

THOMAS P. DiNAPOLI  
STATE COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

January 20, 2011

Mr. Edward McCormack  
Director  
St. Francis de Sales School for the Deaf  
260 Eastern Parkway  
Brooklyn, NY 11219

Re: Report 2010-F-40

Dear Mr. McCormack:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of St. Francis de Sales School for the Deaf to implement the recommendations contained in our audit report, *Selected Financial Management Practices* (Report 2008-S-160).

**Background, Scope and Objectives**

St. Francis de Sales School for the Deaf (St. Francis) is located in Brooklyn, New York. It is one of 11 private schools in New York State that receive operating aid directly from the State to provide educational services for disabled students pursuant to Section 4201 of the State Education Law (Law).

When procuring goods and services, St. Francis should follow guidance from the State Education Department (SED) based on Section 103 of the General Municipal Law. SED's guidance states that schools, such as St. Francis, should solicit bids by advertising public works projects of \$20,000 or more and for purchases of goods or services of \$10,000 or more. A public works project designation would apply for projects that include both labor and materials.

St. Francis is governed by a seven member Board of Trustees (Board). According to its by-laws, the Board is responsible for the general management and control of the school's financial and educational affairs. St. Francis' Director (Superintendent) is responsible, along with other administrative staff, for the day-to-day management of the school under the direction of the Board.

During the 2009-10 school year, St. Francis had an enrollment of 103 students served by 96 full-time and nine part-time staff. St. Francis received approximately \$9.3 million in State funds during the same period.

Our initial audit report, which examined the system of controls over procurement, cash disbursements and payroll, was issued on September 10, 2009, and covered the period July 1, 2007 through January 23, 2009. The objective of our follow-up was to assess the extent of implementation, as of September 29, 2010, of the 13 recommendations included in our initial report.

### **Summary Conclusions and Status of Audit Recommendations**

St. Francis de Sales officials have made significant progress in correcting the problems we identified in the initial report. However, improvements are still needed. Of the 13 prior audit recommendations, 10 recommendations have been implemented, two recommendations have been partially implemented and one recommendation has not been implemented.

### **Follow-up Observations**

#### **Recommendation 1**

*Routinely discuss matters relating to procurement, payroll, or other financial operations and document results in the Board minutes.*

Status - Implemented

Agency Action - School officials advised us that they routinely discuss matters relating to procurement, payroll, and other financial operations. During our follow-up review, we reviewed the Board minutes for the eight-month period of November 2009 through June 2010, and found that these discussions were documented.

#### **Recommendation 2**

*Enforce policies for less-than-arms-length transactions and maintain annual written disclosures of business arrangements between Board members or School employees and the School or related parties.*

Status - Implemented

Agency Action - During our review, we found that school officials have developed and implemented a comprehensive conflict of interest policy. Consequently, they now maintain each Board member's and management employee's annual disclosure statement. School officials advised us, and we were able to verify, that the school no longer has any less-than arms-length transactions.

**Recommendation 3**

*Implement external auditor recommendations promptly to correct internal control weaknesses.*

Status - Implemented

Agency Action - We found that school officials have established an Audit and Finance Committee to ensure that the recommendations of the external auditor are promptly implemented. We tested a sample of four of the eight recommendations contained in the external auditor's Management Letter dated October 28, 2008, and found that all four recommendations had been implemented.

**Recommendation 4**

*Revise the Board's by-laws to specify frequency of Board meetings, establish limits on Board members' tenure, and establish Board responsibility for oversight of the contracting process.*

Status - Partially Implemented

Agency Action - School officials advised us that they revised the Board's by-laws to specify the frequency of Board meetings, establish limits on Board members' tenure, and establish Board responsibility for oversight of the contracting process. In September 2010, school officials stated that Board members anticipated voting on the revised by-laws at their November 2010 Board meeting. As of January 11, 2011, the Board has not voted on the revisions to the by-laws.

**Recommendation 5**

*Monitor the School's compliance with SED guidance and with applicable policies and procedures.*

Status - Partially Implemented

Agency Action - School officials have established an Audit and Finance Committee to help them monitor compliance with SED's guidance and with applicable policies and procedures. We saw evidence that Board members participated in the distribution of paychecks to employees; however, we found no evidence that the Board monitored the procurement practices of the school (e.g. competitive bidding process).

**Recommendation 6**

*Comply with SED guidance for competitive procurements for goods and services over \$10,000 and public works projects over \$20,000.*

Status - Not Implemented

Agency Action - We reviewed a sample of five purchases of goods and services that were each valued at more than \$10,000 and public works projects valued at more than \$20,000. Our review found that school officials did not competitively bid two of the five purchases. These two purchases were for payroll services and household/janitorial supplies.

#### **Recommendation 7**

*Establish written policies for purchases of goods and services that do not require competitive bidding, as required by SED.*

Status - Implemented

Agency Action - Our review found that school officials have developed and implemented written policies and procedures for purchases of goods and services that do not require competitive bidding.

#### **Recommendation 8**

*Establish written policies and procedures for processing cash disbursements, monthly credit card statements, and petty cash payments. Incorporate SED guidance into the written policies and procedures and ensure adequate controls are put into practice.*

Status - Implemented

Agency Action - During our review, we found that school officials have established comprehensive written policies and procedures for processing cash disbursements, monthly credit card statements, and petty cash payments. We also determined that school officials have incorporated SED's guidance into their written policies and procedures and have ensured that adequate controls were put into practice.

#### **Recommendation 9**

*Use the School's tax-exempt certificate, whenever practical, when making School-related purchases.*

Status - Implemented

Agency Action - St. Francis officials advised us that they use the school's tax-exempt certificate when making school-related purchases. We tested a sample of five purchases and determined that the school had not paid sales taxes on the five purchases.

#### **Recommendation 10**

*To the extent possible, separate the personnel, timekeeping, and payroll functions in the School. If functions cannot be separated, establish compensating controls where needed.*

Status - Implemented

Agency Action - We found that school officials have established compensating controls over the personnel, timekeeping, and payroll functions. These controls include an annual review of personnel records by outside auditors, quarterly timekeeping reports that are distributed to supervisors, and Board members participating periodically in the distribution of paychecks to employees.

### **Recommendation 11**

*Require all payroll changes to be processed solely upon submission of written authorization from the appropriate School officials. Retain this written authorization for payroll changes in employee personnel files.*

Status - Implemented

Agency Action - We reviewed a sample of five payroll changes. Based upon this review, we determined that payroll changes were processed upon submission of written authorizations from the appropriate school officials. Further, we found that school officials have retained the written authorizations in the employees' personnel files.

### **Recommendation 12**

*Pay for overtime only when employees' requests to work extra hours have been approved in writing.*

Status - Implemented

Agency Action - St. Francis officials advised us that they pay for overtime only when employees' requests to work extra hours have been approved in writing. We reviewed a sample of overtime payments for five employees. Our review found that the overtime payments were approved in writing for all five employees.

### **Recommendation 13**

*Require formal written Board approval for all cost of living increases to employee salaries.*

Status - Implemented

Agency Action - During our follow-up review, we found formal written documentation from the Board approving the cost of living increases to employee salaries for the 2009-10 school year.

Major contributors to this report were Stephen Lynch, Rita Verma, Jonathan Bernstein, and Brenda Maynard.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We thank the management and staff of St. Francis de Sales School for the Deaf for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Kenrick A. Sifontes  
Audit Manager

cc: James Conway, State Education Department  
Tom Lukacs, Division of the Budget