



Little Flower Union Free School District Tuition

Report of Examination

Period Covered:

July 1, 2014 — June 30, 2015

2015M-233



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2015

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Little Flower Union Free School District, entitled Tuition. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Little Flower Union Free School District (District) is located in the Town of Riverhead in Suffolk County. The District is governed by the Board of Education (Board), which is composed of seven members appointed by the Little Flower Family and Children's Services' Board of Directors and two members appointed by the New York State Commissioner of Education. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District is a special act public school established in 1972 by the New York State Legislature to provide educational services to students with special education needs. The District is subject to the same powers and privileges as a union free school district under New York State Education Law. There are 10 special act school districts in New York State; the District is the only one on Long Island.

The District serves the educational needs of the residents of the Little Flower Residential Treatment Center and day students from local school districts recommended by their Committees on Special Education. The District has approximately 120 students and 70 employees. The District's 2014-15 expenditures totaled \$6,782,396, funded almost entirely by billing tuition to the students' home school districts or county of residency or both.

Objective

The objective of our audit was to review tuition billing and collection procedures. Our audit addressed the following related question:

- Is the District billing and collecting tuition in a timely manner?

Scope and Methodology

We examined the District's tuition billing and receipt records for the period July 1, 2014 through June 30, 2015.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they plan to initiate corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Tuition

As a special act public school, the District receives almost all of its revenue from tuition payments. Therefore, timely billing of tuition and receipt of payment is crucial to the District's financial condition. It is important that the District have contracts in place with each school district or county so that each party understands the tuition rates and other terms and conditions for services the District will provide to the students.

The New York State Education Department (SED) sets tuition rates based on a cost reimbursement formula. Tuition is charged to the home school district or county that placed the student. The District bills tuition on a monthly basis. The District is responsible for submitting retroactive bills for the difference between the old and new tuition rates, upon SED's approval of rate changes. Approvals for tuition rate changes may not be received for up to two years after services are rendered. When the final tuition rate is published and once the District has reconciled the tuition due under the old and new tuition rates, the District must either bill the difference or issue refunds to the home school districts or counties.

The District has contracts with 39 of 43 home school districts or counties stating the District will bill tuition monthly and that payment is due within either 30 or 60 days. Because it does not have a contract with four school districts or counties, disputes over payment terms or the District's entitlement to amounts billed could occur. We reviewed all 82 invoices totaling \$1,169,707 for September 2014 and March 2015¹ and determined that the District billed all of these amounts in a timely manner. In addition, 65 invoices (79 percent) totaling \$1,051,780 were paid within 60 days; all but one of the invoices, totaling \$9,325, had been paid by June 30. District officials explained that payments are often delayed at the beginning of the school year while contracts are being negotiated.

While the District has implemented procedures to ensure that nearly all current year invoices were collected within the fiscal year, it continues to record an accounts receivable balance of \$859,227 consisting of amounts over 90 days past due as of June 30, 2015. Amounts due from Suffolk County totaling \$847,663 for fiscal years 2000-01 through 2014-15 represent 99 percent of the District's accounts receivable. As part of the District's effort to collect the amounts due from Suffolk County, it issued a letter dated May 12, 2015 in which it reduced the

¹ The months representing the mid-point of each semester

amount due for years prior to 2007-08 by \$275,522, leaving a past due balance of \$572,141. The District continues to seek collection of the amounts owed by Suffolk County.

Recommendations

District officials should:

1. Ensure the District has a written agreement including specific payment terms with all home school districts and counties.
2. Continue efforts to collect all past-due amounts billed.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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School Superintendent

Ann O. Romeo
Assistant Superintendent for Business



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November 13, 2015

Ira McCracken, Chief Examiner
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NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, New York 11788-5533

Dear Mr. McCracken:

This is the written response of Little Flower Union Free School District to the "DRAFT" Report of Examination, titled "Tuition" for the covered period of July 1, 2014 to June 30, 2015. The Board of Education and District Administration have reviewed the Report.

On behalf of the Little Flower UFSD Board of Education, I would like to thank the audit team for their professionalism and thoroughness during the audit process and for their courteousness to all of the District personnel and students while here at Little Flower. As a Special Act Public School, Little Flower provides instruction to young people who are often challenged by the education process and who on any given day may need to be redirected towards more appropriate behavior. We appreciate when visitors to the District are able to recognize the difficulties that these students face and can accept them as the individuals that they are.

The Board of Education and the District Administration seek to adhere to best-practices in business and financial management and we respect the purpose of the Comptroller's Audit to evaluate our efforts in achieving this goal. We are pleased to note that the Audit Team found no evidence of fraud, waste or wrongdoing in the report.

Below are our comments with respect to the recommendations noted in the report.

1. *"Ensure the District has a written agreement including specific payment terms with all home school districts and/or counties."*

We are in agreement that written agreements between the sending entities and the District should be in place. District staff send out contracts in the spring each year (or as soon as a student is accepted) and make every effort to ensure that fully executed contracts are returned by the sending districts. Tuition billing is processed at the end of each month, or when a new rate is certified, and open invoices are reviewed on a monthly basis with an aging report of receivables sent to the Board. Invoices not paid in a timely fashion are followed up on by contacting the sending district/ entity and determining the reason for the delay.

Going forward the District will ensure that all contracts include payment terms and will obtain, to the extent possible, fully executed contracts with all sending districts and entities.

2. *"Continue efforts to collect all past due amounts billed."*

The District agrees that we should continue efforts to collect all past due amounts, and we make collecting tuition revenues a priority. As of October 31, 2015 the District had received payment for 99.8% of the 2014-15 tuition billing, with \$13,546 to be collected.

A significant portion of past due amounts are related to Suffolk County. Accounts receivable from Suffolk County as of June 30, 2015 totaled \$515,772. Payments of \$256,717 were received after year end, leaving an unpaid balance at October 31, 2015 of \$259,055. Of that balance, \$119,666 is related to recent years, is in the process of payment and/or is pending rate adjustment. \$139,389 is the remainder of an old receivable from prior to 2006-07 which was reviewed and rebilled to Suffolk County.

The District will continue to seek collection of both the old and more current amounts owed by Suffolk County. All unpaid balances from all sending school districts and entities will be pursued and every effort made to obtain payment in a timely and reasonable manner.

We appreciate the recommendations of the audit team and welcome the opportunity to improve our practices and procedures.

Sincerely,

Cynthia Stachowski
Superintendent of Schools

Dedicated To The Education Of All Children

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to review tuition billing and collection procedures for the period July 1, 2014 through June 30, 2015. To achieve our audit objective and obtain valid evidence, we performed the following procedures:

- We interviewed District officials and staff to obtain an understanding of the billing and collection process.
- We compared the District's student roster which listed the students' home districts or county of residence or both to the corresponding contract with the District to ensure a valid contract between each existed.
- We reviewed billing and payment terms in contracts with Suffolk County and each school district sending students to the District.
- We selected two months from the audit period, each representing the mid-point of a semester, and reviewed all tuition invoices to determine if they were created in a timely manner. We then reviewed the cash receipt log to determine if payments were made in a timely manner.
- We reviewed an aged receivable report and corresponding detail reports to determine in which years receivables over 90 days originated and to determine the reason for any large receivables.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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