



Enlarged City School District of Troy

Internal Controls Over Information Technology and Payroll

Report of Examination

Period Covered:

July 1, 2004 - January 31, 2006

2006M-62



ALAN G. HEVESI

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State of New York Office of the State Comptroller

Division of Local Government Services and Economic Development

July 2006

Dear School District Officials:

One of the Office of the State Comptroller's top priorities is to identify areas where school districts can improve their operations and provide guidance and services that will assist school district officials in making those improvements. Further objectives are to develop and promote short-term and long-term strategies to enable and encourage school district officials to reduce costs, improve service delivery and to account for and protect their school districts' assets.

The reports issued by this Office are an important component in accomplishing these objectives. These reports are expected to be a resource and are designed to identify current and emerging fiscally related problems and provide recommendations for improvement. The following is our report on the Enlarged City School District of Troy — Internal Controls Over Information Technology and Payroll.

This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the General Municipal Law. The report contains opportunities for improvement for consideration by the Board of Education.

If we can be of assistance to you or if you have any questions concerning this report, please feel free to contact the local regional office for your county listed at the back of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government Services
and Economic Development*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Enlarged City School District of Troy (District) is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District employs approximately 720 employees including substitutes and its annual payroll is approximately \$35 million. The payroll clerk processes and prepares payroll on the 15th and 30th day of every month for hourly and salaried employees.

The District has experienced change in the composition of its senior District management during the audit period. Most notably, the former Superintendent, Armand Reo, retired on December 31, 2004, after serving in that capacity since July 1, 1999. Additionally, Linda Rizzo, the former Associate Superintendent, retired on June 30, 2005, after serving in that capacity since July 1, 1999.

The District currently contracts for its information technology support with an outside vendor, Open Systems Technology. The District has approximately 3,200 individual computers and each school has its own local area network (LAN). The District uses a financial management system known as "Finance Manager" to process its financial transactions.

Scope and Objectives

The objectives of our audit were to determine if the District has implemented proper internal controls over the payroll process and access to the District's information technology (IT) for the period July 1, 2004 to January 31, 2006. However, we audited the time accrued for retirement payouts made to school district officials from July 1, 1999 to January 31, 2006. We focused our efforts relating to payroll on the lack of segregation of duties over the payroll process and the retirement payouts for certain staff during the audit period. We focused our efforts relating to IT on controls over assigning network access passwords and controls over administrative access rights to the financial management system. Our audit addressed the following related questions:

- Has the District properly implemented controls over user passwords used to access the computer network?

- Has the District properly assigned administrative access to Finance Manager to reduce the likelihood of management override of controls?
- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard district assets?

Audit Results

Our audit of IT disclosed weaknesses in the password controls used to access the District's computer network. Further, the audit disclosed weaknesses in assigning user rights for the financial management system. The District has assigned certain users in the business office with administrative rights, and we found that certain other users with access to the system have the ability to give themselves administrative rights. These rights allow these users unlimited access throughout the system. This access can allow these users to view, modify, edit and create financial activity/transactions in functions in which they should not have access; and create management overrides. These privileges weaken segregation of duties and the internal controls over the financial management system.

Our audit of payroll-related expenditures revealed that the District allowed the former Superintendent to cash in 11 unused vacation days in the amount of \$5,450 in January 2005. This payment was not authorized in his Board-approved employment contract. The Board passed a resolution to retroactively ratify the payment for the unused vacation days at the conclusion of our audit fieldwork in April 2006. We also noted deficiencies in the leave records maintained for school officials and the process used for determining the payment of unused leave upon retirement. Based on our analysis of leave activity, we determined that the former Associate Superintendent was paid \$5,010 for vacation days that were in excess of her available leave balance. We found that the District did not have a standard procedure for documenting the calculation and supervisory approval of employees' retirement payments. Further, we identified weaknesses in the segregation of duties over payroll and authorized signatures on paychecks. Other than the overpayments indicated above, we found no exceptions during our testing of payroll.

Comments of District Officials

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 planned to initiate corrective action. Appendix B includes our comments on two issues raised in the District's response letter.

Introduction

Background

The Enlarged City School District of Troy (District) is located in and around the City of Troy, in Rensselaer County. The District is governed by the Board of Education (Board) which comprises nine elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are nine schools in operation within the District, with approximately 4,830 students. The District's budgeted expenditures for the 2005-06 fiscal year are approximately \$70 million, funded primarily with State aid, real property taxes, and grants. The District's major expenditures are employee salaries and related fringe benefits.

The District employs approximately 720 employees including substitutes, and its annual payroll is approximately \$35 million. The payroll clerk processes and prepares payroll on the 15th and 30th day of every month for hourly and salaried employees.

The District has experienced change in the composition of its senior District management during the audit period. Most notably, the former Superintendent, Armand Reo, retired on December 31, 2004, after serving in that capacity since July 1, 1999. Additionally, Linda Rizzo, the former Associate Superintendent, retired on June 30, 2005, after serving in that capacity since July 1, 1999.

The District currently contracts for its information technology support with an outside vendor, Open Systems Technology. The District has approximately 3,200 individual computers and each school has its own local area network (LAN). The financial data is stored on a separate server and is only accessible by the administrative staff. The District uses a financial management system known as "Finance Manager" to process its financial transactions.

Objectives

The objectives of our audit were to determine if the District has implemented proper internal controls over the payroll process and access to the District's information technology (IT). We focused our efforts relating to payroll on the retirement payouts for certain staff during the audit period and the lack of segregation of duties over the

payroll process. We focused our efforts relating to IT on controls over assigning network access passwords and controls over administrative access rights to the financial management system. Our audit addressed the following related questions:

- Has the District properly implemented controls over user passwords used to access the computer network?
- Has the District properly assigned administrative access to Finance Manager to reduce the likelihood of management override of controls?
- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard district assets?

**Scope and
Methodology**

During this audit we examined the internal controls over payroll and information technology (including the financial management system) of the District for the period July 1, 2004 to January 31, 2006. However, we audited the time accrued for retirement payouts made to school district officials from July 1, 1999 to January 31, 2006.

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 C of this report.

**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 planned to initiate corrective action. Appendix B includes our comments on two issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, the Board should prepare a plan of action that addresses the recommendations in this report and forward the plan to our office within 90 days. For guidance in preparing your plan of action, the Board may refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*. We encourage the Board to make this plan available for public review in the District Clerk's office.

Information Technology

The use of information technology affects the fundamental manner in which the District initiates, processes, records, and reports transactions. The extent to which the District uses computer processing in significant accounting applications, as well as the complexity of that processing, determines the specific risks that information technology poses to the District's internal control. The District's widespread use of information technology presents a number of internal control risks that must be addressed. These risks include unauthorized access to data, unauthorized changes to data in master files, and potential loss of data. Controls that the District can use to address these risks consist of a combination of automated controls and manual controls.

The District uses a software package known as "Finance Manager" to process its financial transactions. Our audit disclosed weaknesses in controls over the District's computer operations.

Network Passwords

Access controls should provide reasonable assurance that computer resources are protected from unauthorized modifications. To control electronic access, a computer system or application needs a process in place to identify and differentiate among users. User accounts identify users and establish relationships between a user and a network, computer, or application. These accounts are created by the system administrator and contain information about the users, such as passwords and access rights to files, applications, directories and other computer resources.

To access a network, computer or application, users are required to enter their user name and authentication. The computer then compares this information with its database of user accounts. If a match is found, the computer then gives the user access to those resources stipulated in their user account. Fingerprints or smartcards can authenticate users, but the most common way to authenticate users is by passwords. It is essential that system passwords be adequately established and safeguarded. Unauthorized users often commandeer legitimate user accounts to gain access to a system. Once on the system, unauthorized users may be able to manipulate a users' account with administrator rights that allows full access to install programs, download or destroy data, and the ability to change log files to cover their tracks. This unauthorized access can be detrimental to an organization's information technology capabilities.

We found that the District has an inadequate system of controls over the assigned passwords used by users to access the District's computer network. We also found that the Board has not established policies and procedures for the creation and administration of the users' network passwords.

Strong passwords contain combinations of upper- and lower-case letters, numbers, and punctuation, and are at least eight characters long. They should not contain words found in the dictionary; hardware or software names; repeated letters or numbers; addresses; phone numbers; or the users' name, family names, or pets' names. Strong passwords can help prevent hackers from impersonating users and can thereby help prevent the loss, exposure, or corruption of sensitive information.

The District's network administrator provides employees with a user name and password when they are first granted access to the network. The assigned user names and passwords are basic and easily deciphered. The District does not require users to change passwords periodically. Once on the system, all users are allowed to use their initial assigned password for the entire period of their employment. This weakness increases the risk that unauthorized users will be able to access the District's computer system. To protect confidentiality, users should change passwords every 30 to 90 days. Most network and operating system software packages allow administrators to set a maximum age for passwords, after which they expire if not changed.

Finance Manager Administration

To ensure proper segregation of duties and internal controls the computer system should allow access to users for certain functions based on their job descriptions and responsibilities. Having access controls in place prevents users from being involved in multiple aspects of financial transactions. Currently, the District has two business office employees who are assigned administrative access rights to Finance Manager. Both the Treasurer and the bookkeeper are able to create a new user, update the user's access rights, and perform other administrative functions including management overrides.

Based on this weakness, we reviewed all users that had administrative access within Finance Manager. We found that in addition to the Treasurer and bookkeeper, there were six users who had the ability to update their own user rights, giving them access to modules in the software that they should not be allowed to change. District officials thought the computer software had restricted access for these users; thus, they were not aware that these users could change their own access rights. The users in question were the Superintendent, the business manager, the internal claims auditor, the external auditors, a

former IT director, and Northeastern New York Regional Information Center – the District’s software support. We also found that the Board did not implement policies and procedures for the creation of Finance Manager user accounts and access rights to the financial software system.

An administrator has the ability to add new users as well as change users’ passwords and rights. With this ability, administrators are able to control and use all aspects of the software. A good system of controls would have segregation between the duties of administering access to the financial software and the business office function.

An audit log is a record of all of the changes a user performs in the software, what computer the user made the changes from, and the time and dates the changes were made. Finance Manager has an audit log in place. We reviewed the user activity reports from February 2005 to January 2006, to document all activity of the individuals who had administrative rights or the ability to change their rights. Our testing did not reveal any unusual activity by the users who had heightened privileges through Finance Manager. An independent, periodic review of these audit logs would ensure that users are not performing any duties that are not part of their job description.

Recommendations

1. The Board should establish and monitor policies and procedures over the administration of user accounts, including:
 - Requiring strong network access passwords and training users on how to choose and secure passwords
 - Requiring new users to change their initial passwords, and all users to change their passwords periodically
 - Detailing how and when new users are added to the system, and when old users are removed from the system.
2. District officials should work with the Finance Manager software company to restrict administrator access to the financial management system.
3. District management should approve a user’s access rights to Finance Manager.
4. The Board should designate an employee who is independent of the daily business office operation to be the Finance Manager administrator.

5. The internal auditor should periodically review the audit logs generated by Finance Manager to ensure that employees are performing work consistent with their job duties.

Payroll

One key objective for internal controls over payroll processing is to ensure that employees are paid wages and salaries, and provided benefits, to which they are duly entitled. Internal controls for payroll normally consist of written policies and procedures that describe employee responsibilities in preparing and disbursing payroll, as well as written Board authorization for salaries, wages and fringe benefits. An important component of any internal control system is proper segregation of duties, that ensure that no one person controls all phases of a transaction. Another important component is management oversight.

Unauthorized Payment for Unused Vacation Days

Documentation of the Board's authorization of salaries, wages and fringe benefits in writing, by resolution, policy document, or negotiated employee contract is an important control over payroll and fringe benefit expenditures, because it communicates the Board's intent to the officers and employees who must execute the District's procedures.

The District provided salary and benefits to Armand Reo, the former Superintendent and Linda Rizzo, the former Associate Superintendent pursuant to written employment contracts. Reo's last employment contract allowed him to receive an annual payment for up to 10 unused vacation days at the full daily rate. Upon his retirement in December 2004, Reo received a payment for 10 unused vacation days in accordance with his contract. In January 2005, Reo received a payment of \$5,450 for 11 additional vacation days. The only supporting documentation provided was a note from Reo to the interim Superintendent that stated he was unable to take 11 vacation days in December because the Associate Superintendent was ill during that time period. In the note, Reo requested that he be paid for these 11 days, and stated that his request was "in keeping with the B.O.E. [Board of Education] wishes." We could not find any authorization in the Board minutes showing the Board's approval prior to this payment.

Because the Board of Education did not pass a resolution to amend Reo's contract or to allow him to cash in these 11 vacation days, he was not entitled to receive the \$5,450 payment under the terms of his employment contract. At the conclusion of our audit fieldwork, the Board passed a resolution on April 25, 2006 stating: "*BE IT RESOLVED, that the Board of Education, upon the recommendation*

of the Superintendent, hereby retroactively approves the payment to former Superintendent Armand Reo for three work days¹ and eleven unused vacation days in the amount of \$6,936.44.” Although the Board, in effect, ratified the \$5,450 payment to Reo more than a year after he received the payment, this situation demonstrates a weakness in internal controls which allowed the former Superintendent to receive compensation beyond what was called for in his employment contract without formal Board authorization.

Payments in Excess of Available Vacation Leave Balances

A good internal control system over payroll and employee benefits requires that officials maintain accurate and complete records for leave time that show all days earned, used or converted to cash, and remaining. It is important for District officials to have a process in place to document the determination of retirement payout amounts and supervisory approval thereof.

We noted deficiencies in the leave records maintained for Associate Superintendent Rizzo. Specifically, ending leave balances in the computerized leave records did not agree with beginning balances the subsequent year, and there were certain unexplained entries in the records. Due to the deficiencies in the leave records, we reviewed all vacation time earned, used and cashed in by Rizzo from July 1, 1999 to her retirement date in June 2005. Based on our analysis, we determined that Rizzo used or was paid for 11 ½ days more than she was entitled to. This resulted in an overpayment to Rizzo of \$5,010.

It appears that the District allowed Rizzo to cash in the maximum of 10 days of vacation leave allowed annually by her contract in June 2005, even though her leave record showed that she only had one half day available. Handwritten notes found in Rizzo’s personnel file question why she was allowed to cash in 9 ½ days over her available leave balance, but the payment was not stopped. We also identified errors in Rizzo’s leave record that resulted in her using two other vacation days beyond her available accrued balance.

We also found that the District does not use a standard form to show the calculation of retirement payouts, so in some cases it is difficult to tell how the District determined the amount to be paid. If accurate leave records were maintained and the District used a standard form and procedure to calculate the retirement payout, these overpayments may have been prevented.

¹ After receiving his final paycheck on December 30, 2004, Reo worked three days to help with the transition of the new interim Superintendent.

Lack of Segregation of Duties

An important principal of internal control requires that one person not have uncontrolled access to an entire processing cycle. It is important that the Board of Education establish a system of checks and balances over payroll so that one person does not exercise control over all or most parts of the process. Management should not allow one individual to perform the three key payroll duties of authorization (i.e., entering employee records and making changes in hourly and annual salary rates in the payroll software), recordkeeping, and asset custody (i.e., signing or distributing checks).

If it is not feasible for the District to adequately segregate duties, the Board should consider mitigating this internal control weakness by having someone independent of the preparation process perform a review of the completed payrolls. The review should, at a minimum, include random checks to verify that payrolls are based on actual hours or days worked or authorized leave time; verify that the Board of Education authorized the hourly rates or annual salaries used; compare net payroll checks to payroll journals; and to assess the payroll for reasonableness. Another mitigating control that can be used to verify payroll is a periodic payroll payout. A payroll payout requires employees to pick up their checks in person and to produce identification to verify their identity. This internal control procedure helps confirm the accuracy of payroll records by ensuring that individuals who receive paychecks are legitimate employees.

The District's payroll clerk was directly responsible for the following payroll duties: creating manual and computerized employee records, inputting all payroll changes, collecting time sheets, entering the hours worked or salaries paid, entering leave records and employee absences, posting expenditures to the subsidiary ledgers, preparing and signing paychecks using the business manager's computerized signature disk, disbursing paychecks to District buildings, and maintaining employee files.

The only segregation of duties included in the District's payroll system was that the department heads approved time sheets, and the payrolls were certified by the Superintendent and the business manager. However, the Superintendent and business manager stated they merely signed the payrolls and do not perform a meaningful review of the contents. The payroll clerk uses a signature disk with the business manager's signature to sign the payroll checks. Through discussions with District personnel, we found that the business manager does not properly safeguard the signature disk. The payroll clerk has access to the disk and can sign checks without the business manager being aware of the transaction.

The District has not incorporated mitigating controls in its payroll process. The District's payroll policy states that a periodic test will be conducted to verify the accuracy and appropriateness of District payrolls. However officials have not developed procedures for someone independent of the payroll process to verify the accuracy of final payrolls, or implemented periodic payroll payouts. District officials stated they have attempted to conduct a payroll payout in the past, but have met resistance from the faculty.

Concentrating key duties (i.e., authorization, recordkeeping and custody) with one individual weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected. Further, the Treasurer is the custodian of all school district moneys. As such, the Treasurer (or a Deputy Treasurer, if one is appointed) should sign all checks, or control the affixation of his or her facsimile signature on the checks. The payroll clerk should not use the business manager's signature disk to sign checks.

Because of the lack of segregation of duties over payroll, we tested the personnel records of 100 employees to verify that they were indeed employees of the district. In addition, we tested the accuracy of 50 employees' salaries, time cards, and mandatory deductions. For the same 50 people, we performed analytical reviews of each employees' earnings record for non-standard salary payments during the 2004-05 school year. We did not find any exceptions based on the testing we conducted.

Recommendations

6. The District should not provide officers or employees with any compensation or employee benefits without prior written approval of the Board.
7. The Board should review payments in excess of available leave balances made to the former Associate Superintendent and pursue collection of any overpayments of leave benefits to which she was not entitled.
8. The Board and Superintendent should ensure that District personnel maintain accurate and complete leave records for all District officers and employees who are entitled to leave benefits.
9. The District should develop a standard form for calculating an employee's retirement payout. The District should use this form for all employees, and District management should review and approve the calculation prior to payment.

10. The Board should assign payroll duties to employees in such a manner that incompatible duties are segregated. Payroll department employees should not distribute signed payroll checks to the District's buildings.
11. Someone independent of the payroll preparation process should review final payrolls to verify that they are based on actual hours or days worked, or authorized leave time; verify that the hourly rates or annual salaries used were authorized; compare net payroll checks to the payroll journals; and review the payrolls for reasonableness.
12. The District Treasurer (or Deputy Treasurer, if one is appointed) should sign all checks, including payroll, and control the signature disk used to affix their facsimile signature to the checks.
13. The District should conduct periodic payroll payouts where employees are required to show identification and sign for their paycheck. To ensure that all employees will sign, the District should provide notification to the employees and stop direct deposit for the pay period when the payout will be conducted.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages. The District's response makes reference to certain page numbers that were included in our draft report. The formatting of the final report resulted in changes in the report page numbering.

THE ENLARGED CITY SCHOOL DISTRICT OF TROY
2920 Fifth Avenue
Troy, NY 12180

James Matthews
Business Administrator

June 22, 2006

[REDACTED]

State of New York
Office of the State Comptroller
Division of Local Govt. Services & Economic Development
22 Computer Drive West
Albany, NY 12205

Dear [REDACTED]:

Enclosed please find a corrective action plan in response to our July 1, 2004 - January 31, 2006 Report of Examination:

Page 4

The overpayment to the former Associate Superintendent was caused by record keeping errors between the Zak House (office space housing Associate Superintendent) and the Business Office located at School #1 and not by Dr. Linda Rizzo, Associate Superintendent.

See
Note 1
Page 22

Dr. Rizzo reimbursed the District as soon as she was informed of the error. Had Dr. Rizzo known of the error in her records, she would have taken sick time rather than vacation time which would have resulted in her having the appropriate number of days to be reimbursed for as she had done the previous years in accordance with her contract. She was overpaid for 11.5 sick days and reimbursed the District \$65.00 per day for these days.

Page 5

Please change the third paragraph to read: The District employs approximately 720 employees **including substitutes** and its annual payroll is approximately \$35 million.

See
Note 2
Page 22

Page 9

The District agrees with the above recommendations. A letter has been addressed to the Internal Auditor requesting that he should periodically review the audit logs to ensure that employees are performing work consistent with their job duties.

The District has employed a Director of Technology who will implement regulations and procedures to address recommendations 1, 2, 3.

Log-ins and Passwords:

1. Provisions can be made to increase the security of the password used by teachers, staff and students to access the network infrastructure by lengthening the password and/or making it more complex. Faculty are currently encouraged to select new complex passwords, and receive training during the start of school year sessions on how to do so, if they are using a Windows operating system workstation. A policy to force passwords that contain numbers, symbols and letters can be implemented for these users.
2. It would make most sense to implement a policy of frequent password change for administrators and business office staff.
3. Faculty and Staff who use Macintosh computers are not able to change their passwords themselves- that option does not exist in those older operating systems. Each change would have to be done manually from their computer by a technician. This affects about 80% of the faculty and staff, and about 75% of the students.
4. Of course, students will not be able to maintain or change passwords in this way or to manage complex logins or passwords. Those who use Macintosh computers will not be able to make these changes at all. Common practice in many school districts throughout New York State and even for Department of Defense schools in the US and overseas, allows children in elementary schools are to retain their name as the login, and use a simple name or number as a password for the number of years the student is in elementary school. A policy that required frequent changes might greatly interfere with student ability to access the computers at all.
5. Records are maintained when users are added to the system, but we will have to create a system to monitor when individuals leave the system. The number of faculty, staff and student turn over between buildings and exiting the district can run as high as 50%, with students enrolling and leaving multiple times even with a 60 day period. We maintain historical records for attendance and transcripts even for those people who become inactive with our student and personnel systems, but do not maintain an inactive record for the e-mail or log-in accounts once they are disabled. Thus, once deleted, the individual is removed from network entirely.

Finance Manager

The District will work with the Capital Region BOCES NERIC to identify user requirements for additional security controls for administrator access to these systems. The District purchases the use of this software through a Cooperative Services Agreement with NERIC, and so does not work directly with the software firm for implementation or user requirements.

The District does have a NERIC employee who servers as the Finance Manager administrator and support technician. The District will determine a District employee outside of the business office to work with the NERIC employee who creates the password profiles for this system.

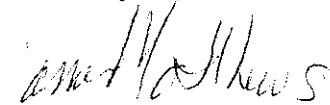
Page 13

The District agrees with the recommendations made, specifically items numbered 5-12.

Several months ago, the Board of Education approved the implementation of an administrative restructuring, providing an Office of Human Resources. This new administrative wing will allow the duties of payroll, salary calculations, inputting of employee information, determining salary step, and classification to be done by several individuals, thus adequately segregating the duties as recommended.

The Assistant Superintendent for Human Resources & Community Affairs, who has already been hired, is in the process of developing a system to ensure accurate and complete leave records are maintained.

Sincerely,



James Matthews
Business Administrator

cc: [REDACTED]

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

While recordkeeping errors are blamed by District officials for the overpayment to former Associate Superintendent Rizzo, the fact remains that Rizzo was overpaid \$5,010 for vacation time that was not available. Instead of reimbursing the District at the sick leave rate of \$65 per day, she should have reimbursed the District at the vacation rate of \$436 per day.

Note 2

We have made the change in the report as requested.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: cash receipts and disbursements, purchasing, payroll and personal services, and capital assets and consumable inventories.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents such as District policies and procedures manuals, Board minutes and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected payroll and information technology for further audit testing.

We examined the following records and reports in an effort to determine if the District had properly designed and implemented internal controls over payroll:

- Employee personnel files
- Collective bargaining agreements and individual employment contracts
- Leave time accrual records
- Payroll registers and employee earnings records generated from Finance Manager
- Salary notification letters and time cards for hourly and salaried employees
- Board of Education minutes.

We interviewed employees in the District's IT department and the business office concerning the network passwords and administrative rights in Finance Manager.

We printed out and reviewed the audit logs from February 16, 2005 through January 31, 2006 for employees with administrative rights or the ability to change their rights.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those District operations within our audit scope. Further, those standards require that we understand the District's management controls and those laws, rules and regulations that are relevant to the District's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures, as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report.

APPENDIX D

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DIVISION OF LOCAL GOVERNMENT SERVICES
AND ECONOMIC DEVELOPMENT

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