

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

TO: THE COMMON COUNCIL: DATE: March 31, 2006

FROM: DEPARTMENT: Audit and Control

DIVISION: Audit

SUBJECT: [Audit of Board of Education
[July 1, 2003- December 31, 2005
[BOE: Responses
[Audit Follow-up to Response
[BOE Additional Information

PRIOR COUNCIL REFERENCE: (IF ANY) [March 21, 2006, Item#15

TEXT: (TYPE SINGLE SPACE BELOW)

The following sets of documents are included:

The Audit of Board of Education for the period July 1, 2003- December 31, 2005 Summary Council Item is included along with the Board of Education Responses to the Audit Findings is the first attachment.

These were filed together on the official Council Proceedings on the March 21, 2006, as Item #15 under the Comptroller's submissions. It was referred to Finance

Subsequently, the Comptroller issued an Audit Follow-up to the Board of Education Replies. "The Comptroller's Department issued a report based on the findings uncovered in our audit. Two specific findings are unresolved."

This should appear on the Council's April 7th Agenda.

The new document is from the Board, and is a "letter in response to the remarks included in the Summary section of the City of Buffalo Audit Report Follow-up."

In addition it is noted that:

These will be filed with the Annual Audit Report to the State Comptroller's Office in Albany, as well as to the State Education Department in Albany. This is pursuant the State Finance Law Reporting, Section 34-A. These will all be included in the audits on the Comptroller's Web

TYPE DEPARTMENT HEAD NAME: FRANK A. BELLIOTTI

TYPE TITLE: CITY AUDITOR/DEPUTY COMPTROLLER

SIGNATURE OF DEPARTMENT HEAD

Frank A. Belliotti

#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. 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 deminimus 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.

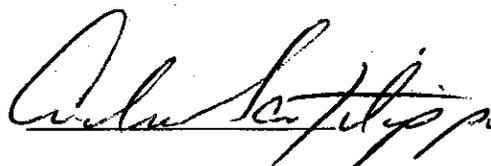
We recommend that the Board, in conjunction with the Superintendent, consider implementing an ordinance or Board policy on Living Wage for consistency with the City's policy.

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





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

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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.

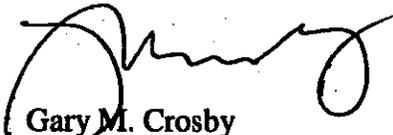
- 2) The District made certain organizational changes in 2005 that will take effect as soon as the new Associate Superintendent of Budget is in place on February 15, 2006. As part of this reorganization, the Purchasing Department will report directly to the CFO.
- 3) No action necessary. Audit finding 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



BUFFALO PUBLIC SCHOOLS

JAMES A. WILLIAMS Ed.D.
SUPERINTENDENT

GARY M. CROSBY
CHIEF FINANCIAL OFFICER
CHIEF OPERATING OFFICER

March 22, 2006

Andrew A. SanFilippo
Comptroller
Audit and Control
1225 City Hall
Buffalo, N.Y. 14202

Re: City of Buffalo Audit Report Follow-Up

Dear Mr. SanFilippo,

The purpose of this letter is to respond to the remarks included in the Summary section of the City of Buffalo Audit Report Follow-Up.

In the Summary section, the statement is made that two specific findings are unresolved. After a call to the City Auditor to clarify the two specific findings in question, it is our understanding that the two specific findings are covered by your Recommendation #9 which pertains to the lack of supporting detail for invoices from CATE, a non-profit affiliate of the University of Buffalo, for the ATLAS initiative. The City Auditor indicated that there are no unresolved issues with respect to the FOIL Recommendation #8.

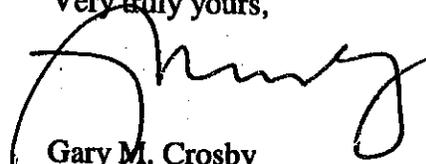
The Summary states that *"Not only has the BOE not explained why they have paid invoices on a contract without the proper documentation, but in its' reply has not asserted that it would research the invoices and immediately cease making any future payments until such documentation is forthcoming."* Recommendation #9 does not suggest anywhere that we should research invoices and cease making payments. If you had made such a recommendation we would have responded formally to it. In fact, during the February 6, 2006 Exit Conference with the City Auditor to review the draft City Audit Report, we explained the corrective action taken by the District with respect to the CATE transactions. Specifically, the District had reviewed every purchase order issued to CATE since 2002 together with supporting documentation such as CATE invoices, Board approvals and BFSAs approvals. We also reviewed certain grant documents as the majority of transactions and amounts were funded by grants. We advised the City Auditor in the Exit Conference that by our own findings the documentation was deemed to be insufficient and corrective action was being taken to ensure appropriate documentation for any future transactions.

On November 30, 2005, at the Finance and Operations Committee of the Board of Education, I reported to the Committee that there was a lack of adequate documentation for CATE transactions and that corrective action was being taken. In fact, the District was no longer making payments to CATE until such time as a contract was agreed to that clearly documented the services to be rendered, the basis for invoicing fees and the expected outcomes that will be used to measure the value of the services. Recently, a contract was finalized for specific services to be provided by CATE and it has been approved by the Board of Education and the Buffalo Fiscal Stability Authority.

In conclusion, we had already researched all the invoices involved for all transactions with CATE, not just those you point out in your audit. We also stopped making payments to CATE in July 2005. The City Auditor was made aware of this at the February 6, 2006 Exit Conference.

If you need any further information, we will be happy to provide it.

Very truly yours,



Gary M. Crosby
Chief Financial Officer
Chief Operating Officer