



# Sag Harbor Union Free School District Child Care Program

## Report of Examination

Period Covered:

July 1, 2014 - December 31, 2015

2016M- 211



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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 2016

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 Sag Harbor Union Free School District, entitled Child Care Program. 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 New York State 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*

# Introduction

## Background

The Sag Harbor Union Free School District (District) is located in the Towns of Southampton and East Hampton in Suffolk County. The District is governed by the Board of Education (Board), which is composed of 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 is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates two school buildings with approximately 1,000 students and 210 employees. The District's budgeted appropriations for the 2015-16 fiscal year were \$37.6 million, funded primarily with real property taxes, State aid and grants.

The District offers a before- and after-school elementary child care program (Program) for students in kindergarten through grade 5. Families of students must register and pay fees based on the sessions attended (before- or after-school). The Program Director (Director) is responsible for daily Program operations, which include collecting payments, submitting deposits to the business office and keeping daily attendance.

## Objective

The objective of our audit was to review the District's oversight of its child care program. Our audit addressed the following related question:

- Do District officials provide adequate oversight of Program operations?

## Scope and Methodology

We examined the Program's cash receipts and attendance records for the period July 1, 2014 through December 31, 2015.

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 B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or relevant population size and the sample selected for examination.

**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 they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State 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 provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. 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.

## Child Care Program

The Board and District officials are responsible for the District's overall financial management. This includes designing internal controls to ensure that programs are properly authorized, managed and monitored. Good internal controls are designed to provide reasonable assurance that District assets are properly safeguarded and accounting transactions are accurately recorded and properly reported. This also includes effective management oversight of those charged with handling public funds and an appropriate segregation of financial duties so one individual does not control all phases of a transaction.

The District established the Program approximately 30 years ago as a service staffed by District employees for families in need of after-school care for children in kindergarten through grade 5. The program was expanded in 2012-13 to include before-school care. Funds to support the Program, which include a \$20 per child registration fee and daily program fees, are collected by the teacher assistant designated as the Director. District records show that the Program collected \$62,717 in tuition and interest and expended \$60,176 during the 2014-15 fiscal year.

District officials need to improve oversight of Program operations. Specifically, District officials did not institute procedures governing Program operations or ensure that existing procedures were consistently followed. Officials did not ensure that the Director maintained adequate records; that the functions of collecting, recording and depositing cash were adequately segregated; or that deposits were made in a timely manner. Because District officials did not provide proper oversight, there is an increased risk that errors and irregularities could occur and remain undetected and uncorrected.

### Program Procedures

District officials are responsible for establishing adequate procedures over programs to ensure consistent operation and provide guidance and oversight for those employees.

The Program's registration form includes an enrollment agreement that contains such items as the rules outlining Program fees and late pick-up penalties and a notification that financial assistance is available. However, District officials have not established procedures specifying an official fee schedule, who is eligible for financial assistance, how past due amounts are to be collected or the records to be maintained. We reviewed the Program applications, a list of USDA's special milk program participants, the Director's payment

records, and available attendance records and found the following discrepancies:

- The Program application states there is a flat fee for the before-school session and a tiered fee for the after-school session based on the number of children attending from each family. However, the Director developed a tiered schedule for the before-school session with no authority from the Board to do so.
- The Director waived the registration fee and charged a reduced daily rate for families who participated in the free milk program and asked about a reduced rate. However, three families received a reduced rate in September and October 2015 even though they did not participate in the free milk program. Four families who participated in the free milk program chose to be charged the full Program registration fee and daily rate.
- For those families charged a reduced daily rate, the Director charged \$1 per child for the before-school session and \$2 per child for the after-school session. However, the Board has not established an official fee schedule showing the approved reduced daily rates to be charged.
- Attendance records were maintained for the after-school Program sessions but staff did not maintain attendance records for the before-school sessions.
- Although Program payment is due by noon on the first day of participation each week, the Director allowed accounts to become past due. The Director made verbal attempts to collect past due amounts. Our review revealed multiple families with past due amounts ranging from \$1 to \$368 for the six weeks we reviewed.

Because the Board did not develop Program procedures, the Director was not provided with specific guidance on how to appropriately carry out her job duties. As a result, District officials do not have adequate assurance that the correct fees are being charged and collected for all children who attend the Program or that the rules specified in the application and rates charged are consistently applied.

## **Records and Reports**

An accounting system should provide for accurate and complete recording and reporting of financial transactions. Accurate and complete financial records documenting all Program receipts and disbursements are essential for the Board and District officials to properly manage and monitor operations.

We examined Program records from September 9 through October 31, 2015<sup>1</sup> and found that the Director did not maintain adequate records of operations. Moreover, the Director operated the Program with no oversight from the Board or District officials. Although the Director maintained manual records to track the receipt of fees for each day, she did not maintain records to indicate whether registration fees were paid.

The Director also did not maintain a separate record for each family to document if the full or reduced Program rates should be charged and whether registration fees were paid in full, Program fees were paid in advance, late pick-up penalties were charged and collected, fees were paid on time or an outstanding balance was due. In addition, the records were not always current. For example:

- We determined that 21 of 82 families participating in the Program owed past-due amounts totaling \$1,215. Three of these families did not make any payments and owed unpaid fees totaling \$182 for Program sessions their children attended in September and October 2015. The remaining 18 families owed past-due amounts but made at least one payment during the six weeks we reviewed.
- Five families remitted checks totaling \$1,230 as payment for past-due amounts. The amounts of these past-due payments indicated that Program fees were incurred throughout the 2013-14 fiscal year and this amount was still past due as of June 30, 2015.
- The Director received registration forms for 96 children (from 82 families) who attended the Program during the months we tested. However, the Director was unable to provide us with records showing that the \$20 registration fee was either paid or waived for 10 of these children (from seven families).
- For three children (from two families), no registration form was on file and no records were maintained to determine if the registration fee was paid or waived.
- In one instance, the fee payment was remitted directly to the Business Office. However, the Director was not notified this payment was received. As a result, her records were not updated to show that the balance due had been paid.

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<sup>1</sup> See Appendix B for more information on our methodology.

Furthermore, Program attendance records maintained for the after-school sessions did not always agree with the Director's payment records. This deficiency makes it difficult for District officials to know if a child actually attended the Program or whether a child had an excused or unexcused absence.<sup>2</sup> For example, over the 25 days the Program could be attended during September and October 2015:

- We identified 10 instances when the Director's payment records indicated that a child attended the after-school session, but the child was not listed on the attendance records. In three of these instances, the Director's records indicated the child was absent. However, we were unable to determine if the absence was excused or if payment was still due.
- We identified six instances when a child was listed in the attendance records but the child's name was not listed in the Director's payment records.

Without accurate recordkeeping, the District officials have no assurance that the correct fees were charged and that all fees due were billed and collected. This also diminishes the Board's oversight of the District's financial activity. The Board's lack of oversight of recordkeeping activities resulted in inaccurate and incomplete Program records. This increases the risk that errors and irregularities may occur and go undetected and remain uncorrected.

## Cash Receipts

It is important for the Board to establish policies and procedures to provide assurance that cash receipts are adequately safeguarded, accounted for and deposited intact<sup>3</sup> in a timely manner. The New York State Commissioner of Education's Regulations require that anyone, other than the Treasurer, receiving money on the District's behalf issue triplicate press-numbered receipts with one copy issued to the payer, a second to the Treasurer and the third kept by the individual receiving the money. Furthermore, it is essential that the Board adequately segregate duties to ensure that no individual controls all phases of a transaction or implement compensating controls when segregating duties is not practical.

The Board did not adopt written policies or procedures that provide guidance and establish internal controls over cash receipts. For example, District officials have not adequately segregated the cash handling and recordkeeping functions for Program receipts. The Director received all registration forms, determined the rates charged

<sup>2</sup> If a child is absent from both school and the Program, the Program absence is excused and the fee for that day is refunded.

<sup>3</sup> Intact means in the same order and form (i.e., cash or check) in which they were received.

and calculated and collected the registration and program fees due. The Director did not issue triplicate press-numbered receipts for amounts collected or maintain a daily log of money received. Payments, in the form of cash and checks, were received on a daily basis in Program-provided envelopes that indicated the days and sessions a child would attend for the week and the amount enclosed.

The Director stored these envelopes in the elementary school building secretary's locked drawer until Friday each week, when she updated the attendance records and prepared a weekly payment log on which she recorded the family names, amount of cash paid and amount of checks (with check numbers). The elementary school principal and the building secretary reviewed and signed the logs and counted the money to be deposited and returned the money and logs to the Director. The Director sealed the deposit in a deposit bag, indicating the total enclosed, and sent it by courier with the weekly deposit log to the Business Office. Because the payments are not logged as they are received, there is an increased risk that money could be lost or stolen before the funds are deposited.

Due to these weaknesses, we reviewed the 14 Program deposits made from September 1 through November 30, 2015 totaling \$31,172 to determine whether these receipts were adequately supported, accurately accounted for in the financial records and deposited intact in a timely manner. While these deposits were made intact, they were not always made in a timely manner because the payments were recorded on Friday each week, despite being received daily.

We used each Friday as the date of receipt and found that it generally took between five and 14 calendar days for Program deposits to reach the Business Office and that Business Office staff made deposits within seven calendar days of receipt.

For example, one deposit totaling \$1,599 was received the week ended May 8, 2015 but went unnoticed in the principal's drawer until being sent to the Business Office 161 days later (October 16, 2015). Business Office staff made this deposit four calendar days later. In addition, because the Director did not issue triplicate press-numbered receipts for money received, District officials cannot be sure that all Program money collected was properly accounted for and deposited.

Because District officials did not properly segregate the Director's duties or establish compensating controls such as providing additional oversight, Program cash and checks received are more susceptible to theft or loss.

## Recommendations

The Board should:

1. Develop and adopt written policies and procedures for collecting, processing, recording and depositing Program cash receipts.

The Board and District officials should:

2. Develop and adopt detailed procedures for Program operations including, but not limited to, rate schedules with full and reduced rates, procedures for approving applications for reduced rates and the type and form of records to be maintained.
3. Ensure that the Director's duties are adequately segregated or implement compensating controls.
4. Ensure that the Director issue triplicate press-numbered receipts for all Program money collected.
5. Ensure that the Director transfers all cash receipts collected to the Business Office in a timely manner.

The Director should:

6. Maintain detailed records for each family including a completed registration form for each child, any applications for financial assistance and an accounting of all fees charged, paid, prepaid or overdue.
7. Maintain attendance records for all before-school and after-school sessions and reconcile such records with the payment records.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# Sag Harbor Union Free School District

200 Jermain Avenue, Sag Harbor, New York 11963-3549

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Catherine Barber-Graves, Superintendent of Schools

Telephone (631) 725-5300 Ext. 411 Fax (631) 725-5330 kgraves@sagharborschools.org

August 29, 2016

Mr. Ira McCracken, Chief Examiner  
Office of the State Comptroller  
NYS Office Building, Room 3A10  
250 Veterans Memorial Highway  
Hauppauge, New York 11788-5533

Dear Mr. McCracken,

Please accept this letter as the Sag Harbor Union Free School District's official response to the draft audit report (2016M-211), entitled Child Care Program. The audit scope focused on the District's oversight of our child care program known as the Sag Harbor Afterschool Elementary Program (SHAEP).

SHAEP is a wonderful program that has provided a much needed and affordable service for the families of our Sag Harbor students for approximately 30 years. Morning SHAEP includes a healthy breakfast for all who attend and the afternoon session provides students with an opportunity to complete their homework, with assistance from the staff, followed by snack time. The remainder of the afternoon is filled with fun activities such as outside playtime, walking field trips, and movies. The Elementary School staff has consistently done an excellent job operating the program and keeping it student-centered.

District officials have carefully reviewed the draft report and met with the auditors assigned to the audit to discuss all the findings and recommendations. I would like to commend the auditors for their professionalism, thoroughness, and in-depth review of SHAEP. The audit findings and recommendations will allow us to improve and strengthen the internal controls over the program's operations. District Administrators and staff have made many improvements to the program along the way but also recognize the need to improve the oversight of the program's financial operations which include updating procedures for collecting, processing, recording and depositing of cash receipts and segregating duties to ensure that no individual controls all phases

of a transaction. We will work hard to develop a corrective action plan that addresses all the findings and recommendations contained in the audit report.

District officials want to ensure that SHAEP continues to provide students and families with the much needed before and after-school child care that is consistent with our mission:

*The Sag Harbor School District in partnership with all members of the community is committed to equity in education; its mission is to provide students with a safe, child-centered environment which fosters personal, academic, and creative excellence. This will empower students to become responsible and respectful members of a global society.*

*As lifelong learners, students will be prepared to move successfully to the next stage of their lives.*

A comprehensive corrective action plan will be submitted to your office and the New York State Education Department no later than 90 days after the final report is released.

Very truly yours,

Mrs. Catherine Barber-Graves  
Superintendent of Schools

cc: Board of Education  
Jennifer Buscemi, School Business Administrator  
Matthew Malone, Sag Harbor Elementary School Principal

## APPENDIX B

### AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and employees to gain an understanding of the District's cash receipts procedures and Program operations.
- We reviewed Program registration forms and compared them to the attendance records to determine if the District had the registration forms on file for all the participants from September 9 through October 31, 2015. We judgmentally selected the six-week period because we assumed that each participant would have started the school year with a \$0 balance.
- For the same six-week period, we determined whether all children attending the Program had registered for the Program and if the Director maintained adequate attendance and payment records, charged the correct rates and collected all amounts due.
- We traced deposits made for a three-month period from September 2015, when the Program year began, through November 2015 to determine whether all amounts collected were properly accounted for and deposited intact in a timely manner.

We conducted this performance audit in accordance with 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 objective.

## APPENDIX C

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