

Scarsdale Union Free School District
Independent Accountant's Report On
Applying Agreed-Upon Procedures
May 21, 2015

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

To the Board of Education and Audit Committee
Scarsdale Union Free School District
Scarsdale, New York

We have performed the procedures described in the following pages, which were agreed to by the Scarsdale Union Free School District (District), solely to determine the effectiveness related to financial operations of the special education function and purchasing of information technology (IT) assets in complying with policies and procedures of the District during the period July 1, 2013 through September 30, 2014.

The District's management is responsible for administering this area.

This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the District. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in the following pages.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the District's financial operations of the special education function and purchasing of IT assets. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement.

This report is intended solely for the information and use of the District and is not intended to be and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose.

Cullen & Danowski, LLP
May 21, 2015

SCARSDALE UNION FREE SCHOOL DISTRICT
Report on Applying Agreed-Upon Procedures
For the Period Ended September 30, 2014

Introduction:

This report is organized as follows: categorized by function (i.e., Financial Operations of the Special Education Department and IT Assets), and there are five sections under each function consisting of:

- Background information
- Summary of the engagement
- Procedures performed during our detailed testwork
- Findings as a result of our review
- Recommendations to further strengthen internal controls or improve operational efficiency.

Some of the recommendations may require a reassignment of personnel duties within the District and/or a monetary investment. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Corrective Action Plan:

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan, approved by the Board of Education, must be filed within 90 days of issuance with the New York State Education Department.

The District should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the District's CAP to the report to ensure all items have been addressed (i.e., CAP is not missing any recommendations). The Office of Audit Services will soon require that all such documentation be sent electronically to the email address listed below.

Submission Information – Mail & Email

New York State Education Department (SED)
Office of Audit Services (OAS)
89 Washington Avenue
Room 524 EB
Albany, NY 12234
Fsanda133@mail.nysed.gov

Contact

Office of Audit Services
(518) 473-4516

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FINANCIAL OPERATIONS OF SPECIAL EDUCATION

Background:

The Special Education Department's (Department) original annual budget for 2014-15 was \$11,242,740 and the adjusted budget as of March 2015 was \$11,566,323. This includes costs for salaries (excluding benefits), BOCES placements, private placements, related service providers and other expenses directly related to special education operations.

During the past year, the District has experienced staffing changes in the Department. The previous Special Education Director (Director) retired from the District at the end of the 2012-13 school year and returned as an interim Director during the first few months of the 2013-14 year. The District then filled the position with another interim person until appointing the current director at the end of the 2013-14 year. The Department has an office staff of 1.5 full-time equivalent employees (FTE). A part-time aide (17.5 hours per week) was added in November 2014 to assist with the clerical responsibilities. Additionally, the 2015-16 budget includes an additional 0.5 FTE of clerical staff. The clerical staff was reduced a few years ago and these additional positions bring the staffing levels back to the previous clerical headcount. With regards to certified staff, there are 2 full time chairpersons and 2 additional employees who split their time between chairing Committee on Special Education (CSE) meetings and other assigned duties.

The District has 436 classified students out of a total of 4,825 students, which represents 9.0% of the total population, for the 2014-15 year. For the 2013-14 school year, the District had 402 classified students out of a total of 4,792 students, which represented 8.4% of the total population.

The Department submits the System to Track and Account for Children (STAC) forms to the (SED) for students with special needs costs that meet or exceed the annual threshold. The STAC filing system is the mechanism that school districts use to report special education related costs for students receiving high cost services during the school year and services during the summer program. The amounts submitted to the state through the STAC process are used in the calculation of high-cost aid. The District's high-cost aid threshold for the 2013-14 school year was \$67,371 and the District's high-cost ratio is 25% per student as determined by the SED. The STAC forms are an estimated cost based upon the student's Individualized Education Program (IEP), which are generally filed at the beginning of the school year. During the subsequent year, the SED sends the District an automated verification listing (AVL) that contains the actual STAC costs for each student reflecting any District amendments to the STAC form submitted to the SED. The Department is responsible for reviewing the AVL to ensure the accuracy of the data compared to actual costs, and to determine if there are any necessary adjustments based upon the actual costs expended for each student during the respective year.

We note that the District hired a consultant to assist with the preparation and filing of the STAC forms. The Department has also implemented procedures to ensure that students receiving services in-district are evaluated to determine if the amounts exceed the high-cost aid threshold and the District needs to file a STAC form. Due to the significant financially related activities in the Department, we were engaged to perform a review of these procedures.

Summary:

We found that the employees we interviewed demonstrate a positive attitude towards improving procedures and they are knowledgeable about the requirements related to their responsibilities. We also found that the Department has been active with developing procedures and increasing the use of technology. We note that there are some opportunities to further improve operations based on the results of our engagement. These items are described further in the findings and recommendations section below. We recommend that the

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District and Department continue being active in improving procedures and consider implementing the recommendations noted below to further strengthen internal controls and enhance operational efficiencies related to the financial operations of special education.

Procedures:

Our procedures, as per the engagement letter dated July 10, 2014, were as follows:

- Review Board policies and written procedures related to the financial operations of the Department including the filing of STAC forms and AVL forms; monitoring the students' IEPs to determine if projected expenditures exceed the high-cost aid threshold; reviewing the invoices of related service providers to ensure accuracy and managing the placements of students to educational facilities (BOCES, public, and private locations).
- Interview Business Office and Department personnel regarding policies, procedures and systems in effect.
- Review the Department budget for fiscal 2014-15 and compare to the 2013-14 budget and 2013-14 actual results. Obtain explanations for unusual variances. Review latest budget status report as of date of field work and obtained explanations for variances.
- Review procedures with the Special Education staff to ensure that the services and programs per the students' IEPs are the basis for the department's budget of the related services and placements.
- Examine payroll records of Special Education personnel for 2 pay periods during the period, and on a test basis compare to source documentation.
- Review purchase orders for 5 of the largest vendors during the year and examine invoices related those purchase orders to determine if policies and procedures of the District had been followed.
- Select additional 25 disbursements from the Special Education accounts and review supporting documentation to determine if applicable purchasing and disbursement policies and procedures had been followed.
- Review the system of compiling information related to entering and reviewing STAC forms. Obtain the most current AVL forms and select 10 students to ensure accuracy of the costs.

Findings:

Review of Board policies and written procedures related to the financial operations of the Department and interviews with personnel noted:

- The Department began to establish defined procedures for key processes. For example, the Department prepared spreadsheets detailing parentally placed students and out-of-district placements. The Department uses Google docs to share and update this information within the Department. However, there are no formal written procedures for the key financially related processes of the Department such as the review and approval of STAC forms, the preparation of the budget, reviewing of invoices, etc.

Review of the budget for fiscal 2014-15 and comparison to the 2013-14 budget and 2013-14 actual results found:

- The Department's budget for the 2013-14 year was \$11,269,386 and the actual was \$11,160,111. The 2014-15 original budget is \$11,242,740 and adjusted budget as of March 2015 was \$11,566,322, as noted above. The increase is due to the encumbrances at year ended June 30, 2014, which are added to the original budget.

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- The Director maintains a binder containing financial information to facilitate budget management and to retain pertinent records. We understand that the budget development process includes meetings with the Assistant Superintendent for Business and the Superintendent to determine the Department's budget amounts.
- Detailed budgets are prepared for BOCES placements and private placements by school and by student. This is used as a tool to monitor expenses related to student placements.

Review of payroll records of Special Education personnel for 2 pay periods during the period noted:

- There was 1 instance where a special education aide was charged to an incorrect budget code from September 2014 through January 2015. Further review found that the District had identified the error and corrected the budget code in the financial system going forward. The variance from September through January was not material to require an adjusting journal entry.

Review of invoices from the 5 largest purchase orders and the additional 25 disbursements from the Special Education accounts found:

- The Special Education consultant contracts are not Board approved, and contracts with educational facilities where students are placed only exist if the placement facility initiated the contract. We found that the District was aware that the handling of contracts was inconsistent and there is no Board policy covering this topic. We found that the District is addressing this matter by looking at standardizing the contract process and creating threshold amounts related to the requirement for contracts to be Board approved.
- There were 15 instances where services were received prior to a purchase order (PO) being in place. These are known as confirming POs. We also found that there were 8 out of the 15 instances where there was no contract with the provider. There were 5 out of the 8 instances where the services were provided for summer programs; however, the PO was created after these programs ended. We understand that based on the nature of timing related to special education activities (e.g., placements, contracts, changes, etc.), there are times when the creation of the PO takes place after services have been provided or started.
- There was 1 instance where a PO was created and payment was made in the amount of \$2,585 to a vendor in September 2013 for services performed in the prior school year from December 2012 through April 2013.
- The District uses the scanning feature of the SMARTS System, which allows for all documentation to be scanned and attached to the PO. We found that when the documentation was attached, this created an efficient review process. However, there were records filed in the Department that were not always electronically attached to the PO (e.g., financial pages of contracts, Board approval, etc.). We also noted 1 instance where the payment was made based on a statement instead of a detailed invoice.
- There was 1 selection where the invoices totaling \$11,880 were for services for various students. Since the invoices excluded the rates of the different clinicians based on their classification, the total amounts could not be calculated. In addition, the verification of these rates can only be performed by comparing the invoices to the provider's contract and knowing the rate charged for each clinician based on their classification.

Review of the system of compiling, entering and reviewing STAC forms and the selected 10 students noted:

- The state allows the District to determine the costs related to filing STAC forms for students receiving services in-district. At the time of our fieldwork, there were only 3 programs where the costs for providing services to these students may have exceeded the high-cost aid threshold. We noted that the

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consultant works with the Department to prepare a worksheet containing the costs for each in-district special education class. We found that actual costs were used for teacher and teacher aide costs and estimates were used for related service providers, 1:1 aide costs, and benefits costs. We found that the documentation to support the calculation of estimates used for compiling STAC forms (i.e., related service costs, 1:1 aide costs, benefits costs, etc.) could be improved by including details related to the estimations. We also found that the estimate used for benefits costs for aides is low at a rate of 8%.

- The Director refers students to the consultant for preparing the STAC forms. The consultant determines the costs and computations that are recorded on the STAC forms. However, these details are not being reviewed by the Department personnel to ensure the accuracy and completeness of the amounts reported by the consultant.

Recommendations:

We recommend that the District consider implementing the following items to further strengthen internal controls and enhance operational efficiencies related to the financial operations of the Department:

1. Develop written, formal procedures related to the financial operations of the Department that includes reviewing and approving STAC forms and AVLs, preparing and managing the budget, monitoring significant account codes (BOCES, non-BOCES placements, related services, etc.), reconciling the related services to each student's IEP, reviewing and approving invoices, and preparing contracts.
2. Establish procedures to require the Department administrator to review and sign-off on each completed STAC form submitted by the consultant to ensure accuracy and completeness of the amounts reported by the consultant. We recommend that the District consider requiring the consultant to prepare a packet (hard copy or electronic) to support each STAC form and provide it to the Department to facilitate the review of these records. The packet should include all documents necessary for an independent reviewer to arrive at the same totals and a lead sheet indicating the cost computation for each service provided.
3. Increase the estimate used for benefits costs for aides, since the current rate of 8% is low, and consider if any new STAC forms need to be filed because the costs for any students receiving in-district services have passed the high-cost aid threshold or if any revised STAC forms need to be filed due to an increase in the costs. We also recommend that the District establish procedures to include details related to the estimates used for the STAC worksheets.
4. Continue efforts with defining the handling of contracts that includes determining which types of services and placements would require a contract, which may also be based on a threshold amount, and which contracts would require Board approval. The District should consider the details that would be Board approved including dates of service, rates for services, and an estimate for the total amount of services to be provided. We also recommend that the District consider establishing a Board policy related to contracts to memorialize these decisions.
5. Review the purchasing procedures to determine if the number of confirming POs could be reduced by preparing POs prior to the receipt of goods or services whenever feasible. Additionally, ensure that all invoices are date stamped upon receipt to document when the records were received in the Department.
6. Establish procedures to indicate which items (e.g., contracts, Board minutes, etc.) should be scanned and electronically attached as documentation for POs, which would facilitate a complete and efficient review performed by the Purchasing Agent, Claims Auditor or Department personnel.
7. Contact the provider to request that their invoices include the clinicians' rates to facilitate the District's review and approval process prior to processing these payments.

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INFORMATION TECHNOLOGY (IT) ASSETS

Background:

The recording of assets is one of the most complex responsibilities of any governmental accounting office. There are various groups involved related to the management of assets and there are challenges with establishing formal procedures to ensure that assets are properly tracked, safeguarded, recorded and inventoried.

The District uses software, Real Asset Management Inc. (RAMI), to facilitate the recording and tracking of assets. The Audio Visual (AV) Department handles the tagging of most IT assets. Each building has a person or department that is responsible for tracking and maintaining the assets. However, there is no formal process to record the assets' location or change in location. The Accountant is responsible for maintaining the database. At fiscal year end, the District performs either a full physical inventory or a sample physical inventory. The Accountant sends each school a list of the assets to be located; the items are located and scanned, and an audit date is recorded in the RAMI database. Additionally, the Accountant reviews purchases during the fiscal year to ensure that any assets purchased have been added to the RAMI database.

The District considers assets with a cost of \$500 or more to be capitalized and depreciated, known as the capitalization threshold amount. In addition, the District has procedures to tag all assets costing \$500 or more and to tag all IT assets costing \$100 or more. There are procedures to control the asset tags that include monitoring the sequential numbers of the tags and ensuring that all tags are entered into the RAMI database.

Our review consisted of selecting 10 IT assets located at 3 of the schools and ensuring that each asset was properly listed in the RAMI database on the day of testing. This was a blind inventory, where the staff was not provided with the selections prior to our inspection. We also expanded our scope to select 10 items from the schools and trace these assets back to the listing in RAMI to ensure each item was properly recorded.

Summary:

Overall, we found that the procedures related to IT assets appear adequate and the District staff is knowledgeable about their responsibilities. Based on the results of our engagement, we found that there are some opportunities to further improve the management of IT assets as described further in the findings and recommendations section below.

Procedures:

Our procedures, as per the engagement letter dated July 10, 2014, were as follows:

- Review Board policies, District procedures and written procedures related to purchasing IT assets.
- Interview personnel responsible for ordering, purchasing, receiving, tracking, recording and assigning the IT assets. Identified any potential opportunities to improve these processes.
- Select 10 purchases related to IT assets during the period to ensure that the items are properly recorded, tagged, and assigned.
- Select 10 items in the field and trace back to the inventory records. *Note:* this procedure was added during our engagement to increase our sample items to include a selection of assets at the buildings.

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Findings:

Review of Board policies and District procedures and interviews with personnel noted:

- The District has *Board Policy #6900 – Disposal of District Property* that contains the procedures related to disposing assets; however, this policy excludes language requiring Board approval prior to the disposal of property.
- There is no Board policy covering the inventory of assets, which would include the threshold amounts for capitalization, the requirements for tagging assets, and the performing of physical inventories.
- There were some items that were not found in the correct room location as per the RAMI database, as noted in the specific school findings below. Many times the location listed in RAMI was “Computer Lab”, which is the initial location recorded in the RAMI database; however, the location field was never updated with the proper room information when the asset was put in place.
- The annual disposals process could be improved, since there have been instances when items on the disposal list prepared by the Audio-Visual Technical Services staff did not agree with the list that the Accountant received from the vendor who purchased the obsolete items. We have been informed that when there is a difference, the Accountant investigates to determine if the items were missed by the vendor and are still at the respective building. If the items are not found and not picked up by the vendor, then the Accountant classifies the items as “disposed” in the RAMI database, and communicates this matter to the Assistant Superintendent for Business and the head of Audio-Visual Technical Services.

Review of 10 purchases related to IT assets found:

- All 10 items selected for review were located by the IT staff at each of the 3 schools.

High School – 4 assets selected

- The RAMI listing had several computer items from the late 1980s and the early 1990s that were likely disposed; however, the items still remain on the inventory listing.
- All IT assets selected for testing were located; however, there were 2 assets where the room location had not been updated. The RAMI database still listed the location as “Computer Lab”. We were informed that the District uses Novell ZENworks, an endpoint security suite, to find the location by identifying where an IT asset was last used.

Middle School – 3 assets selected

- All IT assets were located; however, there was 1 asset where the room location had not been updated. The RAMI system still listed the location as Computer Room.

Heathcote Elementary School – 3 assets selected

- There was 1 asset that was found; however, finding the item was difficult because there was no system to clearly identify where assets were located at the school. The employee responsible for the IT equipment is new to the District and is in the process of documenting the location of all assets to properly update the RAMI database with the room locations.
- There was 1 asset where the location per the RAMI database was the English Second Language (ESL) room and the actual location was the Computer Room.

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Review of 10 items selected from the same schools listed previously noted:

- All of the assets were recorded in the RAMI database. However, we found that there were 3 assets (2 from the Middle School and 1 from the High School) where the room location was incorrect.

Recommendations:

We recommend the District consider implementing the following items to further strengthen internal controls and improve operational efficiencies related to IT inventory:

1. Develop a Board policy that covers capital assets including the threshold amounts required for capitalization, depreciation purposes, tagging purposes and requirements for performing physical inventories.
2. Consider revising *Board Policy #6900 – Disposal of District Property* to include language requiring the Board to approve disposals of property prior to disposing of the assets.
3. Implement procedures to have the Audio-Visual Technical Services staff and the vendor, who purchased the obsolete items, each sign off on the list of disposed items when these assets are picked up at the respective buildings. This would provide a proper reconciliation from the list of disposed items per the District and the obsolete inventory picked up by the vendor.
4. Establish a plan to update the RAMI database with the correct room locations of the assets and develop procedures to ensure that changes to room locations are updated in the RAMI database timely. These revisions would take place in the event that any asset was placed in service, transferred, or disposed.

