services  
110 State Street  
Albany, New York 12236

Dear Mr. Barber:

The following are the New York State Education Department's comments to the amended recommendations to the Department proposed for the Draft Audit Report (2001-S-8) on the Greenburgh North Castle Union Free School District for the period July 1, 1997 through June 30, 2002 as transmitted to us in your July 23, 2002 letter.

**Recommendation #1: Consider the audit disallowances identified in this report and take appropriate action.**

We agree with this recommendation.

**Recommendation # 2: Periodically perform field site visits to ensure the District is complying with the Manual, and has implemented the recommendations contained in our report.**

We agree with this recommendation and will periodically visit the school as staffing resources permit.

**Recommendation # 8: Consider the corrected enrollment figures identified in this report and take appropriate action.**

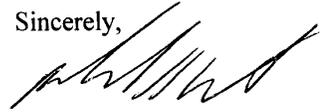
We agree with this recommendation.

**Recommendation #9: Take appropriate steps to help ensure that the District calculates its FTE enrollments accurately.**

We agree with this recommendation.

If you have any questions regarding this response, please contact Thomas Hamel at (518) 486-2991.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard H. Cate', written in a cursive style.

Richard H. Cate

cc: Thomas Hamel  
Deirdre Taylor