



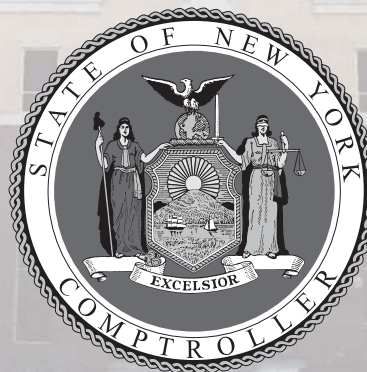
Katonah-Lewisboro Union Free School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — March 31, 2008

2008M-155



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
EXECUTIVE SUMMARY	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
ENCUMBRANCES	7
Recommendation	8
PAYROLL	9
Night Differential	9
Overtime	10
Administrative Salaries	10
Recommendations	12
APPENDIX A Response From District Officials	13
APPENDIX B OSC Comment on the District’s Response	22
APPENDIX C Audit Methodology and Standards	23
APPENDIX D How to Obtain Additional Copies of the Report	25
APPENDIX E Local Regional Office Listing	26

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Katonah-Lewisboro Union Free School District, entitled *Internal Controls Over Selected Financial Operations*. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Katonah-Lewisboro Union Free School District (District) is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Responsibilities relating to the District's finances, and accounting records and reports are largely those of the District's Assistant Superintendent for Business.

Payroll expenditures (salaries and benefits) generally represent the most significant operating costs in a school district. According to District records, salary and fringe benefits were approximately \$74.1 million or about 79 percent of the District's \$93.2 million general fund expenditures for the 2006-07 fiscal year.

Scope and Objective

The objective of our audit was to examine internal controls over budgeting and payroll for the period July 1, 2006 through March 31, 2008. For encumbrances, we expanded our scope and examined financial records for the period July 1, 2005 to May 31, 2008. Our audit addressed the following related questions:

- Did District officials properly use encumbrance accounting procedures to allow for accurate evaluation of the District's financial condition?
- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard District assets?

Audit Results

District officials incorrectly encumbered approximately \$2 million of fund balance at the end of the 2006-07 fiscal year for potential retroactive salary increases associated with contracts that had not been finalized. While we understand that the District believed it was acting in a fiscally conservative way by setting aside moneys to fund contract settlements, the District should not have encumbered these moneys. By incorrectly recording these encumbrances, the District's financial statements for the 2006-07 fiscal year understated available fund balance. As an alternative, the District could have included funding for retroactive salary increases in the 2007-08 budget. This approach would have given District taxpayers a clearer indication of the cost for the upcoming fiscal year's expenditures. Accounting for the salary increases in this manner would not have impacted the 2007-08 tax levy since

the Board would have had additional fund balance to appropriate, and taxpayers would have had a clearer picture of the District's financial activity.

We also found that the District incurred unnecessary payroll cost because District officials did not establish an internal control system that provides adequate oversight of payroll expenditures. Had District officials established an hour at which night differential pay was in effect similar to the one used for New York State employees, the District could have saved over \$68,000. Furthermore, controls over overtime were weak. We found 57 instances where the hours on transportation employees' timecards did not match the hours claimed on time sheets; these employees were overpaid \$9,160. Three transportation department employees, who were not required to use timecards, received \$41,714 in overtime during our audit period. Because the District lacked an overtime policy, District officials failed to ensure that overtime was needed, pre-approved, documented, and that actual hours worked were correct.

We also found the District spent more on administrative salaries than the average spending of other districts Statewide and in Westchester County. The District's average cost per student was \$1,072 for administrative salaries which is higher than other similar districts in Westchester County which average \$776. If the District could achieve an average cost per student equal to the other six districts in the area, it would realize a savings of approximately \$1.2 million dollars. The District would then be able to either direct these funds towards instructional services that may more directly benefit the District's students or the savings could be used to reduce the overall budget.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated that they planned to initiate corrective action. Appendix B includes our comment regarding the exclusion of an attachment to the District's response letter.

Introduction

Background

The Katonah-Lewisboro Union Free School District (District) is located in the Town of Lewisboro and parts of the Towns of Bedford, Pound Ridge and North Salem in Westchester County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. Responsibilities relating to the District's finances, and accounting records and reports are largely those of the District's Assistant Superintendent for Business.

There are six schools in operation within the District, with approximately 3950 students and 800 employees. The District's budgeted expenditures for the 2006-07 and 2007-08 fiscal years were \$99.6 million and \$103.6, respectively, which were funded primarily with real property taxes, State aid and grants. Payroll expenditures (salaries and benefits) generally represent the most significant operating costs in a school district. According to District records, salary and fringe benefits were approximately \$74.1 million, or about 79 percent of the District's \$93.2 million general fund expenditures for the 2006-07 fiscal year.

Objective

The objective of our audit was to examine internal controls over budgeting and payroll. Our audit addressed the following related questions:

- Did District officials properly use encumbrance accounting procedures to allow for accurate evaluation of the District's financial condition?
- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

We examined internal controls over selected financial transactions and payroll for the period July 1, 2006 to March 31, 2008. For encumbrances, we expanded our scope and examined financial records for the period July 1, 2005 to May 31, 2008.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report.

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated that they planned to initiate corrective action. Appendix B includes our comment regarding the exclusion of an attachment to the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Encumbrances

The Uniform System of Accounts (USA)¹ and generally accepted accounting principles (GAAP) provide the framework within which financial transactions are recorded and reported, resulting in financial statements that provide comparability between governmental entities, consistency between accounting periods and reliability for internal and external users of financial statements. One of the primary responsibilities of the Board and the Superintendent is to ensure that District financial transactions are recorded in a manner that meets these guidelines.

Encumbrances are commitments for payments related to unperformed contracts for goods or services. Encumbrance accounting is intended to guard against a district creating liabilities in excess of approved appropriations. In order for school district officials to maintain budgetary control and to arrive at an accurate estimate of its uncommitted appropriations, it is necessary to encumber all of its known obligations when contracts are approved or purchases are authorized. At the end of the fiscal year, a portion of the unreserved fund balance is set aside for the payment of goods, materials, and services that have been ordered but not received. This restricted amount of fund balance is known as the reserve for encumbrances.

District officials incorrectly encumbered fund balance at the end of the 2006-07 fiscal year for salary increases. The District's contracts with its teacher's union and support staff expired as of June 30, 2006. The District had not settled these contracts by June 30, 2007. The District recorded encumbrances to set aside approximately \$2 million to retroactively pay employees once the contracts were settled. The District's independent auditors believed that by encumbering these funds they were providing an accurate representation of the available fund balance. While we understand that the District believed it was acting in a fiscally conservative way by setting aside moneys to fund contract settlements, we determined that the District should not have encumbered these moneys. By incorrectly recording these encumbrances, the District's financial statements for the 2006-07 fiscal year understated available fund balance.

As an alternative, the District could have included funding for retroactive salary increases in the 2007-08 budget. This approach would have given District taxpayers a clearer indication of the cost

¹ General Municipal Law requires school districts to use the Uniform System of Accounts as prescribed by the Office of the State Comptroller.

for the upcoming fiscal year's expenditures. Accounting for the salary increases in this manner would not have impacted the 2007-08 tax levy since the Board would have had additional fund balance to appropriate, and District taxpayers would have received a clearer picture of the District's financial activity.

Recommendation

1. District officials should only encumber funds for commitments the District has made, for example, executed purchase orders or signed contracts.

Payroll

Salary and wages, overtime and employee benefit costs comprise the most significant portion of the District's budget. Therefore, District officials and administrators must ensure that appropriate payroll controls are established. Such controls should ensure that the calculation of pay rates is in accordance with employment contracts and agreements; employees are paid and receive benefits according to contract provisions; transactions are properly recorded and authorized by management; and that administrative staffing level and salaries are appropriate.

District officials have not established an internal control system that provides adequate oversight of salary differential payments, overtime and administrative staffing levels. As a result, there is an increased risk that payroll errors or irregularities could occur and go undetected. In addition, the high administrative salary costs could lead to unnecessary expenses for the District.

Night Differential

District officials are responsible for ensuring that employees are paid for time worked, including the night differential according to their respective collective bargaining agreements with the District. An example of pay rates that are established for night differential are the rates set in the New York State Department of Civil Services State Personnel Management Manual, which states that shift-pay differentials may be authorized only for tours of duty which include four or more hours between 6 p.m. and 6 a.m. and for an employee whose normal work schedule consists of both day and evening or night shift work hours. Individuals who meet these criteria are eligible for a shift-pay differential on a pro-rated basis.

However, the District's collective bargaining contract is silent as to what hours are considered eligible for differential night. Custodial employees, whose shifts began at 6:00 a.m., were paid the night differential for their entire shift. During our audit period, custodial employees received night differential pay totaling \$109,089. This included five custodians that began work between 6:00 a.m. and 7:00 a.m., one custodian who began his shift at 12 noon, 11 who began between 1:00 p.m. and 1:30 p.m., nine who started work between 2:00 p.m. and 2:30 p.m. and two custodians that began work at 4:00 p.m. As a result of not establishing an hour at which the night differential applied, the District may have paid custodial employees more than was necessary. If the District applied the night differential in a manner similar to what is done for NYS employees it could have potentially saved more than \$68,000.

Overtime

An important control over payroll and overtime expenditures is written pre-approval of overtime work and subsequent approval of the employee's time sheet for payment, which helps ensure that the District incurs only necessary overtime costs. Overtime logs indicate the date, time of day, and purpose of overtime and, combined with proper authorization, provide an acceptable method of documenting overtime records. District officials have not established an overtime policy and have not implemented controls to properly document overtime hours worked and the reasons for incurring the overtime.

The District's procedure for recording overtime is for employees to punch in and out on timecards. Overtime hours are transposed to a time sheet that is approved by the appropriate supervisor and turned into the payroll clerk for processing. There is no written pre-approval for overtime or detailed overtime logs maintained. We reviewed overtime records for our audit period. The Transportation and Operations and Maintenance Departments collectively incurred \$1,784,304 in overtime. This is approximately 17 percent of the salaries of \$10,460,765 paid to these Departments' employees. The Transportation Supervisor is responsible for approving all overtime related to the transportation department.

We selected and examined timecards for seven of the employees with the highest overtime and found 57 instances where Transportation employees' timecard hours did not match the hours claimed on time sheets, although the Transportation Department supervisor had approved all the time sheets. Based on the timecards, these seven employees were overpaid \$9,160. We also found that three employees in the Transportation Department received \$41,714 in overtime during our audit period yet did not punch in and out on a timecard; the Transportation supervisor informed us that these employees had never used timecards and that it was considered a "past practice" and he did not require them to do so. In addition, we found one employee who was paid five hours overtime while on vacation which totaled \$170.

Because the District lacked an overtime policy, District officials failed to ensure that overtime was pre-approved and documented to verify actual hours worked and to indicate the purpose of the overtime. As a result, the District does not have adequate assurance that employees worked the overtime hours for which they were paid.

Administrative Salaries

School districts must annually file an Annual Financial Report (Form ST-3). The State Comptroller's Office (OSC) prescribes a Uniform Systems of Accounts which provides for a standard chart of accounts and fund structure that is the basis for the ST-3. Districts are required to file an ST-3 with the State Education Department (SED) and OSC.

The ST-3 is an unaudited document, which displays each school district's reported expenditures and revenues. It is important to note that the ST-3 is a document designed to provide fiscal accountability; it is not an educational program document. Although the ST-3 is intended for school districts to provide a uniform statement of revenues and expenditures, school districts may interpret the instructions and account codes differently.

We reviewed ST-3 filings for fiscal year 2006-07 to assess the level of expenditures that were made for instructional and administrative costs and compared the District's costs to Statewide² and Westchester County averages. Statewide for every dollar spent on administrative costs, \$7.17 was spent on instruction. Westchester County school districts' administrative costs were slightly higher; for every dollar spent on administrative costs, \$6.77 was spent on instruction. The District's administrative costs compared to instructional costs were significantly higher. For every dollar spent on administrative costs, only \$4.96 was spent on instruction. As the table below indicates, the District spends more for administrative costs than both the average for all Westchester County districts and all districts statewide.

Instructional Costs Per Pupil		
Katonah-Lewisboro	Westchester County	Statewide
\$7,836	\$8,588	\$6,262
Administrative Costs Per Pupil		
Katonah-Lewisboro	Westchester County	Statewide
\$1,578	\$1,269	\$873

We examined administrative costs at comparative districts to determine why the District's percentage of expenditures spent on administration was higher than other districts in Westchester County or Statewide. We analyzed six districts in Westchester County with student enrollments similar to the District and determined the number of administrators at each district. We included non-certified administrative positions, including teachers who did not work directly with pupils and supervised or evaluated other staff. Our analysis included out-of-district placement students in total enrollment because there are administrative responsibilities associated with these placements.

The six comparable districts had an average of 4,055 students for the 2007-08 fiscal year, as compared to the District's enrollment of 3,974. As the table below shows, the District had 5.7 more administrators than the average of the other six districts and the average cost per student for the District was \$293 higher than the for the other districts.

² Excluding New York City

School District	2007-08 Student Enrollment	2007-08 Budget	Administrator Salaries for 2007-08	Number of Administrators for 2007-08 FY	Cost Per Student for Administrative Salaries
District A	3,402	\$71,872,987	\$2,679,669	19	\$788
District B	3,815	\$67,787,295	\$2,589,057	19	\$679
District C	4,076	\$83,210,000	\$2,611,751	19	\$641
District D	4,285	\$101,989,545	\$3,651,863	24	\$852
District E	4,359	\$95,979,505	\$4,175,728	30	\$958
District F	4,395	\$110,875,051	\$3,247,652	23	\$739
Average for our sample	4,055	\$88,619,064	\$3,159,287	22.3	\$779
Katonah-Lewisboro UFSD	3,974	\$103,613,000	\$4,261,325	28	\$1,072

If the District could achieve a cost per student equal to the average of the other six districts in the area, it would realize a savings of approximately \$1.2 million dollars. The District would then be able to either direct these funds towards instructional services that may more directly benefit the District's students or the savings could be used to reduce the overall budget.

Recommendations

2. District officials should review collective bargaining agreements and establish the specific time of day for paying night differential.
3. District officials should develop overtime policies and procedures that address the pre-approval of overtime and require documentation of the purpose for overtime.
4. District officials should ensure that all employees that are eligible for overtime follow procedures and use timecards to document the hours worked. Timecards and time sheet hours should be reviewed for consistency.
5. The District should analyze the cost of its administrative staff and determine if it would benefit from making adjustments.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.

The District's response letter refers to an attachment (Exhibit A) that supports the response letter. With the District's permission, we have not included Exhibit A, a letter from the District's legal counsel, in our audit report.

**BOARD OF EDUCATION
KATONAH - LEWISBORO SCHOOLS**

Towns of Bedford, Lewisboro, North Salem and Pound Ridge
P.O. BOX 387
KATONAH, NEW YORK 10536-0387
(914) 763-7000
FAX (914) 763-7035
WEBSITE: WWW.KLSCHOOLS.ORG

Warren Schloat, *President*
Michael R. Gordon, *Vice President*

Peter Breslin
Janet Harckham
Eve Hundt
Mark Lipton
Peter S. Treyz
Wyatt Cadley, *Student Board Member*

Dr. Robert J. Roelle
Superintendent of Schools

Kimberly A. Monzon
District Clerk

October 16, 2008

via overnight mail

[REDACTED]
Office of State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725

Dear [REDACTED]:

The Katonah Lewisboro Union Free School District (the "District") acknowledges receipt of the *New York State Comptroller's Report of Examination for the audit period July 1, 2006 through March 21, 2008 (2008M-155)* (the "Report"). The Report suggests two areas where the District might improve its internal controls; processing of encumbrances and the controls associated with payroll – and recommends certain corrections. The report also comments upon the District administrative cost and staffing and offers a related recommendation. The District acknowledges these suggested areas of improvement and recommendations and hereby sets forth its legally required Corrective Action Plan. For each recommendation included in the Report, the District provides a response, a proposed plan of implementation of corrective action, an anticipated implementation date for the corrective action, and the persons expected to be involved in the implementation of the correction action.

Audit Recommendation No. 1

District officials should only encumber funds for commitments the District has made, for example, executed purchase orders or signed contracts.

District's Response to Audit Recommendation No. 1

On June 30, 2007, relying upon the advice of, and without objection from, its external auditors, the District encumbered \$2.1 million to account for probable retroactive salary payments that would become due upon completion of both the teachers' contract negotiations and the support staff contract negotiations. Both contracts had expired on June 30, 2006, and were expected to be settled prior to June 30, 2007. Taking what the

Report acknowledges was a fiscally conservative approach, the District assumed across-the-board salary increases for each labor group as an estimated settlement. Based upon these conservative assumptions and the comments of the District's external auditor, the District encumbered funds to account for the 2006-07 retroactive pay that would become due upon successful resolution of these two contracts.

The Report notes that the District should have accounted for these funds, and the underlying liabilities using a different accounting methodology. The District will ensure that the accounting methodologies it uses in the future are consistent with applicable laws and regulations. The District will deal with future contractually-based contingent salary liabilities in the manner suggested by the Comptroller or in an otherwise legally permissible manner. At the same time, the District will continue to work with its outside counsel and external auditors to ensure that the accounting methodology it uses for these liabilities does not negatively impact contract negotiations. Please see the attached Exhibit A, written by Ingerman Smith, the District's legal counsel, with consultation from D'Arcangelo & Company, the District's external auditor, pertaining to this accounting methodology and the District's negotiation responsibilities and legal requirements under the Taylor Law. Additionally, counsel comments upon the permissibility under appropriate accounting standards to accrue this amount. The District is confident that it will be able to address these issues, independently and where they intersect, in a manner that the Comptroller will endorse.

See Note 1 Page 22

Implementation Plan of Action

The District will adhere to the recommendation of the Comptroller's Office, and will build liabilities associated with potential retroactive pay into the subsequent year's budget, and not classify such liabilities as encumbrances. In addition, in the future the District will utilize funds budgeted in the current year and appropriate such funds associated with budgeted retroactive pay in the subsequent year to offset any expenditure associated with retroactive liabilities that may occur in the subsequent year. The District reserves the right to revisit the foregoing in the event an alternative accounting methodology that complies with appropriate laws and regulations, and would not compromise the District's negotiating position, presents itself.

Implementation Date

As the development of the 2009-2010 budget begins, the District's administration and the Board of Education will attempt to project whether or not negotiations with the District's support staff are likely to be settled by June 30, 2009. As noted above, if indications are that negotiations with the support staff will not be settled by June 30, 2009, the District will work with the District's counsel and external auditor to develop an accounting methodology that meets applicable laws and regulations while preserving the negotiating position of the District during the collective bargaining process.

Person Responsible for Implementation

The Board of Education, Superintendent of Schools, Dr. Robert Roelle, Assistant Superintendent for Business, Michael Jumper, and the Assistant Superintendent for Personnel, Jocelyn Humphries, will be responsible for the actions outlined in the above plan.

Audit Recommendation No. 2

District officials should review collective bargaining agreements and establish a specific time of day for paying night differential.

District's Response to Audit Recommendation No. 2

The District appreciates and agrees with the Comptroller's observation that the District's collective bargaining agreement should identify the circumstances under which the night differential will be paid to staff members. It has been the long-term practice within the District that Night Custodians who were promoted to the position of Senior Custodians or Head Custodians maintained their salary differential paid while Night Custodians, and in addition, received a stipend as Senior Custodian and/or Head Custodian. Employees identified within the report who were paid on a night differential scale who worked during day hours were Senior Custodians or Head Custodians. In addition, Night Custodians who were called in to work overtime for such events such as graduation set-up were paid based upon their hourly night custodian salary. We are in the process of formulating a Side Letter of Agreement with the KLSSA to incorporate language formalizing this long-term practice.

Implementation Plan of Action

The District's administration, with the support of the Board of Education, is in the process of clearly defining the hours of work that will correlate to night differential pay and regular day pay. A Side Letter of Agreement is currently being drafted which will clearly outline that if more than 50% of the custodian's day is worked after 4:00 p.m., then all of their hours will be paid based upon the night differential salary schedule. In the case of Senior Custodians and Head Custodians, we project that a separate salary schedule will be negotiated, consistent with the practice of the District. Finally, we project that, as to hours worked outside of a regularly scheduled shift, employees will be paid based upon their regular hourly rate. In addition, the District will continue to utilize the collective bargaining process as a means of aligning the Katonah Lewisboro Support Staff contract so that it is more in line with other support staff contracts within our region.

Implementation Date

It is expected that a Side Letter of Agreement, which memorializes the long-term practice of the District, will be signed before the end of the 2008 calendar year. This is unpredictable, as it requires the agreement of the Katonah Lewisboro Support Staff Association.

Persons Responsible for Implementation

The Board of Education, Superintendent of Schools, Dr. Robert Roelle, Assistant Superintendent for Business, Michael Jumper, and the Assistant Superintendent for Personnel, Jocelyn Humphries, will be responsible for the actions outlined in the above plan. The District also intends to involve the KLSSA.

Audit Recommendation No. 3

District officials should develop overtime policies and procedures that address the pre-approval of overtime and require documentation for the purpose for overtime.

District Response to Audit Recommendation No. 3

The District appreciates and agrees with these observations. At this time, the District has already implemented procedures that require the pre-approval of all overtime within the District. Within the Report, the amount of overtime paid during the 2006 – 2007 school year accounted for approximately 17% of all Operations & Maintenance Department and Transportation Department earnings (wages) for the school year. This higher percentage is largely the result of leave time provisions outlined within the support staff collective bargaining agreement. This observation is consistent with an observation noted in the independent audit of our Operations and Maintenance Department, recently conducted by The Portolan Group. The District is in the process of protracted negotiations with the support staff's collective bargaining unit in an attempt to correct for the agreement's leave provisions. These agreements have accumulated over a number of years and may require a number of negotiations to rectify. The District will take the Comptroller's observations into account in the negotiations.

Implementation Plan of Action(s)

The District has developed procedures that require employees to seek pre-approval for all overtime hours. The Operations and Maintenance office and the Transportation office will maintain logs that identify the date on which an employee is required to work overtime, the name of the employee, the estimated number of hours that will be required for the employee to work, the reason for the overtime, and an approval column indicating that the supervisor of the department has approved the needed overtime. The Director of Transportation will closely monitor overtime associated with bus runs that exceed six hours due to traffic conditions or unforeseen accidents. In addition, during the summer of 2008, the Director of Transportation reviewed and revised all bus routes and modified bus driver assignments so that overtime would be minimized. The District will endeavor to reduce approved leave time currently afforded support staff employees within the Katonah Lewisboro Support Staff Association collective bargaining agreement. In addition, the District will continue to work with The Portolan Group, an outside consultant to identify ways to reduce overtime in the Operations and Maintenance Department. The reduction of approved leave time should help reduce the amount of overtime expenses incurred by the District.

Implementation Date

The implementation of procedures pertaining to the pre-approval of overtime is effective immediately. With respect to changes associated with modifications within the Katonah Lewisboro Support Staff Association's collective bargaining agreement, we anticipate implementation during the 2008-2009 school year.

Persons Responsible

The Board of Education, Superintendent of Schools, Dr. Robert Roelle, Assistant Superintendent for Business, Michael Jumper, and the Assistant Superintendent for Personnel, Jocelyn Humphries, will be responsible for the actions outlined in the above plan. The District also intends to involve the KLSSA. In addition, Mr. James Minihan, Director of Transportation, and Mr. Thomas Psomas, Director of Operations and Maintenance, will be responsible for implementation within their respective departments.

Audit Recommendation No. 4

District officials should ensure that all employees that are eligible for overtime follow procedures and use timecards to document the hours worked. Timecards and time sheet hours should be reviewed for consistency.

District's Response to Audit Recommendation No. 4

The District appreciates and agrees with the recommendation offered by the Comptroller as outlined above.

The District immediately researched the alleged \$170 vacation/overtime pay item identified in the report. We found that the overtime was incorrectly recorded on November 6, 2007, which was a vacation day for the particular employee, when it should have been recorded on November 5, 2007, the day the overtime was actually worked. This was a clerical error.

The District will be immediately implementing a procedure whereby overtime must be pre-approved by each department director or supervisor. In investigating the overtime procedures, the District has learned that its process for transferring information from timecards to timesheets for each pay period is extremely complex, labor intensive and involves the data entry of an extensive amount of information by the supervisors of the Transportation Department and the Operations and Maintenance Department. The District will be exploring ways to streamline and modernize this system in a cost-effective manner.

Implementation Plan of Action

The District will implement the following corrective action plan:

- a) The timecard system utilized by the Katonah Lewisboro Transportation Department and the Operations and Maintenance Department is outdated. The District is in the process of researching widely available timekeeping technology, which will streamline the tracking of employee hours. This updated technology would be able to provide for the recording of hours worked by individual employees each day, thereby eliminating the need for the Director of Transportation and the Director of Operations and Maintenance to manually keypunch timecard information into a computer program. The automation of this process will reduce/eliminate the possibility of mathematical and data entry errors.

- b) In the interim, effective immediately, the Assistant Director of Transportation will sample timecard/timesheet payroll information submitted by the Director of Transportation, and the Assistant Director of Operations and Maintenance will sample timecard/timesheet information as a means of auditing and double-checking submitted information.
- c) The Business Office will, on a quarterly basis, request that timecard information be submitted with payroll so that the Business Office can verify if the information recorded on timesheets is properly recorded and represented on timecards.
- d) The Business Office will request the “work papers” from the Comptroller’s Office as it pertains to this matter and investigate the issue more deeply to determine if this discrepancy is the result of employees failing to punch-in, clerical errors, or some other reason. Depending upon the results of this investigation appropriate intervention will be pursued.
- e) The District has requested the “work papers” from the Comptroller regarding the \$41,714 of overtime paid to three employees over a 21-month period of time. The three employees involved (who normally work as clerical staff or mechanics) are frequently called upon to drive buses in the absence of available substitute drivers. This amount of overtime averages 6.5 hours per week for each employee, which may be a legitimate amount of overtime. We will be investigating this matter closely to determine if this overtime was properly paid.

Implementation Date

Implementation of compensating controls will begin immediately. In addition, the Business Office will call for the timecards associated with various payrolls, and verify that sample timecards are consistent with timesheets submitted. In addition, the Board of Education will ask the District’s Claims Auditor to investigate this matter further. Finally, the Business Office has begun to research timekeeping software programs that will alleviate the potential for errors in recordkeeping by automating the manual process of translating the timecard information into hours and minutes worked. We expect that a new computerized timekeeping system will be in place by winter/spring 2009.

Persons Responsible

The Board of Education, Superintendent of Schools, Dr. Robert Roelle, Assistant Superintendent for Business, Michael Jumper, and the Assistant Superintendent for Personnel, Jocelyn Humphries, will be responsible for the actions outlined in the above plan. The District also intends to involve the KLSSA. In addition, Mr. James Minihan, Director of Transportation, and Mr. Thomas Psomas, Director of Operations and Maintenance, will be responsible for implementation within their respective departments.

Audit Recommendation No. 5

The District should analyze the cost of its administrative staff and determine if it would benefit from making adjustments.

District Response to Audit Recommendation No. 5

The Board of Education and the Superintendent appreciate and agree with the recommendation of the Comptroller's examiners regarding analyzing administrative staffing and costs.

Implementation Plan of Action

The Board of Education has been proactive in reviewing administrative staffing levels with the purpose of reducing the number of administrators and thereby, realizing a savings in administrative costs. Prior to the issuance of the Report, during the development of the 2008-2009 school year budget in February and March 2008, the Board of Education directed the Superintendent to consider an administrative reorganization that would yield a reduction in administrative staffing for the 2008-2009 school year as compared to the 2007-2008 school year. The budget ultimately adopted by the Board of Education and approved by the community resulted in administrative cost reductions of \$400,000. This budget reflected a realignment of positions and an actual reduction of three administrative positions, and stemmed from the view of the Superintendent and the Board that, as the Comptroller noted, it is critical that the District analyze and, where possible and appropriate, adjust administrative staffing levels. During those same budget discussions, the Board and the Superintendent noted that the administrative reorganization would be reviewed again during the 2009-2010 budget development discussions. We expect this discussion will take place, preceded by further analysis of the District's administrative staffing. Such analysis and discussion would be consistent with Board Goal 1.5, adopted August 28, 2008, which states the following:

1.5 Administrative Staffing

Effective July 2008, the District began implementing plans pertaining to the administrative reorganization approved during the 2007-2008 school year. The Board requests that the Administration review the implementation of the plan in terms of addressing the staffing needed for proper and appropriate administration.

Implementation Date:

The implementation of the administrative reorganization noted above with reduced administrators from the previous school year began effective July 1, 2008. In August 2008, the plan was slightly modified by adding an interim elementary school assistant principal to enable the District to address an administrative personnel matter. It is expected that such matter will be resolved within the current 2008-2009 school year.

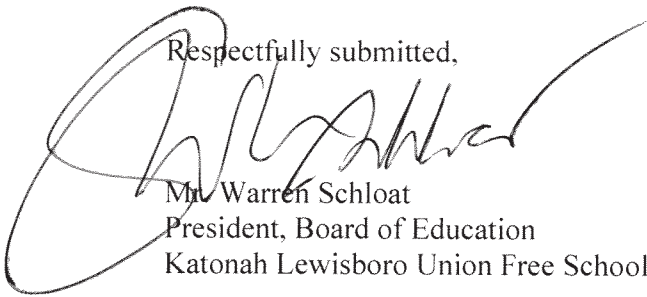
The Board and the Superintendent remain committed to conducting further administrative analysis consistent with the Board of Education goal and is also committed to determining whether there would be a benefit from any adjustments. Such analysis and determination will be conducted as a part of the budget development process for the 2009-2010 school year. It is anticipated that the Superintendent will present findings pertaining to such administrative review during March 2009.

Person Responsible for Implementation:

The Board of Education, Superintendent of Schools, Dr. Robert Roelle, Deputy Superintendent, Dr. Karen Benedict, and Assistant Superintendent for Business, Michael Jumper will be responsible for the actions outlined in the above plan.

The District submits this report to serve as its legally required response to the Comptroller's Report as well as our Corrective Action Plan. The District thanks the Comptroller's Office for its efforts, and is committed to taking corrective actions that will address and resolve the Comptroller's observations in a timely fashion. As an educational institution, we welcome constructive feedback regarding all aspects of our organization. We are committed to continually improve upon the financial operations of the school district.

Respectfully submitted,



Mr. Warren Schloat
President, Board of Education
Katonah Lewisboro Union Free School District

Attachment: Exhibit A – Letter to Board of Education from Law Offices of
Ingerman Smith, L.L.P.

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

We have reviewed the District's legal counsel's comments and we disagree with their interpretation of accounting standards and application of accounting methodology.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected internal controls over budgeting and payroll for further audit testing.

Within the budgeting function we focused on the 2006-07 and 2007-08 budgets. We extended our scope period to include the 2005-06 and 2008-09 budgets for comparison. Within the payroll area we concentrated on extra pay items such as stipends, overtime and night differentials. We examined the following records to determine the effectiveness of internal controls pertaining to the budgeting processing function and to identify any weaknesses associated within the payroll function:

- Board Minutes
- Employee Contracts
- Personnel files
- Payroll reports, including payroll transaction history reports
- Payroll warrants
- Timecards
- Time Sheets
- Budget Status Reports

- 2006 and 2007 Audited Financials
- 2006-07 ST-3 –Annual Financial Reports
- Comparative districts’ payroll records, certified payrolls, administrative contracts, personnel records
- Comparative districts’ budgets and student enrollment data.

We also interviewed district officials from the comparative districts.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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.

APPENDIX D

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX E
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
John C. Traylor, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates
counties

SYRACUSE REGIONAL OFFICE

Eugene A. Camp, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence counties

BINGHAMTON REGIONAL OFFICE

Patrick Carbone, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins
counties

GLENS FALLS REGIONAL OFFICE

Karl Smoczynski, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,
Montgomery, Rensselaer, Saratoga, Warren, Washington
counties

ALBANY REGIONAL OFFICE

Kenneth Madej, Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205-1695
(518) 438-0093 Fax (518) 438-0367
Email: Muni-Albany@osc.state.ny.us

Serving: Albany, Columbia, Dutchess, Greene,
Schenectady, Ulster counties

HAUPPAUGE REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau, Suffolk counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Orange, Putnam, Rockland, Westchester
counties