



**Amagansett
Union Free School District
Internal Controls Over
the Computerized
Financial System
Report of Examination**

Period Covered:

July 1, 2006 — August 31, 2007

2007M-289



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
COMPUTERIZED FINANCIAL SYSTEM	7
Recommendation	7
APPENDIX A Response From District Officials	8
APPENDIX B OSC Comments on the District's Response	10
APPENDIX C Audit Methodology and Standards	11
APPENDIX D How to Obtain Additional Copies of the Report	12
APPENDIX E Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2008

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 Amagansett Union Free School District, entitled Internal Controls Over the Computerized Financial System. 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 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 Amagansett Union Free School District (District) is located in the Town of East Hampton in Suffolk County. The District is governed by the Board of Education (Board) which comprises five 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 is one school in operation in the District, with approximately 110 students and 39 employees. The District's budgeted expenditures for the 2006-07 fiscal year were approximately \$6.7 million funded primarily with State Aid, real property taxes and grants.

The Business Office consists of one employee, who is also the District Treasurer. She performs all aspects of cash receipts and disbursements, purchasing, and payroll. All accounting transactions are processed on a computerized financial system designed specifically for school districts. For the fiscal year ending June 30, 2006, cash disbursements totaled approximately \$5.9 million¹ and payroll disbursements totaled approximately \$4.4 million.

Objective

The objective of our audit was to determine if controls over the access to the computerized financial system are appropriately designed. Our audit addressed the following related question:

- Are internal controls over the access to the computerized financial system appropriately designed to adequately safeguard District assets?

Scope and Methodology

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: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology. 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 did determine that risk existed in the controls over the computerized

¹ This figure includes all disbursements including capital projects and other related accounts.

financial system. Therefore, we examined internal controls over that area for the period July 1, 2006 to August 31, 2007.

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 had already or planned to initiate corrective action. Appendix B includes our comments on the 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, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Computerized Financial System

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 controls. The District's widespread use of information technology presents internal control risks that must be addressed. These risks include unauthorized access to data, changes to data in master files, and potential loss of data.

The computerized financial system should allow users only those access levels they need based on their job descriptions and responsibilities. Having access controls in place prevents users from being involved in multiple aspects of financial transactions. A system administrator has the ability to add new users as well as change users' rights. With this ability, administrators are able to control and use all aspects of the software. A good system of controls would segregate the duties of administering access to the computerized financial system from the Business Office function to reduce the risk that District financial information or resources could be misused.

We found that the District's Business Official/Treasurer has administrative access rights to the computerized financial system. This individual is involved in day-to-day Business Office operations and is significantly involved in financial transactions. With these broad financial responsibilities, she should not have the ability to control access to the system and determine how the system works. The Business Official should have only the rights she needs to perform her job duties.

Based on this control weakness, we examined all payments to the Business Official/Treasurer, the Superintendent and the District Clerk, including payrolls, direct payments and personal reimbursements to ensure that all amounts were properly approved and authorized. We did not find any exceptions.

Prior to the end of our field work, in October 2007, the system access rights of the Business Official/Treasurer were changed and a system administrator was appointed who is external to the Business Office.

Recommendation

1. District officials should regularly monitor the computerized financial system user access rights to ensure that employees have access to functions in the system that are consistent with their job duties.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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SUPERINTENDENT OF SCHOOLS
Dr. Judith S. Wooster

January 23, 2008

██████████, Statewide Unit
Binghamton Regional Office
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear ██████████:

On Thursday, January 17, 2008 at 11:00 A.M. ██████████ met with our school superintendent/principal and members of the district's Audit Committee to review the draft of the Amagansett Union Free School District: Internal Controls Over the Computerized Financial System Report of the Examination for the period July 1, 2006 to August 31, 2007.

We concur with the report although we recommend corrections. On page 4 the footnote includes school lunch. Since our school does not have a school lunch program, we suggest the reference to the school lunch be removed from the report.

See
Note 1
Page 10

Second, on page 6 in paragraph 5 the report notes that "Subsequent to fieldwork the system access rights of the Business Official/Treasurer were changed and a system administrator was appointed who is external to the Business Office." In fact, this change was made on the day we learned of the concern, October 19th, 2007, and not subsequent to the fieldwork. The auditors were here at that time and through November 7th. Please see the back up documentation herewith. Since accurate and accountable reporting is a goal of this process for both school districts and the Comptroller's Office, we request the phrase "subsequent to fieldwork" be omitted.

See
Note 2
Page 10

Very Truly Yours,



John Hossenlopp
President
Amagansett UFSD Board of Education

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The final report has been amended to remove the reference to disbursements from the school lunch fund.

Note 2

The final report has been amended to reflect that the corrective action took place prior to the end of fieldwork.

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: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology.

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 system 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 objective and scope by selecting for audit those areas most at risk. We selected the computerized financial system for further audit testing.

We reviewed the user access rights and permissions on the computerized financial system. We judgmentally selected users to determine if their user rights were appropriate. We interviewed employees in the District's Information Technology Department and the Business Office concerning the administrative rights to the computerized financial system. We also tested payments, both payroll and cash disbursements, made to District Officials and Business Office staff.

We conducted our performance audit in accordance with generally accepted government auditing standards (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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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Steven J. Hancox, Deputy Comptroller
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