



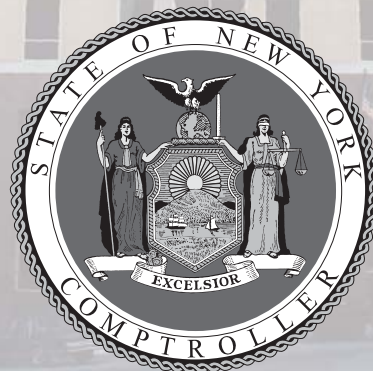
East Ramapo Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2008 — April 13, 2010

2011M-52



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 2011

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 East Ramapo Central School District, entitled Internal Controls Over Selected Financial Activities. 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 East Ramapo School District (District) is governed by the Board of Education (Board) which comprises nine 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. The Assistant Superintendent of Finance is responsible for supervising and managing the financial affairs of the District, including developing the District's budget. The District's budgeted expenditures for the 2009-10 fiscal year were \$189 million.

Scope and Objective

The objective of our audit was to examine the District's internal controls over selected financial activities for the period July 1, 2008 to April 13, 2010. We extended our review of health insurance premium reimbursement to December 30, 2010, and our reviews of procurement and budgeting practices to August 15, 2010. Our audit addressed the following related questions:

- Did the Board and District officials provide adequate oversight of District financial activities to ensure that District assets were properly safeguarded?
- Did the Board and District officials accurately project the fund balance for the District's 2010-11 budget?

Audit Results

The Board, along with District officials, failed to fulfill its stewardship, oversight, and leadership responsibilities when it failed to establish a proper control environment, implement its own adopted policy, and establish policies and procedures required by sound business practices. The deficiencies exposed District funds and assets to abuse, waste and/or loss.

The Board disregarded its responsibility to adopt a policy to ensure that health insurance plan participants paid their portion of insurance premiums on time. As a result, District officials allowed the Board President, Vice President, and a Board member to continue receiving health insurance coverage while neglecting to reimburse the District. As of June 2010, two Board members still had health insurance even though the Board President owed \$9,017, and another Board member owed \$6,655, for a total of \$15,672. In addition, the Vice President defaulted on his health insurance payments from

June 2009 through November 2009, owing a balance of \$1,282. However, on January 1, 2010, he finally paid the District this amount and canceled his health insurance.

Furthermore, District officials did not adhere to the District's procurement policy or enter into written agreements for professional services. For example, District officials did not procure professional services totaling \$2.4 million through the use of competition, such as \$741,000 for reading and writing tutoring services and \$481,000 for engineering services. In addition, they allowed two professionals to be paid \$495,023 despite the lack of written agreements to indicate the services to be provided or the basis for compensation.

Moreover, the Board did not adopt a comprehensive policy for textbooks on loan to nonpublic schools or enter into written agreements to ensure that nonpublic school administrators adequately controlled their textbook inventories. Consequently, we were unable to review nonpublic school records for the five nonpublic school Districts that we selected for audit. Due to this scope limitation, we could not determine if the District is purchasing more textbooks than necessary, or if the textbooks shipped to nonpublic schools are only being used for the benefit of the students that reside in the District. The District spent \$2.4 million on these textbooks for nonpublic schools, which is more than 71 percent of the total spent for all textbooks for public and nonpublic schools.

Finally, District officials inaccurately projected a June 30, 2010 fund balance of \$13,153,000 when preparing the District's 2010-11 budget. In fact, the District's audited financial statement showed a June 30, 2010 fund balance of \$17,793,047. District officials had no explanation for the inaccuracy. If District officials had projected an accurate fund balance, they would have realized the extent to which resources were available and could have used those resources for the benefit of the taxpayers.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

Introduction

Background

The East Ramapo Central School District (District) is located in the Town of Ramapo in Rockland County. The District is governed by the Board of Education (Board) which comprises nine 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. The Assistant Superintendent of Finance is responsible for supervising and managing the financial affairs of the District, including developing the District's budget.

There are 14 schools in operation within the District, with approximately 8,117 students and 2,400 employees. The District's budgeted expenditures for the 2009-10 fiscal year were \$189 million, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to examine the District's internal controls over selected financial activities. Our audit addressed the following related questions:

- Did the Board and District officials provide adequate oversight of District financial activities to ensure that District assets were properly safeguarded?
- Did the Board and District officials accurately project the fund balance for the District's 2010-11 budget?

Scope and Methodology

We examined the District's internal controls over health insurance premium reimbursement, procurement, textbook depository and budgeting practices for the period of July 1, 2008 to April 13, 2010. We extended our review of health insurance premium reimbursement to December 30, 2010, and our reviews of procurement and budgeting practices to August 15, 2010. However, as of our last day of fieldwork, nonpublic school administrators had not provided the records necessary to evaluate controls over textbooks on loan. Due to this scope limitation, we could not determine if the District is purchasing more textbooks than necessary, or if the textbooks shipped to nonpublic schools are only being used for the benefit of the students in the District.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in 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 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.

Management Oversight

The Board has a fiduciary responsibility for District assets and finances, and an obligation to serve the community, protect taxpayers' interests, and exercise good faith and due diligence. The Board, along with District officials, are responsible for managing and overseeing the District's overall fiscal affairs and safeguarding its resources. This responsibility includes establishing a sound control environment. Among other things, this includes ensuring that amounts due to the District are collected, professional services are procured through the use of competition and written agreements, and textbooks purchased for nonpublic schools are accounted for.

The Board and District officials have not established a proper control environment for the District. For example, the Board failed to adopt a policy relating to the payment of health insurance premiums for participants. As a result, District officials allowed the Board President, Vice President, and a Board member to continue receiving health insurance coverage while neglecting to reimburse the District. As of June 2010, two Board members had health insurance coverage even though the Board President owed \$9,017, and the other Board member owed \$6,655, for a total of \$15,672. In addition, the Vice President defaulted on his health insurance payments from June 2009 through November 2009, owing a balance of \$1,282. However, on January 1, 2010, he finally paid the District this amount and canceled his health insurance.

Furthermore, District officials failed to procure professional services totaling \$2.4 million through the use of competition, and allowed two professionals to be paid \$495,023 despite the lack of written agreements to indicate the services to be provided or the basis for compensation. Moreover, the Board failed to ensure that textbooks purchased and loaned to nonpublic schools were only used for the benefit of the students that reside in the District. The District spent \$2.4 million on textbooks for private school students during our audit period, which is more than 71 percent of the total that the District spent for all textbooks.

Control Environment

An important component of any system of internal controls is the control environment or "the tone at the top." The control environment is the foundation of a good internal controls system, providing discipline and structure upon which the other components are based. It reflects management's attitude about internal controls and includes the integrity, ethical values, and competence of the entity's personnel, and management's philosophy and operating style. When this

foundation is not strong or the control environment is not positive, the overall system of internal controls will not be as effective as it should be. The Board and District officials must act with the highest ethical standards and carry out their oversight responsibilities in conformance with applicable laws, rules and guidelines that they expect their employees to follow. The Board and District officials must be leaders in diligently protecting District resources that are entrusted to them.

We found that the Board and District officials failed to adopt and enforce policies and procedures required by sound business practices and, most importantly, failed to set a good example for District employees to follow. This resulted in the weak control environment as evidenced by the Board President, Vice President and Board member routinely neglecting to reimburse the District for health insurance premiums paid on their behalf, and neglecting to fulfill their oversight responsibilities for the procurement of professional services and textbooks for nonpublic schools.

The deficiencies discussed throughout the report, combined with a lack of management oversight, exposed District assets to abuse and/or waste, or could result in errors and/or irregularities occurring without being detected and corrected in a timely manner.

Health Insurance Premium Reimbursement

General Municipal Law (GML) permits Board members and their families to participate in the District's health insurance plans. Board members are required to pay 100 percent of health insurance costs. Participants are required to pay their portion of their monthly insurance premiums to the District one month in advance. The District then pays the insurance carriers on behalf of the Board members using the moneys collected. The Board is responsible for establishing policies and procedures to ensure participants, including Board members, pay their premiums on time. If participants fail to pay their premiums, collection procedures must be initiated and, ultimately, their insurance must be canceled for nonpayment.

During our audit period, the District paid approximately \$37.5 million to provide health insurance coverage for approximately 1,155 active employees and 130 non-active employees, including three Board members. These 130 non-employees reimbursed the District about \$1.14 million for health insurance coverage.

The Board did not establish policies or procedures to ensure participants reimbursed the District for premiums in default. As a result, staff did not apply the same collection and cancellation standards for Board members in default as they applied for other participants. District staff used an informal process that involved contacting participants and canceling their health insurance after two to three months of

non-payment. After the first month, staff would issue a late notice informing participants of the amount they owed and the date their insurance would be terminated if payment was not received. After the second month, staff would send a second late notice and make an attempt to contact the participants by telephone. If staff were unable to contact the participants, they attempted to contact a family member. After these methods were exhausted, staff would send a final notice of cancellation including the date the insurance would be terminated if payment was not received.

However, we found that late notices sent to Board members did not include insurance termination dates, and their insurance was not terminated after three months of non-payment. As a result, the Board President, Vice President, and a Board member continued to receive health insurance coverage without reimbursing the District. As of June 2010, two Board members still had health insurance even though the Board President owed \$9,017 and another Board member owed \$6,655 for a total of \$15,672. District records showed that the Board President first stopped paying in December 2009, and that the Board member stopped paying in January 2010. In addition, the Vice President did not pay for his health insurance from June 2009 through November 2009, owing a balance of \$1,282. However, on January 1, 2010, he paid the District this amount and canceled his health insurance.

Although District staff sent 16 late notices to the Board President, seven late notices to the Vice President, and 17 late notices to the Board member, they did not include the dates their health insurance would be terminated if payment was not received, as was done for the other participants. The benefits clerk told us the Director of Human Resources was aware of the situation and told her not to include the standard termination language. Furthermore, staff did not send cancellation notices to the Board members after they were three months late or terminate their health insurance coverage, as was the practice for all other participants.

The Director of Human Resources told us she had made the Superintendent aware of the non-payments, which had been occurring since approximately May 2009. The Superintendent told us that he had emailed the Board members and talked to them on several occasions at Board meetings about the issue, but he had no success. The Superintendent told us he could not terminate their insurance because they were his bosses but stated that he would email the Board members to let them know we were on-site and that we were inquiring as to why they did not reimburse the District.

Our follow-up with the District benefits clerk showed that the Board member paid \$5,324 of his \$6,655 balance on April 18, 2010 with \$2,662 still outstanding as of December 30, 2010.

The Director of Human Resources instructed the benefits clerk to adjust the Board President's outstanding balance by \$5,324 (for April 2010 through July 2010) because the Board President claimed he obtained health insurance from another provider in March 2010. The Board President paid \$2,662 (for February 2010 through March 2010) and was determined to owe the District \$1,032 for the January 2010 unreimbursed amount.

However, the Board President never provided documents to support the credit he received. The Board President gave the District's legal counsel a form that came from an Internet website and the legal counsel instructed the Director of Human Resources to adjust the Board President's account. However, our review showed that the form stated that "The information on the form is neither a guarantee of payment nor a representation of health insurance coverage." Therefore, we question whether this sufficiently supports the Board President's claim that he had other coverage. District officials were unable to provide us with the Board President's original health insurance policy with the second provider to substantiate his claim.

The District benefits clerk told us that the District would not be able to recover the health insurance premium payments made on behalf of the Board President for April to June 2010. The District does not receive credit once it makes payment to the health insurance provider. As of our last day of fieldwork, the Board President had not paid the premiums owed since December 2009.

By failing to reimburse the District, the three Board members have improperly taken resources meant to benefit District students. When Board members and District officials act in this manner, they betray the trust the public has placed in them. Further, the existence of such activities is an indication of impropriety and improper enrichment at taxpayers' expense.

Procurement

The District's procurement policy states "goods and services which are not required by law to be procured by the District through competitive bidding will be procured in a manner so as to ensure the prudent and economical use of public monies in the best interests of the taxpayers. Alternative proposals or quotations will be secured by request for proposals (RFPs), written or verbal quotations or any other appropriate method of procurement." In addition, it is important for the Board to enter into written agreements with professional service providers that indicate the contract period, the services to be provided

and the basis for compensation for those services. This gives both parties a clear understanding of the services the professionals will provide and how they will be compensated. Documentation must include sufficient detail to ensure the District is paying for only actual and necessary expenses under the agreement.

Although the District had a procurement policy, the Board and District officials did not always adhere to it or enter into written agreements for professional services. Consequently, the District failed to procure professional services totaling \$2.4 million through the use of competition, and allowed two professionals to be paid \$495,023 despite the lack of written agreements to indicate the services to be provided or the basis for compensation. The District also failed to ensure that documentation for payments to an exterminator totaling \$10,289 included sufficient detail to determine whether the payments were consistent with the written agreement.

We obtained and examined vendor files and payment information for the 19 professional service providers with contracts totaling about \$3.4 million with the District. These were the professional service providers who received the highest payments during our audit period.¹ District officials used a competitive process for 11 of these providers but failed to use competition, (e.g., RFPs or quotations) for eight professionals who received payments totaling about \$2.4 million. These payments included:

- \$741,000 for reading and writing tutoring services
- \$481,000 for engineering services
- \$440,000 for administrative services
- \$170,792 for professional development services
- \$229,720 for legal services.

We also found that District officials did not have written agreements with two of the eight professionals detailing the services to be provided or the rates or compensation to be paid. These professionals received payments totaling \$495,023. Finally, although the District had a written agreement with one of the professionals (an exterminator) who received payments totaling \$10,289, we were unable to determine if the payments were consistent with the agreement because the agreement included an hourly rate for services, but the

¹ We extended our review to August 15, 2010.

invoices were based on a flat rate. The accountant explained that the accounting staff compared the invoices to the agreement amounts on the purchase order. However, because the purchase order failed to include agreement details, the accounting staff did not detect the error.

The purchasing agent told us that the District did not solicit proposals via RFPs or written quotations for professionals such as engineers or attorneys because they did not feel they needed to seek competition for these services. However, the District began using RFPs during the 2009–10 fiscal year. She also told us that she was unaware that the District should have contracts with all of their professional service providers.

By failing to use competition to procure professional services, the Board and District officials cannot assure taxpayers that they are obtaining services in the best interest of the taxpayers, in the most prudent and economical manner, and without favoritism. Additionally, the lack of written agreements and failure to ensure payments are consistent with written agreements prevents the Board and taxpayers from having adequate assurance that payments for services are consistent with Board intent. In addition, this increases the risk that professionals will not provide the services as agreed, or may receive payments to which they are not entitled.

Textbook Depository

Education Law requires all boards of education to purchase and loan textbooks, on an equitable basis, to all children who live in the school district who attend grades kindergarten through 12 in any public or nonpublic school. It also states that all textbooks purchased by public school districts remain the property of the district and should be included in the district's inventory. A public school district may enter into an agreement with a nonpublic school to store textbooks used by the nonpublic schools' pupils at their facilities to ensure that nonpublic school textbook requests can be filled from existing inventory to the extent possible.

The Board is responsible for adopting a policy and guidelines for textbooks on loan to nonpublic schools to ensure that the number of textbooks purchased is appropriate, and that the textbooks shipped to nonpublic schools can be accounted for. Policy and guidelines should require non public school administrators to perform an annual inventory of the textbooks stored, including a comparison of students in attendance to textbooks shipped. In addition, prior approval should be obtained from the District before the disposal of any textbooks. It is important that the Board enter into agreements with nonpublic schools to ensure that nonpublic school administrators comply with all terms and conditions of the District's policy and guidelines.

The Board has designated the Director of Funded Programs to be responsible for overseeing the textbook depository. During our audit period, the District spent approximately \$3.4 million on textbooks and workbooks. Of this amount, approximately \$2.4 million, or 71 percent, was spent on textbooks and workbooks loaned to nonpublic schools.

Although the Board has adopted a policy and guidelines for textbooks on loan to nonpublic schools, they do not require nonpublic school administrators to perform annual inventories of textbooks on loan. Instead, the policy and guidelines merely state that, “there will be random spot checks of nonpublic school inventory for audit purposes.” There is no evidence that District officials ever conducted random checks of nonpublic school textbook inventories.

Furthermore, we found no evidence that the Board entered into agreements for textbooks on loan to nonpublic schools. Consequently, there is no requirement for nonpublic school administrators to comply with the District’s policy and guidelines.

The Director of Funded Programs told us that the clerk at the book depository keeps an account of books loaned to the nonpublic schools in the District’s inventory. Although, the clerk in the book depository department enters all textbooks purchased for the nonpublic schools into the District’s inventory, she was not aware that she should also obtain and reconcile the nonpublic schools’ textbook inventory list to the inventory she maintains. The clerk only maintained the record of the books she ordered for the nonpublic schools and believed that the nonpublic schools were supposed to maintain their own inventory records. In addition, the clerk was not aware that she had to obtain prior approval from the Director of Funded Programs before she could dispose of books that she believed were obsolete. She told us that she threw away books that she believed were obsolete or no longer needed without obtaining approval.

We contacted the five nonpublic schools in the District with the highest reported enrollment and requested that they provide their textbook inventory records so we could reconcile them to the District’s master list. However, as of our last day of fieldwork, no such records were provided. District officials allowed this to happen because they failed to enter into written agreements to compel the nonpublic administrators to provide the records. Due to this scope limitation, we could not determine if the District is purchasing more textbooks than necessary, or if the textbooks shipped to nonpublic schools are only being used for the benefit of the students in the District.

Recommendations

1. The Board and District officials should take immediate action to strengthen the District's control environment by adopting and enforcing policies and procedures to protect District resources that are entrusted to them.
2. The Board should adopt policies and procedures to ensure all health insurance plan participants pay their portion of the insurance premiums on time. If participants fail to pay premiums in default, collection procedures should be initiated and ultimately coverage canceled for nonpayment. District officials should ensure that policies are applied uniformly.
3. District officials should ensure that Board members reimburse the District for any outstanding health insurance premiums and returned checks fees.
4. The Board and District officials should obtain RFPs or quotations for the procurement of professional services.
5. The Board should enter into written agreements for all current and future professional service providers to detail the services to be provided and the basis for compensation.
6. District officials should ensure that documentation for payments to professional service providers include sufficient detail to determine if payments are in accordance with written agreements.
7. The Board should amend its policy and guidelines for textbooks on loan to nonpublic schools to:
 - Require nonpublic school administrators to perform annual inventories of textbooks on loan
 - Provide procedures for conducting the inventories including a comparison of students to textbooks shipped
 - Require the results of annual inventories to be reconciled to the District's master list.
8. The Clerk or designee at the depository should obtain prior approval from the Director of Funded Programs before disposing books that are considered to be obsolete.
9. The Board should enter into agreements for textbooks on loan to nonpublic schools that require nonpublic school administrators to comply with all terms and conditions of the District's policy and guidelines.

Budgeting Practices

The Board, the Superintendent, and the Assistant Superintendent for Finance are responsible for accurate and effective financial planning. The State Education Department requires the Board, along with District officials, to project a year-end fund balance to be used in the budget process in February of each year. The projection must then be recalculated each month until the following fiscal year's budget is adopted. It is important that a reasonable fund balance projection is used in the budget because it has a direct impact on the resources that are considered to be available for the benefit of the taxpayers.

District officials projected a June 30, 2010 fund balance of \$13,153,000 for the District's 2010-11 budget. This was not accurate, or supported. District officials stated that the projection was made in February 2010, and then revised between February and the end of the fiscal year, as required. However, they did not provide any documentation showing how they arrived at their projection, or to substantiate revisions. We compared the projected fund balance to the fund balance as reported in the District's audited financial statement for the period ended June 30, 2010 and found that the District's audited financial statement showed a fund balance of \$17,793,047, about \$4.6 million more than projected. District officials had no explanation for the inaccuracy of their projected fund balance. The failure of District officials to project an accurate fund balance resulted in available resources not being used for the benefit of the taxpayers.

The Assistant Superintendent for Finance told us that she checks with each department head to ensure that all purchase orders for the remainder of the year are encumbered. She also factors in salaries to be paid and the revenues expected to be collected. In addition, she imports year-end revenues and expenditures from the District's accounting software into an electronic spreadsheet and makes adjustments based on discussions with the accountant. Finally, she calculates fund balance on the electronic spreadsheet and recalculates it each month. However, during our fieldwork, the Assistant Superintendent for Finance was not able to provide a copy of the electronic spreadsheet for our review. The Assistant Superintendent for Finance told us that she overwrites the spreadsheet every time she updates the calculation and District officials told us that they did not maintain any other records to support how they project fund balance.

District officials have failed to project an accurate fund balance and have failed to produce any documentation to indicate that a reasonable

effort was made to do so. If District officials had projected an accurate fund balance, they would have realized the extent to which resources were available and could have used those resources for the benefit of the taxpayers.

Recommendations

10. District officials should maintain records that show the basis for the estimated fund balance used for the budget process in February, and for each month thereafter until the end of the fiscal year.
11. District officials should accurately estimate year-end fund balance to identify the resources that can be used for the benefit of the taxpayers. Such uses include, but are not limited to:
 - Reducing property taxes
 - Funding necessary reserves
 - Paying off debt
 - Financing one-time expenditures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



EAST RAMAPO CENTRAL SCHOOL DISTRICT

OFFICE OF THE SUPERINTENDENT OF SCHOOLS

105 South Madison Avenue, Spring Valley, NY 10977

Phone: (845) 577-6011

Fax: (845) 577-6168

**EDUCATION
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Dr. JOEL M. KLEIN
Superintendent of Schools

August 3, 2011

NYS Office of the State Comptroller
Chief Examiner, Newburgh Regional Office
33 Airport Center Drive, Suite 103
New Windsor, NY 12553-4725

Dear Chief Examiner:

Thank you for the opportunity to meet with four members of your staff in an exit conference on Friday, July 29, 2011 to review the preliminary draft findings of your report. This letter serves as East Ramapo Central School District's response to the areas we discussed at the exit conference concerning the draft findings.

First we want to note that we find the preliminary draft findings to be valuable in pointing out areas of management that need improvement, and helpful in bringing these matters to our direct attention and enhancing our ability to effect necessary actions. We also want to thank you for the opportunity to review the draft preliminary findings before the Audit Report is issued.

The management of this School District agrees with some of the findings, but also disagrees with some of the findings presented in the draft Report of Examination 2011M-52.

Firstly, your findings concerning the purchase of health insurance will be addressed in the District's Corrective Action Plan with detailed recommendations for a new policy and new procedures. However, we believe the three individuals mentioned are not correct and we will explain further in the District's Corrective Action Plan.

See
Note 1
Page 20

Secondly, your findings concerning the textbook depository will be addressed in the District's Corrective Action Plan. As discussed in the exit conference, the District will investigate and develop a policy and procedures to perform an annual physical inventory inspection of textbooks by random sampling.

Thirdly, your findings concerning the procurement of professional services are more troublesome. According to the District's understanding, requiring RFPs for all professional services is significantly extending the legal requirements for school districts. In addition, a number of the contracts are for sole source professional services (professional development) or for very small amounts, and are not required to have an RFP. Since the audit's time period, the District has extended the areas where RFPs are used and will review all its policies and procedures to better define the use of RFPs in the Corrective Action Plan.

See
Note 2
Page 20

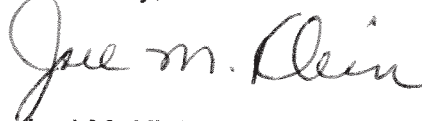
See
Note 3
Page 20

However, when professional services, with special skills, are needed on an emergency time-sensitive basis, eg: professional services for an IEP mandated service, alternative proposals or quotations are appropriate.

Fourthly, your findings concerning the Board to enter into written agreements for professional service providers will be addressed in the District's Corrective Action Plan.

We have begun discussions concerning a detailed Corrective Action Plan to address all areas of the report, and we expect to forward this plan to you within the required time period.

Sincerely,



Joel M. Klein, Ed. D.
Superintendent of Schools

JMK/rz

c: East Ramapo Board of Education
Mr. James Rose
Interim Assistant Superintendent for Finance
Mr. Elie Wizman
Assistant Superintendent for Funded Programs
and Special Education
Minerva & D'Agostino, P.C.

APPENDIX B

OSC'S COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

District records showed that the three individuals (Board President, Vice President, and Board member) did not reimburse the District for their health benefits as required by law. District officials should ensure that the new policy and procedures clearly state that Board members are required to reimburse the District for their health insurance benefits in accordance with the law.

Note 2

While the District is not legally required to use a request for proposals (RFP) for all professional services, seeking competition through the use of an RFP or quotes provides District taxpayers with the greatest assurance that services are procured without favoritism.

Note 3

Although the District officials claimed that some professional services contracts were obtained from sole sources, they did not provide us with documentation to substantiate their assertion.

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. 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 health insurance premium reimbursement, procurement, the textbook depository and budgeting practices for further audit testing. Our procedures included the following:

- For health insurance premium reimbursement, we reviewed records for payments made to insurance carriers, and the records for participants payments to the District for premiums due. We also reviewed late notices sent to plan participants and the cancellation notices that were regularly sent to all participants except the Board members. In addition, inquired as to the existence of policies and procedures for premium reimbursements, and reviewed a spreadsheet used to track premium reimbursements and canceled checks. Also, we interviewed District officials and staff to gain an understanding of the normal process for billing and collecting premium reimbursements and why District officials did not take additional steps to collect premium reimbursements from the three Board members.
- For procurement, we reviewed the District's procurement policy to evaluate to determine the requirements that were established. We interviewed District officials and employees to learn about the procedures to procure professional services. We obtained vendor histories for 2008-09 and 2009-10 for our sample selection. We reviewed purchase orders, vendor invoices and written agreements, or other sources of evidence to determine if competition was sought as required, and that payments were in accordance with written agreements.
- For the textbook depository, we reviewed Education Law and the District's textbook loan program policy and guidelines. We interviewed staff to determine the process used to account for textbooks on loan to nonpublic schools. We also requested nonpublic administrators to provide inventory records for audit purposes.
- For budgeting practices, we reviewed the State Education Department's budget process handbook. We also reviewed the 2010-11 adopted budget and the June 30, 2010 audited financial statements to compare the year-end fund balances calculated. We interviewed the Assistant Superintendent for Finance to obtain representations as to the process she uses to project the year-end fund balance for the budget.

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. However, nonpublic school administrators did not provide the records necessary to evaluate controls over textbooks on loan. Due to this scope limitation, we could not determine if the District is purchasing more textbooks than necessary, or if the textbooks shipped to nonpublic schools are only being used only for the benefit of the students in the District. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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