



# St. Francis de Sales School for the Deaf

## Selected Financial Management Practices

Report 2008-S-160



Thomas P. DiNapoli



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# State of New York Office of the State Comptroller

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## Division of State Government Accountability

September 10, 2009

Mr. Edward McCormack  
Director  
St. Francis de Sales School for the Deaf  
260 Eastern Parkway  
Brooklyn, NY 11225

Dear Mr. McCormack:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of selected financial management practices at St. Francis de Sales School for the Deaf. This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller  
Division of State Government Accountability*





## State of New York Office of the State Comptroller

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### EXECUTIVE SUMMARY

#### **Audit Objective**

Our objective was to determine whether St. Francis de Sales School for the Deaf established and maintained an adequate system of internal control over its financial operations in the areas of procurement, cash disbursements and payroll.

#### **Audit Results – Summary**

We determined that the St. Francis de Sales School's (School) internal controls must be strengthened in several key areas. We found that the School has not complied with applicable State Education Department (SED) guidelines and has not always followed its own policies for procurement, cash disbursements, and payroll. We found that the School has not used a competitive procurement process when purchasing goods and services, as required. As a result, significant numbers of high-cost purchases have been made without the benefit of soliciting competition; thus School officials do not have adequate assurance that goods or services are acquired at a reasonable price. These practices are contrary to the way public funds should be expended. Other areas in need of strengthening include adherence to payment procedures requiring the submission of the original invoice and, if applicable, the packing slip that accompanies the purchased item. We also found that the School does not always retain documentation in employees' files to support salary increases and other payments. In addition, the School paid cost of living adjustments to School employees in April and June 2008, totaling \$506,416, without formal approval by its Board of Trustees (Board). We also found poor separation of duties in the payroll area.

We conclude that the Board must increase its oversight of the School's day-to-day activities to ensure compliance with applicable policies and procedures. We further conclude that the Board needs to ensure that its activities comply with guidance prescribed by SED. For example, the Board entered into an undisclosed less-than-arms-length transaction with a law firm where a Board member was a partner. The Board has also not ensured prompt implementation of the School's external auditor's recommendations to provide staff with a written accounting policies and procedures manual or to review various Business Office activities in order to mitigate the effects of poorly-separated duties and ensure compliance with existing policies.

Our report contains 13 recommendations for improving controls over procurement, cash disbursements and payroll practices. School officials generally agreed with our recommendations and have taken steps to implement the changes.

This report, dated September 10, 2009, is available on our website at: <http://www.osc.state.ny.us>.  
Add or update your mailing list address by contacting us at: (518) 474-3271 or  
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Division of State Government Accountability  
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## Introduction

### Background

St. Francis de Sales School for the Deaf (School) is located in Brooklyn, New York. The School is one of 11 private schools in New York State that receive operating aid directly from the State to provide educational services for disabled students pursuant to Section 4201 of the State Education Law (Law).

When procuring goods and services, the School should follow guidance from SED based Section 103 of the General Municipal Law. SED guidance states that the School should solicit bids by advertising public works projects of \$20,000 or more and for purchases of goods or services of \$10,000 or more. A public works project designation would apply for projects that include both labor and materials. The School's internal procedures require School personnel to obtain written quotes from at least three vendors for purchases of goods or services with a value exceeding \$5,000.

The School is governed by an 11 member Board of Trustees (Board). According to its by-laws, the Board is responsible for the general management and control of the School's financial and educational affairs. The School's Director (Superintendent), the chief executive officer, is responsible, along with other administrative staff, for the day-to-day management of the School under the direction of the Board.

During the 2007-08 school year, the School had an enrollment of approximately 108 students with 108 full-time staff and 7 part-time staff. The School received approximately \$9.9 million in State funds during the same period.

### Audit Scope and Methodology

The objective of our audit was to determine whether the St. Francis de Sales School for the Deaf has established and maintained an adequate system of internal control over its financial operations in the areas of procurement, cash disbursements, and payroll. Our audit period was from July 1, 2007, through January 23, 2009.

To accomplish our audit objectives, we reviewed the School's records related to procurement, cash disbursements and payroll transactions. We reviewed Board meeting minutes, and financial statements prepared by the School's independent certified public accountants (CPA), as well as the School's completed Consolidated Financial Reports for the audit period. We interviewed School officials and staff to obtain an understanding of the School's policies and practices over the procurement, cash disbursement and payroll functions. We also reviewed both applicable laws and regulations

and the School's unwritten practices related to procurements over \$5,000. Further, we reviewed a judgmentally selected sample of 12 of the School's larger procurements to test compliance with SED's guidance and the School practices. We also reviewed judgmental samples of 25 cash disbursements, 18 petty cash vouchers, and 41 credit card transactions to determine whether these transactions had complied with applicable policies and procedures. All of these samples were selected to test a variety of expenses (e.g., travel, repairs, food, etc.) and types of payees, to firms and to individuals. Further, we examined a sample of personnel and payroll transactions, including five payroll additions and ten deletions, as well as a sample of ten employees who had received salary increases during our audit period. In our review of these items, we sought to determine whether the payroll was accurate and whether all transactions were properly supported and authorized.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

**Authority**

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

**Reporting  
Requirements**

We provided a copy of this report, in draft, to School officials. We have considered their comments in preparing this audit report. School officials agreed with our recommendations and provided details regarding the actions they are taking to address our recommendations. A copy of the school's response is attached to this report. Certain changes were made to the final report based upon the school's comments.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Superintendent of the School 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, and where recommendations were not implemented, the reasons therefor.

**Contributors  
to the Report**

Major contributors to the report include Kenrick Sifontes, Stephen Lynch, Alina Mattie, Irina Kovaneva, Katrina Lau, and Hugh Zhang.



## Audit Findings and Recommendations

### Board Oversight

SED provides guidance to School Board members to help them perform their duties. For example, SED requires the Board to monitor the School's compliance with applicable laws and regulations, and to approve School policies and contracts. The Board should review and approve contracts upon the purchasing official's recommendation. In addition, the Board should help set the fiscal environment or tone at the top, promoting a theme of fiscal responsibility and ethical conduct among all School staff and Board members. SED requires Board members to file annual written disclosures of any business relationships they have with School or related parties. SED also recommends that Board members establish an Audit and Finance Committee to monitor the adequacy of the School's internal controls and financial reporting process. In addition, this committee should monitor the reliability of the School's fiscal reports and ensure that the weaknesses reported by the School's external auditors are corrected promptly.

We found the Board did not provide adequate oversight of the School's financial operations with regard to procurement, cash disbursements, and payroll practices, and has not set the appropriate fiscal environment for the School. During the period of July 1, 2007, through November 5, 2008, the Board held four regular Board meetings. Related meeting minutes do not indicate that the Board discussed any matters relating to payroll, procurement, or other financial operations. In addition, the School entered into a less-than-arms-length transaction with a Board member for legal services; however, this was not disclosed in the School's audited financial statements, as required by SED guidance. Further, the Board did not ensure that the School's external auditors' recommendations to correct several internal control weaknesses were promptly implemented. For example, the development and implementation of an Accounting and Internal Controls Procedures Manual, recommended by the external auditors in their 2006 Management Letter, has not been finalized as of March 2009.

The School's by-laws also need to be strengthened. For example, we found that the by-laws did not limit Board members' terms and allowed School management to exercise voting privileges. In addition, the by-laws did not provide sufficient guidance to Board members regarding financial oversight of the School's daily operations. Further, the by-laws did not prescribe the frequency of Board meetings and did not establish the Board's responsibility for oversight of the contracting process. For example, the Superintendent could enter into any contract on behalf of the School without obtaining Board approval. In addition, the Board allowed School management to process cost of living increases to all employees twice in school year 2007-

08 without a formal Board resolution. These cost of living increases totaled \$506,416.

We also determined that the Board has not ensured that the School's management is in compliance with guidance prescribed by applicable regulatory agencies and the School's own policies. For example, we found that the School's procurement practices did not provide assurance that a competitive process was used to obtain reasonable prices. Specifically, the security services contract, costing \$168,010, had not been bid since 2003. We also found that the School had not always complied with its own requirement that purchases valued at more than \$2,500 be approved by the Superintendent. As a result of these weaknesses, improper or abusive practices, as well as errors and mistakes, could go undetected. Accordingly, the Board should design, adopt, and monitor policies and procedures that will safeguard the School's resources from misappropriation or improper use.

During our audit, the Board took steps to improve its oversight. On November 5, 2008, the Board established a Finance and Audit Committee and took voting privileges away from the School's management, including the Superintendent, Principal, and the Business Office Manager (Manager). In the future, the Board plans to limit the Committee members' terms to three years. Further, they also advised us that they no longer have a less-than-arms length relationship with the firm that provided legal services.

- Recommendations**
1. Routinely discuss matters relating to procurement, payroll, or other financial operations and document results in the Board minutes.
  2. Enforce policies for less-than-arms-length transactions and maintain annual written disclosures of business arrangements between Board members or School employees and the School or related parties.
  3. Implement external auditor recommendations promptly to correct internal control weaknesses.
  4. Revise the Board's by-laws to specify frequency of Board meetings, establish limits on Board members' tenure, and establish Board responsibility for oversight of the contracting process.
  5. Monitor the School's compliance with SED guidance and with applicable policies and procedures.

## Procurement

### *Purchases Subject to Competitive Bidding*

According to SED's guidance, the School should use competitive bidding when procuring goods and services over \$10,000 and for public works projects which exceed \$20,000. We determined that the School did not comply with this guidance.

To test whether the School complied with SED guidance for competitive bidding, we judgmentally selected eight large procurements from a variety of the procurements that were made during the period July 1, 2007, through June 30, 2008, for goods and services valued at more than \$10,000 and public works projects valued at more than \$20,000. These transactions totaled \$345,254 and were selected to test a variety of expense classifications (e.g., travel, repairs, food, etc.) and types of payees, to firms and to individuals. Of the eight transactions, we found that six, totaling \$272,947, were not competitively bid as required. For example, the School spent \$35,205 for a security alarm system; however, competitive bidding was not used. In addition, none of the procurements had been publicly advertised in accordance with SED guidance. For example, the bid for a wheelchair lift that cost \$38,800 had not been publicly advertised; instead, an architect providing services for the school volunteered to find contractors for the job.

We also found that the School renewed contracts without seeking bids. For example, in July 2003, School officials hired a contractor to provide security guards, and renewed this vendor's contract annually without soliciting bids from other vendors. Further, the School did not execute a written amendment to this contract and, as a result, a \$168,010 contract extension for the period July 1, 2007, through June 30, 2008, had not been approved by the Superintendent in writing. We also found that the School did not have written contracts, purchase orders or other agreements in the case of four procurements totaling \$226,794. In the event there is a dispute, a contract, purchase order or agreement would specify the vendor's obligations and the agreed-upon price.

In addition, we noted that the School does not require vendors to submit sealed bids, and bids are not date stamped when received. Also, the School does not have formal bid openings or prepare written justifications for its vendor selections. Further, the Board does not approve large contracts; therefore, the Superintendent could commit the School to sizeable contracts without the Board's knowledge and/or consent.

When we asked School officials why they did not advertise for bids as required, they told us they did not believe they could obtain better services or prices by publicly bidding these contracts. School officials are expending

million of dollars in State funds and there is limited assurance that the State's and the School's best interests have been protected.

*Purchases Not Subject to SED Guidance*

SED guidance also recommends that the School adopt written policies and procedures for the procurement of goods and services that are below the \$10,000 and \$20,000 thresholds. The School has not established such written policies and procedures. However, School officials stated it is their practice to require written quotes from at least three vendors for expenditures of more than \$5,000. Further, all purchases above \$2,500 are required to be approved in advance by the Superintendent. For professional services, the School needs to justify that the vendor hired was the most economical and/or appropriate available for a particular service.

To test compliance with the School's practices, we judgmentally selected four transactions that totaling \$135,469 from the period of July 1, 2007, through June 30, 2008. The items tested were selected from a variety of expense classifications and types of payees, to firms and to individuals. We found multiple instances of noncompliance with the School's stated practice for all four transactions, as follows:

- School officials could not provide documentation to show that three quotes had been solicited and received for any of the four transactions.
- Three of the four transactions had not been approved by the Superintendent.
- The School entered into a contract for audit services in 1995 and has renewed the contract annually since 1995 without competitive procurement. School officials were unable to provide written amendments extending the contract for school year 2007-08, when the external auditor was paid \$34,056.
- The Principal had entered into one contract for rehabilitative services valued at about \$75,263 without obtaining the Superintendent's written approval.

The weaknesses we identified in the School's purchasing process increase the risk for favoritism and excess costs. Because School officials have not used a competitive procurement process, they have limited assurance that they paid a reasonable price or that the contracts were awarded in a fair and equitable manner. During the audit, School officials advised that they were in the process of writing procurement policies and procedures. The officials expect to implement these procedures in July 2009.



- Recommendations**
6. Comply with SED guidance for competitive procurements for goods and services over \$10,000 and public works projects over \$20,000.
  7. Establish written policies for purchases of goods and services that do not require competitive bidding, as required by SED.

**Cash  
Disbursement  
Practices**

*Cash Disbursements*

SED guidance requires school purchases to have documented justification, and relate directly to the educational program. All purchases must be supported by invoices describing the item(s) purchased and indicating the purchase date and price. Further, SED guidance does not allow schools to be reimbursed for costs incurred for employee entertainment, gift certificates for employees, gift baskets, or flowers. The School does not have written policies and procedures manual that would provide staff with necessary guidance in processing payments. The School's practice requires a properly-completed purchase order for all acquisitions of goods or services valued at more than \$500. The Purchasing Agent verifies that shipments match purchase orders and confirms the receipt of goods by signing off on the purchase order. All purchases must be supported by the original invoice and packing slip, when applicable.

For the period July 1, 2007, through September 30, 2008, the School made 2,066 cash disbursements totaling \$3,811,054. To determine whether School officials had adhered to their stated practices, we selected and reviewed a judgmental sample of 25 cash disbursements totaling \$135,317. Our sample covered various types of expenditures, including travel/entertainment, maintenance/repair, food, supplies, equipment, services, and large-dollar amount purchases.

We found that School officials did not follow their stated practices for a majority of these disbursements. For 14 of the 25 cash disbursements, totaling \$38,956, at least one of the following required pieces of documentation was missing: a purchase request form (five instances), an invoice or receipt (one instance); or a packing slip or receiving report (nine instances). For example, School officials paid an invoice totaling \$5,500 for carpet replacement and another invoice for \$2,800 for a repair service, although there was no purchase order authorizing these goods and services. We also found that School officials had paid one vendor \$3,500 for electrical services based on a cost estimate document and not an invoice. In addition, School officials were unable to provide justification for their purchase of six bookcases and six shelves costing \$4,332, including \$894 in shipping charges from a vendor in Ohio.

School officials acknowledged they did not follow procedures for these transactions. The officials stated that they plan to improve their record

keeping and monitoring to ensure all required records are prepared and approved before making payments.

### *Credit Card Payments*

The School issued two credit cards to the Principal and one credit card to the Superintendent. These credit cards were used for small-dollar purchases such as books and classroom materials from vendors that do not accept purchase orders. The Manager should pay the monthly credit card balance only if original receipts and invoices are submitted with the statement. During the period July 1, 2007, through August 31, 2008, the School received 42 credit card statements totaling \$18,465.

We reviewed a judgmental sample of 13 credit card statements that contained 42 credit card transactions totaling \$11,899. These 13 statements were selected because they represented high-dollar values. For 17 of the 42 credit card transactions, we found non-allowable expenditures totaling \$4,601. For example, although SED does not permit expenditures of State funds for purchases of gifts and entertainment provided to staff, we found seven transactions, totaling \$2,024, which involved these types of purchases. We also found that the School paid \$762 for a holiday dinner party (including \$170 for alcoholic beverages) and provided select employees with gift cards totaling \$972. We also found that School officials provided students with \$2,350 in holiday gift cards. Moreover, the Manager approved payment of these credit card bills without a list of the students who received the gift cards. Upon our inquiry, the School provided us with an undated roster of the students who had received the gift cards. These funds were not used for educational purposes, as required.

School officials advised us that these credit card expenses were paid for with private funds, not State funds and therefore were allowable. They told us that in prior years, the School was forced to use private funds to pay State supported bills because the State did not pay the State aid on time. To recoup these costs, School officials stated that they began writing checks for private fund expenses on the State funded account. However, we could not determine that this is what occurred. We acknowledge that the School officials keep separate books for the private and State funds, and that the expenses were coded to the private account. School officials advised us that they have changed their procedures regarding credit card usage. Effective December 1, 2008, one card will be used only for private fund purchases and the payments to that card will be made from the School's bank account for private funds.

### *Petty Cash*

The School has established a \$1,000 imprest petty cash fund to pay for miscellaneous purchases. SED guidance requires that all purchases have adequate substantiating documentation. Further, School practice is that all petty cash disbursements be supported by petty cash vouchers and original receipts that have been approved by the Manager. During the period July 9, 2007, through September 19, 2008, the School spent \$26,879 for petty cash purchases.

To determine whether the petty cash fund was administered in compliance with SED guidance and the School's practices, we reviewed 18 judgmentally selected disbursements, totaling \$10,465. These disbursements were selected because they were the larger transactions and/or in even dollar amounts. We found that 15 of the 18 disbursements, totaling \$1,367, were not in compliance with the SED guidance or School policy. For example, the Manager approved payments of \$1,252 despite the lack of invoices or receipts attached to the petty cash vouchers that would have permitted him to determine whether the purchases were School-related. School officials advised us that many of these purchases were for car services used when students became ill. They explained that they frequently had to hire a taxi to transport parent(s) to the School to pick up a sick student. The School then paid the taxi to drive the parent(s) and student back home. The Manager was not able to provide us with documentation to support these transportation payments. School officials also approved a payment of \$115 to purchase clothing, even though SED does not allow schools to make clothing purchases. In addition, the School had not claimed its tax-exempt status when making some of these purchases, thus incurring an unnecessary expense of \$89 in State and City sales tax.

- Recommendations**
8. Establish written policies and procedures for processing cash disbursements, monthly credit card statements, and petty cash payments. Incorporate SED guidance into the written policies and procedures and ensure adequate controls are put into practice.
  9. Use the School's tax-exempt certificate, whenever practical, when making School-related purchases.

**Selected  
Personnel  
and Payroll  
Practices**

The School spent about \$7.4 million for personal services and related fringe benefits during the 2007-08 school year. Its personnel office is responsible for initiating all payroll changes and should maintain a record of any changes to be made in each payroll period. This includes the total number of work hours for which employees are to be compensated, as well as the names of new and terminated employees, the amounts of salary increases, etc.

The personnel office must ensure that each payroll transaction is properly authorized and documented. Good internal controls over the payroll process should include adequate segregation of duties so that one person does not control all phases of the payroll-processing cycle from beginning to end, and thus be in a position to both perpetrate and conceal errors or irregularities. Independent checks of personnel and payroll changes should be made to ensure that all payroll transactions are authorized and payroll records are accurate. These tests should be performed by the agency's internal auditor or by business office personnel who are not otherwise connected with the payroll process.

Except for a review by an external auditor during the annual financial statement audit, there was no other independent oversight of the payroll function to ensure that it was being handled correctly. We found significant weaknesses in the internal controls over the School's personnel, timekeeping, and payroll functions as follows:

- The Manager was responsible for the personnel, timekeeping, and payroll functions, including adding and deleting employees from the payroll, processing salary increases, and making other pay adjustments. He also verified and approved the final payroll for submission to the payroll processing vendor. As a result of our audit, in October 2008, School officials changed this practice and delegated responsibility for payroll preparation to another employee so that the Manager would be responsible only for approving the payroll.
- The School paid cost of living increases totaling \$506,416 to all 108 employees in April and again in June of school year 2007-08. However, there was no formal Board resolution authorizing these payments, although the Superintendent provided us with an e-mail from a Board member approving the June 2008 cost of living increase totaling \$269,011. School officials had no documentation that the Board had approved the April 2008 increases, which totaled about \$237,405.
- School policy requires a staff member requesting to work overtime, at time-and-a-half pay, to obtain prior written approval from the Superintendent. During the 2007-08 school year, the School reported 35 instances of overtime for which employees were paid a total of \$21,499. The pre-printed overtime request form had not been used in any of these 35 instances. Instead, we were provided with various types of documentation, from computer-generated memos from the Superintendent to memos written by employees stating that they had worked the extra hours. None of these documents had been signed by the Superintendent. In 11 instances, the School had paid \$2,374 for overtime even though the Superintendent's memo had lacked his signature. In eight instances, the School had paid overtime totaling \$1,777 without evidence of the

Superintendent's approval. Further, School officials were unable to provide any supporting documentation for 14 instances of overtime use for which the School paid \$15,732. This included eight overtime payments to two school employees, totaling \$14,395, which had been made for odd jobs related to painting the School's hallways. We determined that the odd jobs were not related to the employees' regular duties, and the payments had been calculated on a per-job basis, not at the time-and-a-half overtime pay rate. Therefore, these payments should not have been reported as overtime. School officials advised us that they now require that all staff use the overtime request form.

Even when it became apparent that the employee who was in charge of processing payroll would be taking a long sick leave, the School did not delegate payroll responsibilities to another employee. Instead, the Manager was allowed to perform incompatible functions related to personnel, timekeeping, and payroll. Furthermore, School officials had not established independent oversight that could have detected possible errors or improper practices. The Board had also not established a policy requiring its formal written approval of transactions that involve more than a certain dollar limit - for example, the payment of two cost of living increases to all staff was made without Board approval.

As discussed previously, School officials have not provided employees with a written manual spelling out accounting policies and procedures. Adherence to such a manual could help ensure that all transactions are processed properly and uniformly. The School has also not provided employees with standard pre-printed forms that could be used, for example, to request approval of overtime.

School officials agreed with the findings and have advised us that they have already implemented some of the recommendations.

**Recommendations**

10. To the extent possible, separate the personnel, timekeeping, and payroll functions in the School. If functions can not be separated, establish compensating controls where needed.
11. Require all payroll changes to be processed solely upon submission of written authorization from the appropriate School officials. Retain this written authorization for payroll changes in employee personnel files.
12. Pay for overtime only when employees' requests to work extra hours have been approved in writing.
13. Require formal written Board approval for all cost of living increases to employee salaries.



## Agency Comments

*St. Francis de Sales School for the Deaf*  
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August 12, 2009

Mr. Steven Sossei  
Audit Director  
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Division of State Government Accountability  
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Dear Mr. Sossei,

This letter contains the response of St. Francis de Sales School for the Deaf to the Draft Audit Report (2008-S-160) of the Office of the State Comptroller dated July 14, 2009. We are pleased to have this opportunity to provide our comments regarding the draft of the Selected Financial Management Practices Report's findings and recommendations. We also wish to offer our assurances that the recommendations that were offered will be, or already have been, implemented. Those recommendations were helpful in assisting the school to further safeguard the fiscal resources entrusted to us by the New York State Education Department.

We were pleased to see that the audit report recognizes the steps that the Board has taken to comply with the recommendations and improve their financial oversight. We do wish to clarify that the Board has always exercised financial oversight but the minutes of Board meetings have not always reflected that fact. For example, the Board meets with the school's private auditing firm annually in the Fall after the audit is completed and reviews the results of the audit. Each Board member receives a copy of that report. In addition the Business Manager submits a financial report to the Board at other Board meetings and each Board member receives a copy of that report. Questions and discussions regarding financial matters are routinely discussed at these meetings. The Board minutes of future meetings will be written so as to adequately reflect the Board's involvement in financial oversight. The establishment of the Audit and Finance Committee will further assure that the Board's financial oversight is comprehensive.

The SED guidance cited by OSC in regard to competitive bidding practices is based on the July 2002 SED Reimbursable Cost Manual (RCM) For Programs Receiving Funding



Under Article 85 of the Education Law To Educate Students With Disabilities which states that "When applicable, competitive bidding practices should be used in conformance with the General Municipal Law 103." As was discussed during the audit, General Municipal Law 103 refers specifically to political subdivisions which include school districts but not private schools like St. Francis. In addition, by including the phrase "when applicable" the RCM introduces ambiguity to the competitive bidding requirements.

Despite these issues the School has and is taking steps to fully implement the OSC recommendation regarding competitive bidding. The School intends to make full use of the Office of General Services resources for both competitive and non-competitive purchasing of goods, materials and services.

The School requests that the reference to the legal fees of \$10,000 not be included in the report or in Exhibit B as that fee is for a retainer and is paid from private funds as it is not an allowable cost by SED.

\*  
Comment  
1

In the area of cash disbursement practices the School has already taken steps to develop a tighter procedure that will eliminate the issues raised in the audit report. However, we would like to point out that the School did have a requirement that the recipient of all purchased goods initial and approve that the goods were received so that the invoice could be processed. This procedure has now been changed so that a receiving report will now be required as per the audit recommendation.

Insofar as the comments regarding credit card payments the school strongly disagrees with the findings and opinions in this area. The school steadfastly maintains that no state monies were used for anything but educational purposes. The school is absolutely aware of its responsibilities to only use state budgeted monies for programmatic purposes. The confusion that arose has to do with accounting procedures.

\*  
Comment  
2

When a credit card bill was received the items on each bill were coded as either state expenditures or private expenditures. One check was then issued from the state account with a "Due From" journal entry made indicating what monies needed to be reimbursed back into the state funds. There was a balance of state funds owed private funds at the beginning of the fiscal year 2007-08. Any checks issued out of the state account for private expenditures reduced the amount owed private funds from state funds. Our independent auditing firm has advised us that this is an acceptable accounting practice. The end result is that when all the "Due From" journal entries have been actualized there have been no private purchases that have been paid for by state funds. The change in credit card usage in December 2008 as acknowledged in the audit report should serve to eliminate this issue. In addition the School will no longer borrow from private funds if state payments are not received in a timely manner.

\* See State Comptroller's Comments on page 27.



### Comments Regarding OSC Recommendations

#### **Board Oversight**

1. Routinely discuss matters relating to procurement, payroll, or other financial operations and document results in the Board minutes.

**Comment:** Board minutes will more accurately reflect the Board's financial oversight activities.

2. Enforce policies for less-than-arms-length transactions and maintain annual written disclosures of business arrangements between Board members or School employees and the School or related parties.

**Comments:** Annual written disclosures have been and will be maintained and the less-than-arms-length transaction cited no longer exists.

3. Implement external auditor recommendations promptly to correct internal control weaknesses.

**Comment:** Board minutes will reflect the timeline for implementation of such recommendations.

4. Revise the Board's by-laws to specify frequency of Board meetings, establish limits on Board members' tenure, and establish Board responsibility for oversight of the contracting process.

**Comment:** By-Law revisions will be discussed and implemented during the 2009-10 school year.

5. Monitor the School's compliance with SED guidance and with applicable policies and procedures.

**Comment:** This will be the specific responsibility of the Finance and Audit Committee.

#### **Procurement**

6. Comply with SED guidance for competitive procurements for goods and services over \$10,000 and public works projects over \$20,000.

7. Establish written policies for purchases of goods and services that do not require competitive bidding, as required by SED.

**Comment:** Recommendations #6 and #7 have been addressed in the school's completed Financial Accounting Manual.

#### **Cash Disbursement**

8. Establish written policies and procedures for processing cash disbursements, monthly credit card statements, and petty cash payments. Incorporate SED guidance into the written policies and procedures and ensure adequate controls are put into practice.

9. Use the School's tax-exempt certificate, whenever practical, when making School-related purchases.

**Comment:** Recommendations #8 and #9 have been addressed in the school's completed Financial Accounting Manual.

#### **Personnel and Payroll**

10. To the extent possible, separate the personnel, timekeeping, and payroll functions in the School. If functions can not be separated, establish compensating controls where needed.

**Comment:** This has been implemented.

11. Require all payroll changes to be processed solely upon submission of written authorization from the appropriate School officials. Retain this written authorization for payroll changes in employee personnel files.

**Comment:** Documentation to support salary increases are required and are kept in an employee's folder. The forms used are: Salary Delineation Form, Change of Status Form. A Salary Delineation form is developed for each employee at the beginning of each school year and when a change in salary scales or a cost of living increase is granted. A Change of Status form is used when an employee changes positions and therefore salaries. While this has been and continues to be the policy, the School will increase its diligence to assure that no omissions occur.

12. Pay for overtime only when employees' requests to work extra hours have been approved in writing.

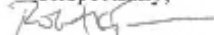
**Comment:** To provide consistency in approval of overtime work an Overtime Approval form has been created.

13. Require formal written Board approval for all cost of living increases to employee salaries.


**Comment:** These formal written approvals will be contained in the Board minutes.

We appreciate the recommendations of the Office of the State Comptroller and believe that they will assist us in our efforts to implement best practices in all aspects of the operation of St. Francis de Sales School for the Deaf.

Respectfully,



Robert Tuite  
Board President



Edward McCormack  
Director

## **State Comptroller's Comments**

1. Reference to the \$10,000 in legal retainer fees was deleted from the report.
2. We stand by the conclusions in our report. School officials acknowledged that the credit cards statements were paid from State funds. As stated in the report, we explained that school officials were attempting to recover the private money they had to expend because State aid was not received in a timely manner.