

#1 (Rev.1/93) SINGLE PAGE COMMUNICATION TO THE COMMON COUNCIL

TO: THE COMMON COUNCIL: DATE: March 1, 2006

FROM: DEPARTMENT: Audit and Control

DIVISION: Audit

SUBJECT: [: **Board of Education**  
[: **July 1, 2003-**  
[: **December 31, 2005**  
[:

PRIOR COUNCIL REFERENCE: (IF ANY) [: Item No. , C.C.P. / /04  
Ex. (Item No. xxx, C.C.P. xx/xx/xx)

TEXT: (TYPE SINGLE SPACE BELOW)

### **RECOMMENDATIONS**

Training of the Board in financial matters is part of the School Accountability Acts recently signed into law or in the legislative process.

5. The education law is amended by adding a new section 2102-a to read as follows 2102-a.  
a. Required training for school district officers.

**1. Every trustee or voting member of a board of education of a school district or a board of cooperative educational services, elected or appointed for a term beginning on or after July first, two thousand five, shall, within the first year of his or her term, complete a minimum of six hours of training on the financial oversight, accountability and fiduciary responsibilities of a school board member. Upon demonstration of compliance, no trustee or member of a board of education or a board of cooperative educational services shall be required to repeat this training requirement. Nothing in this section shall be deemed to require a member of a central high school district board or a member of a board of cooperative educational services to complete such requirement if such member has already completed such requirement as a member of a board of a component school district.**

**2. The curriculum used for training on financial oversight, accountability and fiduciary responsibilities shall be approved by the commissioner in consultation with the comptroller. This curriculum may be offered as part of a general course of training for the purpose of educating trustees or members on their powers, functions and duties. The training required by this section may be offered by providers approved by the commissioner. In approving other providers for this training, the commissioner shall consider the potential provider's understanding of the educational environment, the roles of trustees and boards of education and boards of cooperative educational services, and the experience of the provider in delivering such training.**

### **RECOMMENDATIONS ON SPECIFIC FINDINGS**

1.) Accounts payable procedures and operations

(a.) The filing system for the Board is complex, cumbersome and inefficient.

We recommend that consideration be given to retaining all original contracts in the payable section.

An excerpt from the City Charter in reference to the Comptroller's function:

"...preserve and keep on file in the comptroller's office all contracts, undertakings and vouchers."

We recommend the Board adopt this policy.

Part of the problem can be traced to the procedure of placing contract items on purchase orders, and not actually on contracts.

(b.) We recommend a review of the MUNIS system to allow for better controls. Purchase orders and especially blanket purchase orders (lack of specificity) provide less control over what is a sizable expenditure because it allows for a lack of specificity in a contracting environment, which should include bidding at various specific intervals. The "blanket" purchase order should only occur in the case of repetitive and de minimus amounts for the sake of efficiency. The order could in fact be placed far in excess of any minimum approval levels (\$20,000 at the Board and \$50,000 for the BFSA), and the individual contracts could exceed the thresholds. It also brings into question the overlapping of fiscal years.

(c.) Invoices for 2003-04 were not supported by detail in some cases.

We recommend that an audit be performed on the contracts before preparing them for encumbrance. Without data sufficient to support the encumbrance, how can an audit or payable function allow for these transactions to proceed? It brings into question what the Board was approving and whether there is an effective review in the payables/audit area.

(d.) The audit team did find multiple cases of invoices that had been checked by BOE staff, but were incorrect.

We recommend that management improve the thoroughness of the audit process review of the procedures.

We further recommend that in future audits, our auditors need to have direct access to records as provided in the State law.

2.) The Purchase Department purchases substantial amounts from sole source vendors and is organizationally part of the approving area's control.

We recommend that management review the bidding procedures in the functional areas. It was beyond our scope to perform additional steps in these functional areas, but the result of the procedures in place reveals that there is a magnitude of exceptions to the bidding procedures outlined in General Municipal Law. The public has a right to expect that the School System will provide the best product and pay the best possible price for the betterment of the students.

We also recommend changing the reporting lines of this function to an area that reviews its compliance with Board policies. The Purchasing area reports to the Executive Director of Accounting and should report to the next level of management, namely the Chief Financial Officer (CFO). A review of organization charts in other school districts (approximately 10) revealed a structure wherein the Purchasing reported to the CFO-type function or in an operational or administrative area at that same level.

3.) The Control Board reviews contracts for goods and services that sum to \$50,000.00 or more. The audit team specifically reviewed payments made by the Board of Education to a variety of vendors to determine if purchase or service orders had been broken-up to avoid the 50K or more limit, thus avoiding Control Board scrutiny. We have found no evidence that this has occurred.

4.) Some Board of Education contracts that are in excess of \$50,000 and thus are required to be approved by the Buffalo Fiscal Stability Authority (BFSA), but our audit uncovered differences in amounts approved at BOE versus BFSA. There was no follow-up in the BOE meetings as to the actual differences.

We recommend that the Board request specific instructions from BFSA on which contracts have been approved partially or were revised so that the BOE can reflect that in their minutes.

5.) The review of contracts revealed that the Board of Education does not purchase fuel via the New York State contract.

We recommend that the Board follow the state contracts procedures and buy under these state contracts. The City was audited for this procedure and a report was filed by the State Comptroller (OSC) with the Common Council of the City criticizing the practice. The instances reviewed reflected what appeared to be a saving by the District by not using the state pricing. This may not always be true and the taxpayers are routinely better served by using state contracts as recommended by the OSC.

6.) There remains no actual independent "Internal Audit" function at the BOE as required under NYS Law.

We recommend following the current NYS law requirements and the new implementation dates from recent laws. The previous law required that if there was an audit function, it must report to the Board. The new legislation requires an audit function, reporting to the Board and an Audit Committee.

There are no internal audits performed by the BOE staff.

We recommend field audits of the School District in addition to the pre-audit reviews of contracts etc. These could be in various forms such as Control Assessment, Performance, Compliance or other types of audits and should be addressed to the Board.

7.) There is no currently functioning audit committee for the BOE.

This is part of the legislation in Albany. Due to the structure of the School System wherein everyone ultimately reports to the Superintendent and then to the Board, an audit committee is necessary for control. Other units of government have a constitutional separation of powers.

The "Advisory Audit Committee" currently recommends to the Finance standing committee of the full Board. We recommend that the structure as presented should be sent to the State Comptroller's Office for their review, and then approved at a full Board meeting. The Audit function would report to that committee and review risk management issues, external audits, management letters, OSC recommendations and City Comptroller audits.

The current Education Law sets a timetable of July 1, 2006 to implement an audit committee.

§ 2116-c. Audit committees. 1. Every school district, except those employing fewer than eight teachers, shall establish by a resolution of the trustees or board of education an audit committee to oversee and report to the trustees or board on the annual audit of the district records as required by section twenty-one hundred sixteen-a of this article. 2. The audit committee shall be established no later than January first, two thousand six as a committee of the trustees or board, as an advisory committee, or as a committee of the whole. An advisory committee may include, or be composed entirely of persons other than trustees or members of the board if, in the opinion of the trustees or board, such membership is advisable to provide accounting and auditing expertise. 3. The audit committee shall consist of at least three members, who shall serve without compensation. Committee members shall be reimbursed for any actual and necessary expenditures incurred in relation to attendance at meetings. Employees of the school district are prohibited from serving on the audit committee. A member of an audit committee shall be deemed a school district officer for the purposes of sections thirty-eight hundred eleven through thirty-eight hundred thirteen of this chapter, but shall not be required to be a resident of the school district. 4. The role of an audit committee shall be advisory and any recommendations it provides to the trustees or board under subdivisions five and six of this section shall not substitute for any required review and acceptance by the trustees or board of education. If required by a regulation adopted by the commissioner, the annual audit report prepared by an independent certified public accountant or an independent public accountant.

8.) The FOIL (under the Freedom of Information Request Law) requests by the Buffalo Teacher Federation (BTF) were not fully complied with by the Board of Education (BOE).

We recommend that a procedure be put in place for reviewing foil requests. It should start with the Law Department. If the request is for information that fits within the law, then the response should include all information as requested.

9.) The invoices for the "ATLAS initiative" were paid without supporting detail.

We recommend that the repository for information pertaining to the payment of invoices (vouchers or whatever term best describes this information) be the accounting area. There can be no assumption that the instrument has been reviewed, when there is no concrete information available to the reviewer. The audit step could not be completed

because the information was unable to be obtained in the area. The audit team spent a considerable amount of time researching backup in other areas of the district, and in this case was unable to be presented with any. This contract is in excess of \$5 million dollars and we should have been able to compare a Scope of Services to completion of same as referenced on the invoice.

10.) The Open Meetings Law has been violated by the BOE on several occasions.

We recommend that the Board review the New York State Law pertaining to this requirement and seek District Legal advice as well as refer such questions to the State Director (Mr. Freeman). There are exceptions to Open Meetings and these are specific.

11.) The BOE appointment of a replacement Board member was illegal as per New York State Education Law (SED).

Although this was subsequently remedied, we recommend that the Board review the State Education Law and General Municipal Law requirements especially as these impact the responsibilities of the Board. New York State law requires that only "remaining" members are allowed to vote.

12.) The Board of Education has not implemented the Living Wage Ordinance. The ordinance does not specifically list the Board of Education's responsibility.

We recommend that the Board, in conjunction with the Superintendent, consider implementing an ordinance or Board policy on Living Wage for consistency with the City's policy.

13.) The Board of Education's Finance area needs to determine a method of reallocating budgeted appropriations to the areas that incur the expenditures. The MUNIS general ledger system includes a budget module to protect against overspending its original budget appropriations or revised budgets.

TYPE DEPARTMENT HEAD NAME:     ANDREW SANFILIPPO

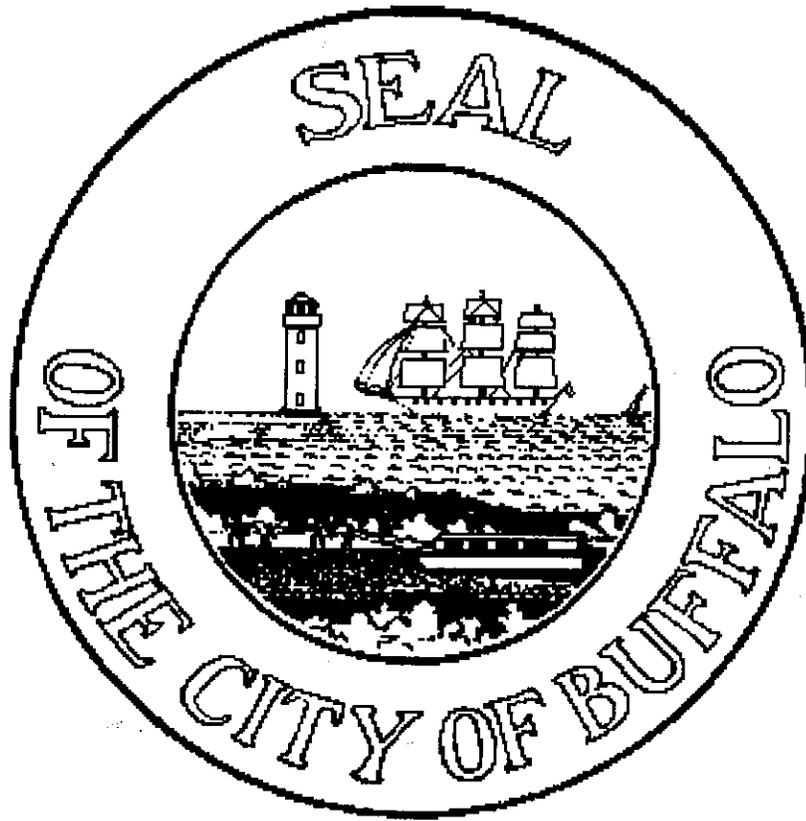
TYPE TITLE:                    COMPTROLLER

SIGNATURE OF DEPARTMENT HEAD



# **CITY OF BUFFALO AUDIT REPORT**

## **Board of Education**



**For the Period  
July 1, 2003 through December 31, 2005**

# City of Buffalo

DEPARTMENT OF  
AUDIT AND CONTROL  
COMPTROLLER'S OFFICE  
1230 City Hall  
Buffalo, NY 14202

ANDREW A. SANFILIPPO  
COMPTROLLER

FRANK BELLIOTTI  
CITY AUDITOR

March 15, 2006

**The Honorable  
Common Council of the City of Buffalo**

We have performed an examination of accounts and records of the Buffalo Board of Education in regards to certain contracts entered into between July 1, 2003 through December 31, 2004, and present herewith our findings for the period then ended.

Our examination was made in accordance with standards established by the Institute of Internal Auditors, The American Institute of Certified Public Accountants and the United States Government Accounting Office and, accordingly, included such procedures as we considered necessary under the circumstances.

In our opinion the accompanying schedules and related comments present fairly the operations for the period then ended in conformity with generally accepted municipal accounting principles applied on a basis consistent with that of the preceding period.

**ANDREW A. SANFILIPPO  
COMPTROLLER**

## BACKGROUND

The Buffalo Public Schools is governed by its Board of Education (the "BOE") whose members are elected by the voters of the City. BOE's primary function is to provide education for pupils in the system. The BOE is financially dependent upon the City and has no independent authority to issue debt or levy taxes.

The Buffalo Public Schools under the Buffalo Board of Education are subject to New York State Law. The organization is subject to Education Law, and the General Municipal Law, as well as sections of the Local Finance Law for various functions.

The City Comptroller is a separately elected official of the City. The responsibilities include the auditing function.

Our audit authority rests under a provision in the General Municipal Law under Article 3 Report of Financial Position section 34-a Buffalo City Comptroller as follows:

### 34-a. Buffalo city comptroller.

1. Notwithstanding any other provision of law to the contrary, the Buffalo City Comptroller shall have the power to examine into the financial affairs of the Buffalo public school district and audit all school district accounts as the comptroller deems necessary. The school district shall make available all books, papers, records, other materials or information required by the comptroller to conduct the examinations and audits authorized by this section. The school district shall be provided sufficient time and opportunity to respond to the findings and recommendations contained in any audit document or any report as a result of an examination prior to the release of any such audit or report. Any final audit document or report shall contain any responses and/or comments submitted by the school district.
2. The comptroller shall annually prepare and submit an audit report on the financial status of the school district to the school board, the mayor, the city council, the state comptroller and the state education department and shall also be made available to the public upon request. Any final report on the financial status of the school district shall contain any responses and/or comments submitted by the school district. The school district shall be given sufficient time and opportunity to review the report and submit a response and/or comments prior to such report's release.

The City budget under General City Charges has an appropriation in the amount of \$ 68,733,056 for its share of the expenditures of the school system. The overall budget for the school system is close to \$700,000,000.

The City Comptroller's department reviews contracts pertaining to bond issues of the Board, but does not review expenditures of an operational nature.

The Office of State Comptroller (OSC) has increased its emphasis on School Audits and School Accountability. Because of a limited number of staff in the past, the State Comptroller has had to rely for the most part on external CPA audits. The latest New York State budget for the OSC provides additional audit staff specifically for school districts. Long Island school districts have been a focus of their audit activity, especially since the Roslyn School District debacle. Here is a list of the audits and statements on auditing and legislation from the OSC since June of 2004 until August of 2005:

Central Islip School District Audit Identifies Excessive Spending on Travel, Lax Controls and Policies, August 25, 2005

Miller Place School Overall Generally Well Managed, but Audit Identifies Some Areas for Improvement, August 2, 2005

Hevesi Praises Pataki for Signing School Accountability Bills, Calls Bills a Major Step Forward in Restoring Public Trust in Schools, July 25, 2005

Audit Finds School Districts Saved Hundreds of Thousands by Controlling Energy Costs, July 25, 2005

Legislature Passes School Reform Bills, June 21, 2005

Audit Finds Elmont School District Took Necessary Steps to Improve Internal Controls and Policies, June 17, 2005

Lawrence School District Lacks Vital Financial Controls, June 7, 2005

Syosset School Audit Finds Weak Financial Management, But No Wrongdoings, June 1, 2005

East Meadow Schools Strengthen Oversight of Funding Following State Audit, Comptroller Finds Internal Control Weaknesses, but No Wrongdoing, May 25, 2005

Comptroller Report Finds Problems of Five Largest School Districts Intensified by Fiscal Struggles of Cities, May 13, 2005

Audit Finds Riverhead School District Effectively Controlling Administrative Costs, Needs to Strengthen Some Internal Controls and Policies, April 26, 2005

Audit: Rochester City School District Requires Additional Aid to Balance Budget, March 21, 2005

Audit Finds Strong Financial Controls and Oversight at Massapequa School District, March 8, 2005

Hevesi Audit Finds School Employees Used At Least \$11.2 Million of Roslyn School Funds for Personal Benefit, Audit of Roslyn Schools Details Breakdown of Oversight and How Dozens Benefited with Cash, Cars, Travel, Personal Goods at Taxpayers' Expense, March 2, 2005

Westbury Schools Strengthen Policies for Administrative Spending Following State Audit, Audit Finds Superintendent Inappropriately Paid \$15,000, February 17, 2005

Comptroller Hevesi Testifies on School District Audits and Financial Accountability to Senate Higher Education Committee, January 25, 2005

Audit Finds Extensive Impropriety By Firm That Audited Roslyn School District & 54 Other School Districts, Findings Referred to the Nassau County District Attorney and State Board for Public Accountancy, January 6, 2005

Audit Finds Internal Control Weaknesses at Plainedge School District, but No Wrongdoings, December 15, 2004

Audit of Baldwin School District Finds No Wrongdoing, District Lacked Clear Policies for Expenses, December 9, 2004

Miller Place School District To Be Audited For Administrative Costs, November 1, 2004

Hevesi, Education Officials and CPAs Announce Initiatives to Increase Financial Accountability in Schools, October 26, 2004

Hevesi Announces Training for School Officials, Urges School Districts to Take Immediate Action to Protect Resources, Comptroller to Speak at Training Seminar at Huntington Hilton, October 5, 2004

Hevesi Announces Six Additional School Districts To Be Audited For Administrative Costs, August 25, 2004

Hevesi Audit Finds Drake Owes State \$4.8 Million for Tap Grants that Now-Defunct School Should Not Have Received, August 16, 2004

Four Long Island School Districts to Receive In-Depth Audits, Administrative Costs to be Audited For at Least 15 More Districts, August 3, 2004

Hevesi Announces Increased Oversight of Schools in Response to Long Island Financial Scandals, July 14, 2004

Comptroller's Audit of Farmingdale Identifies Excessive Spending and Lack of Accountability, Thousands Spent Inappropriately on Meals, Travel and Other Perks, June 3, 2004

Hevesi to Audit Roslyn School District, June 1, 2004

## **AUDIT OBJECTIVES**

- a) To review internal controls over contracts reviewed by the Buffalo Fiscal Stability Authority as well as from the Buffalo Board of Education, and recommend improvements to insure BOE funds are properly expended
- b) To review minutes of the Board for approvals of contracts, policy changes etc
- c) To review the policies and procedures of the Board and compare to the practices observed during the examination
- d) To review certain payroll information to compare with exempt contracts and adherence to labor laws etc.
- e) To train and develop staff in relevant laws as applied at the Board

## **FINDINGS**

The Buffalo School District is one of the largest in the state of New York. The Buffalo Fiscal Stability Authority (BFSA) oversees the School District, the City itself and several "covered agencies."

We have several findings as provided below.

### 1.) Accounts payable procedures and operations

(a.)The filing system for contracts is complex, cumbersome and inefficient.

Contracts, orders, invoices etc. are filed either in Accounts Payable, the originating Department, the office of the Superintendent of Finance, or in the Grants Office. Purchase orders paid against those contracts can be filed in yet another location. In sum, the detail behind contract transactions is both difficult and time consuming to obtain.

(b) Part of the problem can be traced to the procedure of placing contract items on purchase orders, and not actually on contracts.

The MUNIS general ledger system allows for an accounts payable item to be entered as a contract, a purchase order or as a direct to pay invoice. The Board chooses not to enter contracts on MUNIS as the system was designed. The Board chose to use methods that were used in the past with a proprietary system. Rather, the Board enters contracts through the use of what are called "Open Purchase Orders." A purchase order is established with the contract vendor for the total amount of the contract and partial payments are made against that one purchase order. MUNIS has designed the system so that contracts can be entered as contracts, and individual payments made against a contract. In practice what this means is that the Board paid for functionality within MUNIS and then chose not to use that feature. This is the Board's option, but by doing so it creates more manual work for employees and that work takes place at a slower pace, if it's done at all, than what should take place if the system were used as designed.

The best example of this inefficiency remains the use of the "Insurance" functionality within the MUNIS contract feature. The system not only allows for insurance information to be entered into the system, it allows for full integration e.g. a search can

be made for contracts with expired insurance quickly and easily. The current procedure forces a manual inspection of the insurance documentation (in any one of several locations) to confirm it's existence and timeliness.

(c) Invoices for 2003-04 were not supported by detail in some cases.

An example is an invoice for a Title I Program that was not supported with attendance records created by the vendor. These records are required for billing purposes to support the invoices submitted. For the 2004-05 FY, a new procedure was developed by the BOE to counter this problem. A database was created by the BOE, and attendance records are returned via email. These records are reconciled and reviewed for error, before the associated invoices are submitted for payment. We discovered no significant errors in the 2004-05 Title 1 Program.

As an additional test, we compared performance on tests over a two-year period to determine if the vendors providing services under Title 1 could demonstrate some measurable improvement during this period. They can. There are only two service providers that did not show improvement in performance for reading and math skills in grades K through 6. Those two service providers have not been dropped from the program. New York State Law will not allow a provider to be dropped unless they have two consecutive years of negative performance. Approximately 2,600 students of the 12,000 eligible participate in the Title One Program.

(d) The audit team did find multiple cases of invoices that had been checked by BOE staff, but were incorrect.

In these cases the invoice detail did not sum to the invoice total. The amounts involved are not material. What is disconcerting is that BOE staff checked these invoices and therefore, the errors should have been caught at that point, not by the Audit Team. We suggest attaching adding machine tapes to the invoice to mitigate such errors. In addition, our sampling procedures have been compromised because we were not able to examine the files until the files were accumulated and delivered to us.

2.) The Purchase Department purchases substantial amounts from sole source vendors and is organizationally part of the approving area's control.

Items such as textbooks and some educational software can only be purchased through a single vendor. Copyright laws prevent any competition on a specific textbook between multiple publishers. As specific textbooks are selected for purchase, based upon the curriculum to be taught competition between vendors and even within a vendor's own catalogue of products is limited. Sole source purchases are always a source of concern: the possibility of price manipulation is real. However, the Audit Team recognizes that there is no alternative to sole source textbook and some educational software vendors at this time.

Due to a limited scope we have not at this time reviewed the substantiation of the purchase decisions made by educational teams evaluations and other areas which approve

contracts prior to submission to finance. This audit step may reveal that a technical evaluation was done and that the fair price was determined. As it stands, we have seen no support for that practice in the review of expenditures, which in many cases have insufficient documentation to support the contract.

The Purchasing area should not be under the control of the Accounting area (under the CFO) which is responsible for reviewing purchasing policies and specific contracts. There are several areas where it could be relocated such as under the Chief Operating Officer's (COO) hierarchy.

3.) The Control Board reviews contracts for goods and services that sum to \$50,000 or more.

The audit team specifically reviewed payments made by the Board of Education to a variety of vendors to determine if purchase or service orders had been broken-up to avoid the \$50,000 or more limit, thus avoiding Control Board scrutiny. We have found no evidence that this has occurred.

4.) Some Board of Education contracts that are in excess of \$50,000 and thus are required to be approved by the Buffalo Fiscal Stability Authority (BFSA), but our audit uncovered differences in amounts approved at BOE versus BFSA. There was no follow-up in the BOE meetings as to the actual differences.

The Buffalo Fiscal Stability Authority (the "BFSA" or "Control Board") has changed its rules regarding the types of information it reviews, without any documentation of these procedure changes. We have sent the detailed information from the Board meeting agenda to the BFSA for their review, comment etc. As the Control Board began its term, they reviewed all contracts and change orders in excess of fifty thousand dollars.

The audit procedure entailed matching specific contracts in excess of \$50,000 approved at BOE meetings to BFSA approvals at their meetings.

The change orders and contracts for the Board of Education that were approved by that Board on 12/17/03 and 1/14/04 did not match those contracts and orders that were subsequently approved by the BFSA. Prior to that time there was a one-for-one match between BOE and BFSA. Although there may be subsequent revisions by BFSA, there was no evidence in the minutes of either. These specific contracts are part of the E-Rate Bond program school improvements.

In addition there were revisions that impacted the total cost of some projects.

BOE approval

Date	Item #	E-Rate Bond	
01/14/2004	c49	District Wide Tech- Phase 2 --Network Cabling--General-All State	383,210.95
01/14/2004	c50	District Wide Technology -- Phase 2 - Network Cabling- Ronco	119,845.00
01/14/2004	c51	District Wide Technology -- Phase 1 Electrical -- Ferguson	68,187.00
01/14/2004	c51a	District Wide Technology -- Phase 2 Electrical -- Ferguson	366,802.00

5.) The review of contracts revealed that the Board of Education does not purchase fuel via the New York State contract.

New York State negotiates a contract price for fuel and localities are encouraged to purchase fuel under the New York State contract. The Board of Education Purchase Department has chosen to negotiate its own prices for fuel. This policy has served the Board of Education well. In the month of June of 2004 alone, the Board of Education paid more than \$1,600 LESS for fuel than they would have given purchases at the New York State contract price. The City of Buffalo was involved in a similar practice and the OSC specifically noted this in correspondence with the Buffalo Common Council (not in agreement with State law).

6.) There remains no actual independent "Internal Audit" function at the BOE as required under NYS Law.

In addition, there are no internal audits performed by the BOE staff

The title of Auditor at the Board of Education is in practice held by that person who supervises the Accounts Payable function for the BOE. Those individuals listed, as auditors do not perform all of the tasks traditionally assigned to internal auditors. There is no assessment of internal control, no evaluation of risk management and recommendations for improving operations. This is not to imply that BOE staff does not review the invoices they authorize for payment – they do, with exceptions noted in our audit. This is to say that those audit tasks that would go beyond such steps are NOT taken, and as a result the BOE loses the many benefits that would be obtained by such examination.

Institute of Internal Auditors (IIA) guidelines clearly states that such a reporting relationship impairs both the independence and objectivity of any audit performed. (IIA Practice Advisory 1110-1)

As per Institute of Internal Auditors (IIA) Practice Advisory 2100-1:

*"The scope of internal auditing work encompasses a systematic, disciplined approach to evaluating and improving the adequacy and effectiveness of risk management, control, and governance processes and the quality of performance in carrying out assigned responsibilities. The purpose of evaluating the adequacy of the organization's existing risk management, control and governance processes is to provide reasonable assurance that these processes are functioning as intended and will enable the organizations objective and goals to be met, and to provide recommendations for improving the organizations operations, in terms of both efficient and effective performance. Senior management and the Board might also provide general directions as to the scope of work and the activities to be audited."*

Even if the person who supervises the Audit Department was performing or overseeing audits, there is a very serious flaw in that the Auditor title is reporting to the individual to whom they may very well audit! The Purchasing division is within this area. The Board of Education's structure involves an administration that in this case includes an audit function that does not report directly to the Board, which has oversight responsibility.

The Internal Auditor title for the BOE reports to the Executive Director of Accounting, the individual responsible for major portions of the Accounting records.

There is special legislation for the audit responsibility over the Board of Education, which includes reporting, lines for the Internal Audit function (directly to the Board).

As per previous State Law provisions in effect:

“In its discretion to adopt a resolution establishing the office of auditor and appoint an auditor who shall hold his position subject to the pleasure of the board. No person shall be eligible for appointment to the office of auditor who shall be a member of the board of education or the superintendent of schools. The board of education, at any time after the establishment of the office of auditor, may adopt a resolution abolishing the office. When the office of auditor shall have been established and an auditor shall have been appointed and shall have qualified, the powers and duties of the board of education with respect to auditing accounts, charges, claims or demands against the city school district shall devolve upon and thereafter be exercised by such auditor, during the continuance of the office.”

And per State Law provisions in effect:

“S 2526. Auditor. 1. The board of education of a city school district may adopt a resolution establishing the office of auditor and appoint an auditor who shall hold his position subject to the pleasure of such board of education. No person shall be eligible for appointment to the office of auditor who shall be:

- (1) a member of the board of education;
- (2) the clerk or treasurer of the board of education;
- (3) the official of the district responsible for business management;
- (4) the person designated as purchasing agent; and
- (5) clerical personnel directly involved in accounting and purchasing functions.

Such board of education, at any time after the establishment of the office of auditor, may adopt a resolution abolishing such office, whereupon such office shall be abolished.

2. When the office of auditor shall have been established and an auditor shall have been appointed and shall have qualified, the powers and duties of the board of education with respect to auditing, allowing or rejecting all accounts, charges, claims or demands against the city school district shall devolve upon and thereafter be exercised by such auditor, during the continuance of such office.”

**The State Comptroller, in its audits of school districts over the past year, has consistently noted exceptions in the area of Internal Auditor not in place, or not reporting directly to the Board, or the function’s duties were limited.**

The current Education Law sets a timetable of July 1, 2006 to implement an internal audit function.

§ 2116-b. Internal audit function. 1. No later than July first, two thousand six, each school district shall establish an internal audit function to be in operation no later than the following December thirty-first. Such function shall include: (a) development of a risk assessment of district operations, including but not limited to, a review of financial policies and procedures and the testing and evaluation of district internal controls; (b) an annual review and update of such risk assessment; and (c) preparation of reports, at least annually or more frequently as the trustees or board of education may direct, which analyze significant risk assessment findings, recommend changes for strengthening controls and reducing identified risks, and specify timeframes for implementation of such recommendations.

The Council of Great Schools, whose membership includes the Buffalo School Board in its 2002 Performance Report titled Reforming the Buffalo Public Schools: Final Report of the Buffalo Public Schools Management Assistance Project, recommended an Internal Auditor position which would report to the Superintendent.

“We agree with the State Comptroller’s position and in conjunction with the new legislation and guidelines that provide this position as a direct Board report.....The Council’s report also recommended that the internal auditor perform actual audits.....The Council’s report recommended an external audit review committee composed of local business leaders and university experts in finance.”

There are no internal audits performed by the BOE staff.

The Internal Audit function would engage in audits of various functional areas of the Board of Education as the City Comptroller or State Comptroller has done.

The Audit Committee would then have external audits and risk assessments as well as the internal audits to review.

7.) There is no currently functioning audit committee for the BOE.

Regardless, IIA guidelines do recommend an Audit Committee be established (IIA Practice Advisory 1110-2).

There was an advisory audit committee organization meeting held on May 17, 2005, and a subsequent meeting to discuss the Annual External Audit Report and management Letter.

There was a more formal audit committee that met four years ago to review the external audit. The City Comptroller was a voting representative at that time.

A previous Office of the State Comptroller (OSC) audit of the Board of Education (1997) recommended an audit committee as a missing control factor. Their review noted a Budget and Audit Committee but was unable to determine their mission, scope of responsibilities or minutes of any meetings.

The current Education Law sets a timetable of July 1, 2006 to implement an audit committee.

§ 2116-c. Audit committees. 1. Every school district, except those employing fewer than eight teachers, shall establish by a resolution of the trustees or board of education an audit committee to oversee and report to the trustees or board on the annual audit of the district records as required by section twenty-one hundred sixteen-a of this article. 2. The audit committee shall be established no later than January first, two thousand six as a committee of the trustees or board, as an advisory committee, or as a committee of the whole. An advisory committee may include, or be composed entirely of persons other than trustees or members of the board if, in the opinion of the trustees or board, such membership is advisable to provide accounting and auditing expertise. 3. The audit committee shall consist of at least three members, who shall serve without compensation. Committee members shall be reimbursed for any actual and necessary expenditures incurred in relation to attendance at meetings. Employees of the school district are prohibited from serving on the audit committee. A member of an audit committee shall be deemed a school district officer for the purposes of sections thirty-eight hundred eleven through thirty-eight hundred thirteen of this chapter, but shall not be required to be a resident of the

school district. 4. The role of an audit committee shall be advisory and any recommendations it provides to the trustees or board under subdivisions five and six of this section shall not substitute for any required review and acceptance by the trustees or board of education. If required by a regulation adopted by the commissioner, the annual audit report prepared by an independent certified public accountant or an independent public accountant.

8.) The FOIL (under the Freedom of Information Request Law) requests by the Buffalo Teacher Federation (BTF) were not fully complied with by the Board of Education (BOE).

Starting in July of 2004 and continuing through February of 2005, the Buffalo Teacher's Federation (BTF) filed a series of Freedom of Information Law (FOIL) requests with the Buffalo Board of Education concerning funds paid to the Educational Innovation Consortium (EIC), the UB Foundation and the Center for Applied Technology in Education (CATE).

The Board of Education returned to the BTF a series of documents that appear to address portions of the FOIL request. Unhappy with the answers provided by the BOE, the BTF asked that the City Comptroller, along with the State Comptroller, the State Attorney General and the State Education Department to audit the contracts of EIC, the BOE, the UB Foundation and CATE.

As recently as March 15, 2006 the NEWS reported that "State Comptroller Alan G. Hevesi has initiated an audit of more than \$8 million in contracts between the Buffalo School District and two educational support groups..... The Educational Innovation Consortium and the Center for Applied Technologies in Education."

The City's Audit Department was already in the process of auditing some BOE transactions when this request arrived. In fact, some of the items highlighted by the BTF were already selected as sample items to be investigated by the audit.

The FOIL request from the BTF was specific in the information required. The FOIL legislation itself is very clear in that failure to provide information in answer to a legitimate request is a violation of New York State law and the Board can be held accountable. It is clear in this instance that the Board has no established procedures nor any formal policy to handle FOIL requests. Procedures and policies should be established immediately and the remainder of the BTF's FOIL request should be completed.

9.) The invoices for the "ATLAS initiative" were paid without supporting detail.

More than \$2.4 million dollars was paid to vendors for the "ATLAS initiative", a project designed "to provide teachers and administrators with technology tools that allow them to perform their jobs more effectively, to organize technology training, and to get student achievement data into the hands of district staff in a timely and accurate manner." What specifically was created with ATLAS initiative funds cannot be determined by the

audit team. However, ATLAS initiative software is operational and data is being collected.

Invoices for this initiative consist of but one page, usually only letterhead and one line of text. They do not state exactly what services were provided, to whom and when. Asking the Education Innovation Consortium, the vendor for ATLAS initiative services, for the detail behind the invoices proved to be pointless: attorneys representing that group have maintained that they do not need to provide information via a FOIL as they are not covered by that law. The reply to the request in the letter is included in the appendix to the report.

10.) The Open Meetings Law has been violated by the BOE on several occasions.

The Public Officers Law Article 7 "Open Meetings Law" under section 103 states:

§ 103. Open meetings and executive sessions. (a) Every meeting of a public body shall be open to the general public, except that an executive session of such body may be called and business transacted thereat in accordance with section ninety-five of this article.  
Section ninety-five refers to access to records.

As per New York State Law,

"(a) Every meeting of a public body shall be open to the general public, except that an executive session of such body may be called and business transacted thereat in accordance with section one hundred five of this article."

And Section 105 reads as follows:

1. Upon a majority vote of its total membership, taken in an open meeting pursuant to a motion identifying the general area or areas of the subject or subjects to be considered, a public body may conduct an executive session for the below enumerated purposes only, provided, however, that no action by formal vote shall be taken to appropriate public moneys:
  - A) Matters which will imperil the public safety if disclosed;
  - B) Any matter which may disclose the identity of a law enforcement agent or informer;
  - C) Information relating to current or future investigation or prosecution of a criminal offense which would imperil effective law enforcement if disclosed;
  - D) Discussions regarding proposed, pending or current litigation;
  - E) Collective negotiations pursuant to article fourteen of the civil service law;
  - F) The medical, financial, credit or employment history of a particular person or corporation, or matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person or corporation;
  - G) The preparation, grading or administration of examinations; and
  - H) The proposed acquisition, sale or lease of real property or the proposed acquisition of securities, or sale or exchange of securities held by such public body, but only when publicity would substantially affect the value thereof.
2. Attendance at an executive session shall be permitted to any member of the public body and any other persons authorized by the public body.

Section 106 of the law reads as follows:

"Minutes shall be taken at all open meetings of a public body which shall consist of a record or summary of all motions, proposals, resolutions and any other matter formally voted upon and the vote thereon."

And: again from the law:

1. Minutes shall be taken at executive sessions of any action that is taken by formal vote which shall consist of a record or summary of the final determination of such action, and the date and vote thereon; provided, however, that such summary need not include any matter which is not required to be made public by the freedom of information law as added by article six of this chapter.
2. Minutes of meetings of all public bodies shall be available to the public in accordance with the provisions of the freedom of information law within two weeks from the date of such meeting except that minutes taken pursuant to subdivision two hereof shall be available to the public within one week from the date of the executive session.

The above rules have been consistently violated in a pattern that demonstrates a disregard for the Open Meeting Law when that law is seen as inconvenient.

Called on lapses by no less than three Buffalo News articles, the Board is aware of its obligations on this issue.

“Why they continue to disregard the Open Meetings Law (the latest documented offence was on April 7, 2005) can now solely be attributed to arrogance. One can only imagine how difficult it is to teach children good citizenship if you don’t practice it yourself . . . “

11.) The BOE appointment of a replacement Board member was illegal as per New York State Education Law (SED).

A Board member stated that she was resigning. The Board, including the individual who was resigning, met in some sessions, which may have been in violation of the Open Meeting law if a majority of members met secretly. At the June 20, 2005 meeting the members voted to replace the resigning Board member.

Under Article 51 of New York State Education Law, (emphasis added)

“Whenever a vacancy shall occur or exist in the office of member of the board of education, except by reason of expiration of term or of an increase in the number of members of such board, a majority of the remaining members of such board may appoint a qualified person to fill the vacancy. The person so appointed shall hold office until the next regular school district election, and the person elected to fill such vacancy shall take office immediately upon the filing of his official oath of office with the district clerk.”

The Law is clear: a member who has resigned would not be allowed to vote for their successor. This appointment was illegal.

At its next meeting, the Board realized that it did not take a legal action and the nomination would be voted on at the July 13, 2005 meeting. At that meeting the remaining eight members voted on the replacement and the vote carried five to three (or a majority of remaining members).

It is obvious that the education of Board members, especially first time members, is incomplete. This education in New York State Law, both under Education Law as well as General Municipal Law needs to be initiated or improved.

The State Comptroller's Office (OSC) has initiated financial education sessions and held one in Buffalo in 2004.

### On October 5, 2004 Hevesi Announces Training for School Officials, Urges School Districts to Take Immediate Action to Protect Resources

"State Comptroller Alan G. Hevesi today announced 15 additional training seminars for school district officials around New York State as part of his office's effort to improve management of schools and restore public trust shaken by scandals at two Long Island school districts. Hevesi also announced that the Office of the State Comptroller (OSC) has developed detailed training materials to help officials identify fraud.

In July, Hevesi announced a comprehensive statewide program to increase accountability for schools that includes in-depth and administrative audits of school districts, a review of the effectiveness of independent audits, and hands-on training seminars. Offered in collaboration with the New York State School Boards Association (NYSSBA), Council of School Superintendents (NYSCOSS), the Association of School Business Officials (NYSABO) and others, the training seminars cover internal controls, financial oversight and auditing standards.

The training includes a 14-page "Red Flags for Fraud" manual and a 35-page management guide on internal controls. "

One of the training seminars was on October 21-24, Buffalo Convention Center in Buffalo, School Board Association Annual Convention

In legislation introduced in Albany, this educational requirement would become mandatory. The law requires six hours of training for school board members on their financial oversight responsibilities.

The Governor's Commission on Education Reform stated in its findings from March 29, 2004 that:

**"The Commission recommends improving school governance in all school districts by requiring all school board members to receive training in their roles and responsibilities."**

12.) The Board of Education has not passed a Living Wage Ordinance as was passed by the City of Buffalo.

The City ordinance does not specifically list the Board of Education's responsibility. The Board should consider passing a similar ordinance.

The Living Wage Ordinance covers any contract with the City, with certain exceptions for size of the contract, number of employees and non-profit status of a contractor. The City employees are not specifically included, but in discussion with the City did not seek to include interns and some other functions.

The Board has not passed a policy declaring that the Living Wage Ordinance will be complied with as has been done in the City of Buffalo by Charter change. We contacted

the Living Wage Commission who has not yet approached the Board of Education about this policy.

It is however surprising to find the following statistics on the wage rates from the year 2004:

There was a Living Wage Standard Shortfall for School employees (year 2004) in 1,374 individual's cases which amounted to \$1,224,770. Of those individuals over 98% are listed as Buffalo residents.

**13.) The Board of Education has Expenditures and Revenues that exceed the Appropriations for the Year then ended June 30, 2005**

The Board of Education lacks sufficient control over the school district's budgeted appropriations. Although there are numerous instances of organizational changes in the system, which leads to a budgetary imbalance, the budgets need to be adjusted and approved by the representative authority (the Board) throughout the fiscal year.

Education Law, 2522 (2) provides that

“no expenditure, or contract which in any manner involves the expenditure of money or the incurring of a pecuniary liability, shall be made or entered into by the school district, or officer or employee thereof, unless an amount has been appropriated and is available there for or has been authorized to be borrowed pursuant to the local finance law.

There are no budgeted appropriations per school or department, only at the highest entity level. At year-end there was a variance on the financial statements. The external auditors noted this.

## RECOMMENDATIONS

Training of the Board in financial matters is part of the School Accountability Acts recently signed into law or in the legislative process.

5. The education law is amended by adding a new section 2102-a to read as follows 2102-a. Required training for school district officers.

**1. Every trustee or voting member of a board of education of a school district or a board of cooperative educational services, elected or appointed for a term beginning on or after July first, two thousand five, shall, within the first year of his or her term, complete a minimum of six hours of training on the financial oversight, accountability and fiduciary responsibilities of a school board member. Upon demonstration of compliance, no trustee or member of a board of education or a board of cooperative educational services shall be required to repeat this training requirement. Nothing in this section shall be deemed to require a member of a central high school district board or a member of a board of cooperative educational services to complete such requirement if such member has already completed such requirement as a member of a board of a component school district.**

**2. The curriculum used for training on financial oversight, accountability and fiduciary responsibilities shall be approved by the commissioner in consultation with the comptroller. This curriculum may be offered as part of a general course of training for the purpose of educating trustees or members on their powers, functions and duties. The training required by this section may be offered by providers approved by the commissioner. In approving other providers for this training, the commissioner shall consider the potential provider's understanding of the educational environment, the roles of trustees and boards of education and boards of cooperative educational services, and the experience of the provider in delivering such training.**

## RECOMMENDATIONS ON SPECIFIC FINDINGS

### 1.) Accounts payable procedures and operations

- (a.) The filing system for the Board is complex, cumbersome and inefficient.

We recommend that consideration be given to retaining all original contracts in the payable section.

An excerpt from the City Charter in reference to the Comptroller's function:

"...preserve and keep on file in the comptroller's office all contracts, undertakings and vouchers."

We recommend the Board adopt this policy.

Part of the problem can be traced to the procedure of placing contract items on purchase orders, and not actually on contracts.

(b.) We recommend a review of the MUNIS system to allow for better controls. Purchase orders and especially blanket purchase orders (lack of specificity) provide less control over what is a sizable expenditure because it allows for a lack of specificity in a contracting environment, which should include bidding at various specific intervals. The "blanket" purchase order should only occur in the case of repetitive and de minimus amounts for the sake of efficiency. The order could in fact be placed far in excess of any minimum approval levels (\$20,000 at the Board and \$50,000 for the BFSAs), and the

individual contracts could exceed the thresholds. It also brings into question the overlapping of fiscal years.

- (c.) Invoices for 2003-04 were not supported by detail in some cases.

We recommend that an audit be performed on the contracts before preparing them for encumbrance. Without data sufficient to support the encumbrance, how can an audit or payable function allow for these transactions to proceed? It brings into question what the Board was approving and whether there is an effective review in the payables/audit area.

- (d.) The audit team did find multiple cases of invoices that had been checked by BOE staff, but were incorrect.

We recommend that management improve the thoroughness of the audit process review of the procedures.

We further recommend that in future audits, our auditors need to have direct access to records as provided in the State law.

- 2.) The Purchase Department purchases substantial amounts from sole source vendors and is organizationally part of the approving area's control.

We recommend that management review the bidding procedures in the functional areas. It was beyond our scope to perform additional steps in these functional areas, but the result of the procedures in place reveals that there is a magnitude of exceptions to the bidding procedures outlined in General Municipal Law. The public has a right to expect that the School System will provide the best product and pay the best possible price for the betterment of the students.

We also recommend changing the reporting lines of this function to an area that reviews its compliance with Board policies. The Purchasing area reports to the Executive Director of Accounting and should report to the next level of management, namely the Chief Financial Officer (CFO). A review of organization charts in other school districts (approximately 10) revealed a structure wherein the Purchasing reported to the CFO-type function or in an operational or administrative area at that same level.

- 3.) The Control Board reviews contracts for goods and services that sum to \$50,000.00 or more. The audit team specifically reviewed payments made by the Board of Education to a variety of vendors to determine if purchase or service orders had been broken-up to avoid the 50K or more limit, thus avoiding Control Board scrutiny. We have found no evidence that this has occurred.

4.) Some Board of Education contracts that are in excess of \$50,000 and thus are required to be approved by the Buffalo Fiscal Stability Authority (BFSA), but our audit uncovered differences in amounts approved at BOE versus BFSA. There was no follow-up in the BOE meetings as to the actual differences.

We recommend that the Board request specific instructions from BFSA on which contracts have been approved partially or were revised so that the BOE can reflect that in their minutes.

5.) The review of contracts revealed that the Board of Education does not purchase fuel via the New York State contract.

We recommend that the Board follow the state contracts procedures and buy under these state contracts. The City was audited for this procedure and a report was filed by the State Comptroller (OSC) with the Common Council of the City criticizing the practice. The instances reviewed reflected what appeared to be a saving by the District by not using the state pricing. This may not always be true and the taxpayers are routinely better served by using state contracts as recommended by the OSC.

6.) There remains no actual independent "Internal Audit" function at the BOE as required under NYS Law.

We recommend following the current NYS law requirements and the new implementation dates from recent laws. The previous law required that if there was an audit function, it must report to the Board. The new legislation requires an audit function, reporting to the Board and an Audit Committee.

There are no internal audits performed by the BOE staff.

We recommend field audits of the School District in addition to the pre-audit reviews of contracts etc. These could be in various forms such as Control Assessment, Performance, Compliance or other types of audits and should be addressed to the Board.

7.) There is no currently functioning audit committee for the BOE.

This is part of the legislation in Albany. Due to the structure of the School System wherein everyone ultimately reports to the Superintendent and then to the Board, an audit committee is necessary for control. Other units of government have a constitutional separation of powers.

The "Advisory Audit Committee" currently recommends to the Finance standing committee of the full Board. We recommend that the structure as presented should be sent to the State Comptroller's Office for their review, and then approved at a full Board meeting. The Audit function would report to that committee and review risk management issues, external audits, management letters, OSC recommendations and City Comptroller audits.

The current Education Law sets a timetable of July 1, 2006 to implement an audit committee.

§ 2116-c. Audit committees. 1. Every school district, except those employing fewer than eight teachers, shall establish by a resolution of the trustees or board of education an audit committee to oversee and report to the trustees or board on the annual audit of the district records as required by section twenty-one hundred sixteen-a of this article. 2. The audit committee shall be established no later than January first, two thousand six as a committee of the trustees or board, as an advisory committee, or as a committee of the whole. An advisory committee may include, or be composed entirely of persons other than trustees or members of the board if, in the opinion of the trustees or board, such membership is advisable to provide accounting and auditing expertise. 3. The audit committee shall consist of at least three members, who shall serve without compensation. Committee members shall be reimbursed for any actual and necessary expenditures incurred in relation to attendance at meetings. Employees of the school district are prohibited from serving on the audit committee. A member of an audit committee shall be deemed a school district officer for the purposes of sections thirty-eight hundred eleven through thirty-eight hundred thirteen of this chapter, but shall not be required to be a resident of the school district. 4. The role of an audit committee shall be advisory and any recommendations it provides to the trustees or board under subdivisions five and six of this section shall not substitute for any required review and acceptance by the trustees or board of education. If required by a regulation adopted by the commissioner, the annual audit report prepared by an independent certified public accountant or an independent public accountant.

8.) The FOIL (under the Freedom of Information Request Law) requests by the Buffalo Teacher Federation (BTF) were not fully complied with by the Board of Education (BOE).

We recommend that a procedure be put in place for reviewing foil requests. It should start with the Law Department. If the request is for information that fits within the law, then the response should include all information as requested.

9.) The invoices for the "ATLAS initiative" were paid without supporting detail.

We recommend that the repository for information pertaining to the payment of invoices (vouchers or whatever term best describes this information) be the accounting area. There can be no assumption that the instrument has been reviewed, when there is no concrete information available to the reviewer. The audit step could not be completed because the information was unable to be obtained in the area. The audit team spent a considerable amount of time researching backup in other areas of the district, and in this case was unable to be presented with any. This contract is in excess of \$5 million dollars and we should have been able to compare a Scope of Services to completion of same as referenced on the invoice.

10.) The Open Meetings Law has been violated by the BOE on several occasions.

We recommend that the Board review the New York State Law pertaining to this requirement and seek District Legal advice as well as refer such questions to the State Director (Mr. Freeman). There are exceptions to Open Meetings and these are specific.

11.) The BOE appointment of a replacement Board member was illegal as per New York State Education Law (SED).

Although this was subsequently remedied, we recommend that the Board review the State Education Law and General Municipal Law requirements especially as these impact the responsibilities of the Board. New York State law requires that only "remaining" members are allowed to vote.

12.) The Board of Education has not implemented the Living Wage Ordinance. The ordinance does not specifically list the Board of Education's responsibility.

We recommend that the Board, in conjunction with the Superintendent, consider implementing an ordinance or Board policy on Living Wage for consistency with the City's policy.

13.) The Board of Education's Finance area needs to determine a method of reallocating budgeted appropriations to the areas that incur the expenditures. The MUNIS general ledger system includes a budget module to protect against overspending its original budget appropriations or revised budgets.



# BUFFALO PUBLIC SCHOOLS

**JAMES A. WILLIAMS Ed.D.**  
SUPERINTENDENT

**GARY M. CROSBY**  
CHIEF FINANCIAL OFFICER

February 15, 2006

Mr. Andrew A. Sanfilippo  
Comptroller  
Audit and Control  
1225 City Hall  
Buffalo, NY 14202

RECEIVED  
FEB 27 PM 3:12  
CITY OF BUFFALO

Dear Mr. Sanfilippo,

In connection with the City of Buffalo Audit Report of the Board of Education for the period July 1, 2003 through December 31, 2004 ("Report"), the Buffalo City School District responds as follows to your recommendations on specific findings:

1) Accounts payable procedures and operations

- (a) Effective August 12, 2005, the District required that all contracts are to be maintained in the Finance Department to centralize the filing system.
- (b) When MUNIS was initially implemented in 2001, the District had to choose whether to encumber by contract or purchase order. The District felt that the purchase order method was the most advantageous at that time. We do not have the option to change over to the contract system. Blanket purchase orders are issued in very limited cases. The Board has found that the use of Non Stocking Bids and On-Line Requisitions almost eliminates the need for any blanket purchase orders.
- (c) We will reinforce the importance of supporting documentation for all invoices. During the exit interview with the City Auditor, our request to see the specific exceptions referred to in the Report was declined. We had hoped to use the exceptions as examples with the staff. The District's expanded internal audit function will periodically test for compliance.
- (d) We will reinforce the importance of checking the accuracy of all invoices. The District's expanded internal audit function will periodically test for compliance. Additionally, the current version of MUNIS allows for multiple invoices to be entered that will automatically foot the totals. This was an enhancement from the prior version of the software. During the exit interview with the City Auditor, our request to see the specific exceptions giving rise to this recommendation also was declined, again. We had hoped to use the exceptions as examples with the staff.

2) The District made certain organizational changes in 2005 that will take effect as soon as the new Associate Superintendent of Budget is in place on February 15, 2006. As part of this reorganization, the Purchasing Department will report directly to the CFO.

3) No action necessary. Audit finding confirms compliance.

4) The District will review this matter with the Buffalo Fiscal Stability Authority ("BFSA") and take any corrective action that is recommended by BFSA.

5) Effective October 2005, the District began purchasing fuel at the lower of the State contract price or the District price. This is a better solution than the recommendation provided because as noted in the audit report, the District price has been lower than the State price in a number of instances.

6) The District has begun the planning process early in 2005 to have in place an independent internal audit function that fully complies with recent NYS legislation mandating that no later than July 1, 2006, each school district shall establish an internal audit function to be in operation no later than December 31, 2006. An expanded internal audit function was initially budgeted for the fiscal year beginning July 1, 2005 however; it did not survive the final budget cuts.

7) The District did have an audit committee in place but its meetings were suspended during the implementation of MUNIS. The District subsequently formed an Audit Advisory Committee ("AAC") that held its first meeting May 17, 2005. As required by Chapter 263 of the Laws of 2005, this committee was established by a board resolution prior to January 1, 2006. The City Auditor is invited to all AAC meetings and was provided with the working draft of the AAC charter which clearly states the AAC's responsibilities and specifies that the AAC reports to the Board of Education. The AAC will meet from time to time with the Finance and Operations Committee of the Board and it should be noted that the Finance and Operations Committee is a committee of the whole Board of Education. However, such meetings are not a substitute for meetings with the whole Board of Education. We do not feel that it is necessary to ask the Office of the State Comptroller to review the AAC structure.

8) The District has a process in place for responding to FOIL requests. Such requests are managed by the Office of Community Relations. The District did respond to the FOIL in question. However, the District did not have in its possession some of the information requested in the FOIL. Only the vendor could provide such information. This was made clear to the BTF but they persisted by making repeated written demands for such information.

9) In 2005, the District performed an exhaustive review of all transactions conducted with EIC and CATE which included all of the funds disbursed for the ATLAS initiative. Corrective action has been taken to ensure that there is adequate written documentation to support all such EIC/CATE transactions.

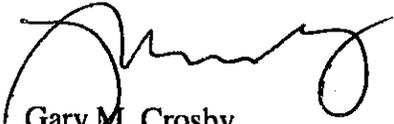
10) The Board has reviewed New York State Law with respect to Open Meetings and has received legal counsel.

11) The Board is aware of New York State law as it pertains to the replacement of a Board member.

12) The City Auditor's recommendation has been noted.

13) As noted in the audited financial statements which were cited in the audit finding, amounts exceeding the budget were due to year end entries associated with a change in accounting as required by the Governmental Accounting Standards Board.

Very truly yours,



Gary M. Crosby  
Chief Financial Officer

cc: Dr. James A. Williams Ed. D.  
Barbara Smith  
Dr. Catherine Collins  
Jack Coyle  
Janique Curry  
Vivian Evans  
Betty Jean Grant  
Ralph Hernandez  
Christopher Jacobs  
Florence Johnson  
Donald Van Every