



# Amityville Union Free School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — August 31, 2007

2008M-176



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

November 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 Amityville Union Free School District, entitled *Internal Controls Over Selected Financial Operations*. 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*



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The Amityville Union Free School District (District) is governed by the Board of Education (Board) which comprises seven 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 five schools in operation within the District, with approximately 2,790 students and over 500 employees. The District's general fund expenditures for the fiscal year 2006-07 were approximately \$64.8 million and budgeted expenditures for 2007-08 fiscal year were approximately \$69.6 million, which were funded primarily with real property taxes, State aid, and grants.

### **Scope and Objective**

The objective of our audit was to examine the adequacy of the District's internal controls over selected financial operations for the period July 1, 2006 to August 30, 2007. Our audit addressed the following related questions:

- Did Board members obtain the required training and monitor budget transfers in accordance with Board-adopted policy?
- Are internal controls over claims processing appropriately designed to ensure that claims are adequately audited prior to payment and that payments are made only for appropriate District purposes?
- Are internal controls over procurement procedures appropriately designed and operating effectively?
- Are internal controls over the District's information technology system appropriately designed to protect electronic data and equipment?

### **Audit Results**

We found that the Board needs to improve oversight to ensure that District assets are safeguarded. Some Board members did not obtain the required financial oversight training, budget transfers were made without the required Board approval, the Board did not develop a detailed claims audit policy, the District's purchasing policies and procedures were not complied with, and policies and procedures for information technology were inadequate.

We found that three of the seven Board members failed to obtain the required six-hour training of financial oversight, accountability, and fiduciary responsibilities within the first year of their election. The Board members' lack of commitment to improving their governance skills sets the wrong "tone at the top" which could influence employee attitudes toward rules and regulations that are designed to safeguard District resources and taxpayer moneys. Additionally, we found that District officials consistently made budget transfers prior to obtaining Board approval as required by the Board-adopted policy. We identified 27 budget transfers totaling \$456,464 that were made without proper Board approval in March and April 2007. Twenty-two of those transfers were not presented to the Board until two or three months after they were processed by District officials. Therefore, there is an increased risk that expenditures can exceed the annual budget that was prepared by the Board and approved by the voters.

The Board did not establish adequate internal controls related to the claims audit function. Our examination of the claims audit process disclosed that the Board did not establish any written procedures or job description detailing the claims auditor's duties. As a result, we found that the claims auditor did not have any guidance on the Board's expectations for auditing the District's claims and did not conduct a thorough audit of the claims. Although we did not identify any inappropriate payments, the claims audit control weaknesses prevent the Board from having adequate assurance that the claims that were approved by the claims auditor for payment were for valid District purposes, and were adequately itemized and authorized.

We also found that the District did not always adhere to the requirements of General Municipal Law or Board-adopted procurement policies because it did not obtain competitive bids for two purchases totaling \$115,860. Additionally, the District did not use competitive proposals to obtain services from nine professional service providers totaling \$894,262. Furthermore, the District paid five vendors a total of \$27,091 without obtaining written, faxed or telephone quotes as required by the Board-adopted policy. The failure to comply with General Municipal Law and Board-adopted policy during the procurement process increases the risk that goods and services may not be acquired at the lowest price and in the best interest of the District.

District officials have not developed policies and procedures to protect critical financial data and equipment. Our audit disclosed that server equipment is not protected from unauthorized access. As a result, critical financial data is subject to an increased risk of loss or misuse. We also found that passwords to access the District's network are not changed periodically. Additionally, the functions of the financial software administrator and the senior account clerk are not segregated. The senior account clerk sets up vendor accounts, records cash disbursements, and prints checks and is also the system administrator of the District's financial software. Furthermore, we found that District officials do not print or review audit trail logs to detect unauthorized access or external threats to data. Finally, the District has not developed a formal disaster recovery plan. Without a disaster recovery plan, the District's ability to resume normal operations with minimal loss to its systems and data is compromised.

### **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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated

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

# Introduction

## Background

The Amityville Union Free School District (District) is located in the Town of Babylon, Suffolk County. The District is governed by the Board of Education (Board) which comprises seven 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 five schools in operation within the District, with approximately 2,790 students and over 500 employees. The District's general fund expenditures for the fiscal year 2006-07 were approximately \$64.8 million and budgeted expenditures for 2007-08 fiscal year were approximately \$69.6 million, which were funded primarily with real property taxes, State aid, and grants.

The Board is responsible for instituting appropriate fiscal oversight to ensure that District funds are expended for valid District purposes. The Board appointed a claims auditor to audit and authorize claims for payment on its behalf. Claims totaled approximately \$29.5 million from the general fund expenditures in the 2006-07 fiscal year. The Board designated the Assistant Superintendent for Finance and Operation as the District's purchasing agent. Under the general supervision of the Superintendent, the purchasing agent is responsible for administering all purchase activities.

## Objective

The objective of our audit was to examine the adequacy of the District's internal controls over selected financial operations. Our audit addressed the following related questions:

- Did Board members obtain the required training and monitor budget transfers in accordance with Board-adopted policy?
- Are internal controls over claims processing appropriately designed to ensure that claims are adequately audited prior to payment and that payments are made only for appropriate District purposes?
- Are internal controls over procurement procedures appropriately designed and operating effectively?

- Are internal controls over the District’s information technology system appropriately designed to protect electronic data and equipment?

**Scope and Methodology**

During this audit, we examined the District’s internal controls over financial operations 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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated that they planned to take 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 GML, Section 2116-a (3)(c) of the 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 forwarded to our office within 90 days. 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.

## Board Fiscal Oversight

School board members are responsible for setting a “tone at the top” that, by example, reflects their commitment to upholding the public trust. This demeanor is the foundation of an internal control environment based on standards and rules that all District staff, as well as Board members, are expected to follow in safeguarding District resources. The Board has an essential responsibility to establish policies and oversee District procedures and practices to ensure that District moneys are expended prudently and in the best interest of the taxpayers. Board oversight includes monitoring of Business Office transactions for compliance with Board policies and obtaining the required financial oversight training.

The Board did not comply with Education Law regarding fiscal oversight training for Board members. When Board members do not comply with the mandated training requirement, their ability to provide adequate fiscal oversight can be compromised. We also found that budget transfers were not approved by the Board as required by the adopted policy. When the District’s budget transfer policy is not complied with, the Board’s ability to monitor the budget is compromised, and there is an increased risk that expenditures can exceed what the Board intended when they prepared the annual budget that was approved by the voters.

### Board Fiscal Oversight Training

School board members provide governing policies and an atmosphere of integrity that affect the rest of the District. Education Law requires that every member of a school district board of education who was elected or appointed for a term beginning on or after July 1, 2005 shall, within the first year of his or her term, complete a minimum of six hours of training on financial oversight, accountability, and fiduciary responsibilities. Upon completion of each course, the member is required to file a certificate of completion with the District Clerk.

Three of the seven Board members who served during the 2006-07 fiscal year did not complete the required six hours of training on fiscal oversight, accountability, and fiduciary responsibilities within the first year of their term. District officials informed us that these three Board members would take the required training soon, but we found that none of them had attended the additional training prior to the end of our fieldwork. Furthermore, these three Board members continued to serve the District during the fiscal years 2007-08 and 2008-09. The certificates for the four Board members who did attend the training were not filed with the District Clerk. Therefore, the District is not in compliance with this requirement.

The Board members' decision to not comply with the law and obtain the training could result in their failure to properly fulfill all of their financial oversight, accountability, and fiduciary responsibilities, placing the District at an increased risk of the waste, misuse, or theft of its cash assets. Further, the Board members' lack of commitment to improving their governance skills sets the wrong "tone at the top" which could influence employee attitudes toward rules and regulations that are designed to safeguard District resources and taxpayer moneys.

## **Budget Transfers**

It is the Board's responsibility to monitor and keep the District's expenditures within the total annual appropriations to guard against incurring expenditures in excess of budget appropriations. A budget transfer should be made before a line item in the budget is over-expended. Pursuant to the Commissioner of Education's Regulations, the Board may authorize the Superintendent to make budget transfers between line item accounts within set limits without Board approval.

In 2001, the Board adopted a transfer of funds policy which stated that "only the Board of Education has the authority to make transfers from one budget code to another" and that "there shall be no expenditures above the budget code without prior Board of Education approval." It further states that "when seeking Board approval for transfers, the Superintendent will identify the budget code from which the money is being transferred with a written explanation as to why excess funds are available in that code." However, the Board did not monitor this policy to determine if District management followed it.

We found that the District did not implement procedures to comply with the Board-adopted policy for the transfer of funds. The District processed budget transfers of approximately \$5.5 million during the 2006-07 fiscal year prior to receiving the Board's approval as required by the policy. The District uses a form titled "transfer of funds" to document budget transfer requests and approvals. The policy requires the Superintendent to provide a written explanation for the transfer request and the reason the funds are available to be transferred on the form. However, the form does not require the Superintendent's approval as stated by the Board's policy. Instead, it requires the signature of the Department/Building Administrator who is making the request, and the Assistant Superintendent for Finance and Operations to approve the request.

As a result of this weakness, we reviewed 27 budget transfers totaling \$456,464 that were made in March and April 2007 to determine if and when they were presented to the Board for approval. We found that all 27 transfers were made prior to obtaining the

Board's approval. Five transfers totaling \$11,595 were presented at the next monthly Board meeting after they were made. However, the remaining 22 transfers totaling \$444,869 were presented to the Board two or three months after the transfers were made. For example, a transfer for \$300,000 that was made on April 20, 2007 was signed by the department head and the Assistant Superintendent for Finance and Operations, but was not presented and approved by the Board until June 13, 2007. When the District's budget transfer policy is not complied with, the Board's ability to monitor the budget is compromised, and there is an increased risk that expenditures can exceed what the Board intended when they prepared the annual budget that was approved by the voters.

## **Recommendations**

1. All Board members should obtain the necessary training mandated by Education Law and file a certificate of completion with the District Clerk.
2. District officials should obtain the Board's approval prior to transferring funds between budget codes or amend its policy to authorize the Superintendent to make transfers within set limits without Board pre-approval.

## Claims Auditing

Education Law requires the Board to audit all claims against District funds before authorizing the Treasurer to pay them. The Board can appoint a claims auditor to perform this function on its behalf. The claims auditor must verify whether claims are valid, necessary and authorized District expenditures, ensure that the proper documentation and itemization are provided for each claim, confirm that the District received the goods and/or services described in the claim, and verify that the claim is mathematically correct. The Board must provide the claims auditor with a job description and other guidance to communicate the claims auditor's responsibilities and the Board's specific expectations of the claims audit function.

The Board appointed a claims auditor to audit claims on their behalf. However, the Board has not adopted a policy, developed written procedures or guidelines, or provided the claims auditor with a job description detailing the duties to be performed. As a result, the claims auditor did not have any guidance on the Board's expectations for auditing the District's claims and did not conduct a thorough audit of the District's claims.

The claims auditor informed us that his audit consisted of verifying that invoices were mathematically correct and that sales tax was not charged. Therefore, the Board had no assurance that the claims that were approved by the claims auditor for payment were for valid District purposes, and were adequately itemized and authorized. The District's independent auditors noted the claims auditor's lack of understanding of his duties in the audited financial statements for the 2005-06 fiscal year, and also noted that the District has not implemented procedures to ensure a thorough audit of claims. However, the Board did not take any corrective action to ensure that claims were adequately audited.

As a result of this weakness, we conducted a test of ten claims totaling \$80,169 to determine if approvals from the appropriate District officials were obtained, the goods and/or services were received, the rates were charged in accordance with approved contracts and if the purchases were made for valid District purposes. Our test did not disclose any material exceptions. However, the lack of a thorough audit of claims and clear direction regarding the duties and responsibilities of the claims auditor exposes the District to an increased risk of improper and unnecessary payments being made and not detected in a timely manner.

## **Recommendations**

3. The Board should develop and adopt a claims auditing policy that defines a proper audit of claims. The Board should provide the claims auditor with written guidance that clearly communicates the duties and responsibilities of the position, including ensuring that every claim contains adequate itemization and documentation, is a proper District charge, contains appropriate approvals, has been received, and complies with District policies.
4. The claims auditor should adhere to the District's claims auditing policy.

## Procurement

The objectives of a procurement process are to obtain services or buy materials, supplies, and equipment of the right quality, in the right quantity, from the right source, at the right price, and in compliance with all applicable Board and legal requirements. This process helps ensure that the District expends taxpayer dollars in the most efficient manner and avoids the influence of favoritism, extravagance and corruption. The Board is responsible for adopting policies to provide reasonable assurance that goods and services will be procured at the best available prices, that taxpayer funds will be expended in a prudent manner, and that procurements comply with statutory requirements. District officials are responsible for implementing and monitoring those policies.

We identified several weaknesses in the District's procurement of goods and services. Although the Board adopted purchasing policies that clearly outline when and how to use competitive bidding and when to obtain quotes when procuring goods or services, District officials did not always follow these policies and solicit competition when required. Also, the Board does not require District officials to solicit competition when procuring professional services. As a result, the District may have paid more than necessary for goods and services.

### **Competitive Bidding**

General Municipal Law (GML) and the District's procurement policy require that purchase and public work contracts, when they exceed in the aggregate of \$10,000 and \$20,000, respectively, during a fiscal year, be publicly advertised for bids and awarded to the lowest responsible bidder. Competitive bidding is not required when the subject of a contract is controlled by a sole source provider so that there is no possibility of competition. However, the District must show, at a minimum, the item's unique benefits to the District as compared to other products available in the marketplace, and that no other product provides substantially equivalent or similar benefits.

Although the District's procurement policy clearly outlines when and how competitive bidding will be used to purchase goods and services, we found that purchases were not always made following these guidelines. District officials were not complying with GML and their own policies concerning bidding. Additionally, we found that the District's purchasing policy suggests, rather than requires, that District officials document the reasons for determining sole source purchases. We identified approximately 80 vendors who were subject to competitive bidding requirements who were paid a total of

\$7,876,223 during the 2006-07 fiscal year. We tested payments made to eight of these vendors totaling \$250,356. We found the following:

- The District did not request bids for two vendors who were paid a total of \$115,860. The vendors included a heating and pipe contractor who was paid \$75,946 and a general contractor who was paid \$39,914.
- District officials did not document why the purchase of textbooks from two vendors, who were paid a total of \$37,214, were sole source purchases and therefore not subject to competitive bidding as suggested by the District's purchasing policy. District officials told us that this was the only manufacturer who could provide them with the textbooks that they needed because textbook manufacturers are very limited. The District's explanation for determining the sole source purchase was reasonable. However, the District's purchasing policy should not suggest, but require that District officials document why a particular purchase is considered to be a sole source purchase to provide taxpayers with the greatest assurance that taxpayer moneys are being spent in the most prudent and economical way.

The failure to ensure that purchases and public works contracts are acquired through the competitive bidding process increases the risk that services may not be obtained in the most prudent and economical manner, and could lead to the unnecessary expenditure of taxpayer moneys.

### **Professional Service Providers**

GML states that goods and services that are not required by law to be competitively bid must be procured in a manner that ensures the prudent and economical use of public moneys, facilitates the acquisition of goods and services of maximum quality at the lowest possible cost, and guards against favoritism, fraud and corruption. Competitive bidding is not required for the procurement of professional services that involve specialized skill, training and expertise; use of professional judgment or discretion; and/or a high degree of creativity. An effective and comprehensive procurement policy would require the District to request proposals from professional service providers whenever such services are needed. A request for proposal (RFP) process is meant to ensure that the District receives the desired service for the best price.

The District's procurement policy does not require the solicitation of RFPs to procure professional services. Instead, it authorizes the Board to award professional service contracts without soliciting proposals based upon the continuity, confidentiality, cost effectiveness and

expertise of the services rendered as well as the professional's knowledge of the District's needs. It further states that "the Board may also determine from time to time that it may be in the best interest of the school district to solicit RFPs for some or all of the above services."

We found that District officials generally did not solicit RFPs when obtaining professional services because the District's vague policy did not require them to do so. We identified 47 professional service providers who were paid a total of \$3.1 million during the 2006-07 fiscal year. We tested ten of these professionals who were paid a total of \$911,762 and found that nine of the ten professional contracts, totaling \$894,262, were awarded without the benefit of RFPs or any other competition. These professionals included a law firm and a therapist who were paid a total of \$375,868 and \$290,734, respectively.

While the District is not specifically required to issue RFPs for professional services, it is required by law to establish a process that ensures that the District obtains qualified, necessary professional services as economically as possible, and document the basis for the selection of service providers. Because the District did not use competition to secure any of these professional services, these services may not have been obtained at the lowest possible price, and there is no assurance that these purchases were the most prudent and economical use of public moneys in the best interest of the taxpayers.

## **Competitive Quotations**

GML requires the Board to adopt written policies and procedures to procure goods and services that are not subject to competitive bidding requirements. These policies and procedures should set forth each method of procurement, the procedures for determining which method will be used, and provide for adequate documentation of the actions taken. Soliciting competition helps to ensure that contracts are entered into in a manner which is in the best interest of the public. The District's procurement policy requires District officials to solicit quotes for certain purchase or public work contracts that fall below competitive bidding thresholds. District employees must obtain the following quotes and attach the documentation to the purchase requisition:

- A minimum of three telephone, fax or written quotations are required for purchases of goods and services between \$500 and \$1,500.
- A minimum of three written quotes are required for purchases of goods greater than \$1,500.

We found that District officials did not ensure that employees complied with the procurement policy when soliciting quotes. We identified approximately 400 vendors who were paid a total of \$1.3 million for purchases or public works contracts that fell below the competitive bidding thresholds during the 2006-07 fiscal year. We reviewed 23 invoices paid to five of these vendors totaling \$29,265 to determine whether District officials obtained written, fax, or telephone quotes as required by the procurement policy. We found that District officials had not obtained quotes for 22 of the 23 invoices totaling \$27,091. Examples of the purchases follow:

- Eight of the 22 invoices, totaling \$8,093, were paid to one vendor for auto repair. District officials could not explain why quotes were not obtained for these purchases.
- Five of the 22 invoices totaling \$8,537 were paid to one vendor for elevator repair. Although District officials indicated that one elevator repair invoice for \$2,274 was an emergency, and quotes were therefore not required as stated in the District policy, the Board did not pass a resolution declaring the emergency as required by the procurement policy. Additionally, the District did not document in writing the reason for qualifying this situation as an emergency, as suggested on the procurement policy.

The failure of District officials and employees to comply with the procurement policy increases the possibility that the District may have paid more for goods and services, which may have resulted in unnecessary costs to District taxpayers.

## Recommendations

5. The District should comply with the provisions of General Municipal Law and its purchasing policy by ensuring that all purchases and public works contracts exceeding the statutory competitive bidding thresholds are acquired through the competitive bidding process.
6. The Board should amend their procurement policy to require that the District award all professional services contracts only after soliciting competition and require that District officials document why a purchase qualifies as a sole source purchase.
7. District officials should monitor and enforce compliance with the District's procurement policy relating to written, fax and verbal quotes. In addition, when a purchase qualifies as an emergency, District officials should document the reason for the emergency and the Board should pass a resolution declaring an emergency.

## Information Technology

The use of information technology (IT) affects the fundamental manner in which the District processes, records, and reports financial transactions; therefore, the IT system and the data it holds are a valuable District resource. The District's widespread use of IT presents a number of internal control risks such as unauthorized access to data and the potential loss of data. District officials must therefore design an effective system of internal controls to safeguard computerized data from loss and misuse. To help limit losses, it is important that District officials establish computer data policies and procedures to provide clear guidance for District personnel on all aspects of computer data. Such policies should also establish procedures to ensure that computer data is adequately safeguarded to reduce the risk of any misuse or alteration of data that could result in the compromise of sensitive information and/or potential financial loss to the District. Additionally, a formal disaster recovery plan should be established to provide guidance on the prevention of the loss of data as well as the recovery of data in the event of a disaster.

The District uses a financial accounting software package (financial software) to process and maintain financial transactions. District officials have not developed policies and procedures to protect critical financial data. As a result, computer hardware is not protected from unauthorized access, system network passwords are not periodically changed, the duties of the financial software administrator and the senior account clerk have not been segregated, audit logs for the financial software have not been printed and reviewed, and a formal disaster recovery plan has not been established. These internal control weaknesses increase the risk that critical financial data may be lost or misused.

Policies and Procedures – Policies and procedures should address key security areas such as acceptable computer use, data and virus protection, password security, remote access and Internet usage. Policies should be enforceable, concise, easy to understand, and balance IT protection with productivity. Procedures should be established to outline how to carry out policy requirements and define mechanisms to enforce compliance. During our audit period, the District did not have a Board-adopted IT policy. Instead, they have a “working draft,” dated October 2007, which has not yet been formalized or adopted. As a result, there is an increased risk of inappropriate and unauthorized access to the IT system and of computerized data being compromised.

Access to the Servers – An effective internal control system restricts physical access to the IT system, such as servers. Servers are assets the District must protect. Unrestricted access to the server room is dangerous to the security of the District’s computer system. An individual could log into the network and its applications and could alter records or physically destroy the equipment so that no one could access the server. This could result in the District expending significant resources to correct/repair data and equipment. Secure access would be enhanced by keeping the doors locked at all times, restricting access to authorized employees, and documenting arrivals and departures. District officials have not established policies or procedures to ensure that the server for the financial software is located in a secure location.

The District’s server for the financial software is located in an unlocked file room in the central administrative building, which is accessible to all employees. Furthermore, we found that physical access to the room was not tracked and monitored, resulting in data being vulnerable to unauthorized access. The system administrator stated that the door to the server room is left open during working hours to allow access to water and paper inventories. Under these conditions, it would be difficult for District officials to prevent unauthorized or malicious access to the server or to identify the party responsible if such access did occur.

System Passwords – Passwords are one of the most basic controls that can be utilized to mitigate the risk of unauthorized users obtaining access to the District’s computer systems. Passwords should be changed on a regular basis, which significantly increases the District’s protection from unauthorized access to District information.

District employees have a system password to access the network and an application password to access the financial software. We found that District employees do not periodically change their system network password because they are not required to. When passwords are not changed on a regular basis, employee user accounts and District information are vulnerable to unauthorized access and use.

Segregation of Duties – An effective system of internal control requires the segregation of duties so that no single individual controls most or all phases of a transaction. Concentrating key duties (i.e., recordkeeping, reconciling cash, and disbursing cash) with one individual significantly increases the risk that errors and/or irregularities might occur and go undetected. The District has not segregated the function of the financial software administrator from the function of the individual who is responsible for accounts payable operations.

The senior account clerk performs various accounts payable functions, such as setting up vendor accounts, recording disbursements, and printing checks. The senior account clerk is also the system administrator of the District's financial software. As the system administrator, the senior account clerk has unlimited access for entering and editing data, changing security privileges and user authorizations, and editing other system settings without independent review and approval. This lack of segregation of duties between accounts payable and financial software administration functions increases the risk of unauthorized changes to the accounting records, to the software security settings, and to user authorization privileges without District officials' knowledge or prior approval. This weakness significantly increases the risk that inappropriate disbursements could be initiated and concealed.

Audit Trail Logs – A computerized financial management system should provide a means of determining, on a constant basis, who is accessing the system and what transactions are being processed. Audit trail logs maintain a record of activity that includes the identity of each person who has accessed the system, the time and date of the access, and what activity occurred. Ideally, a manager should review this log to monitor the activity of users who access the District's applications and data.

Although the District's financial software has the capability to prepare audit trail log reports, they are not printed or reviewed by District officials. Virtually all District records and reports are computer-generated; therefore, it is important that District officials review audit logs periodically. Without such a review, District officials do not have adequate assurance that changes to its financial information are appropriate and authorized. As a result, there is an increased risk that external threats to data or unauthorized access to data can not be detected on a timely basis.

Disaster Recovery – The District's internal control system should include a formal disaster recovery plan to address the possible loss of computer equipment and data and establish procedures for recovery in the event of such a loss. The plan should detail the precautions to be taken to minimize the effects of any disaster and enable the District to either maintain or quickly resume its mission-critical functions. The plan should include a significant focus on disaster prevention.

We found that District officials have not established a formal disaster recovery plan. Consequently, in the event of a disaster, District personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to

implement data recovery procedures. This could negatively impact the District's ability to resume normal operations.

## **Recommendations**

8. The Board should adopt a comprehensive computer security policy addressing the proper use of computer resources, data and virus protection, password security, remote access and Internet usage.
9. District officials should strengthen controls over the physical access to the District's server room to protect physical components of the IT system from unauthorized access. Access should be monitored.
10. District officials should implement procedures requiring users to periodically change their passwords to access the District's network applications.
11. District officials should separate the duties of the financial software administrator and the senior accounts clerk. Where incompatible duties cannot be appropriately segregated, they should establish effective supervisory review procedures.
12. District officials should periodically print and review audit logs to monitor user activity and any unusual transactions.
13. District officials should adopt a disaster recovery plan that addresses the range of threats to the District's IT system. The plan should be distributed to all responsible parties, periodically tested and updated as needed.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

The District officials' response to this audit can be found on the following pages. Individual vendors named in the District's response have been omitted because of confidentiality reasons.

**AMITYVILLE UNION FREE  
SCHOOL DISTRICT**

Dr. William J. Fanning – Interim Assistant  
Superintendent for Finance and Operations

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November 13, 2008

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250 Veterans Memorial Highway  
Hauppauge, New York 11788-5533

By e-mail to [REDACTED]  
And by U.S. Postal Mail

Re: **Response to OSC Audit**

Dear [REDACTED]

Transmitted herewith is the response of the Amityville Union Free School District to the "Amityville Union Free School District Internal Controls Over Selected Financial Operations – Report of Examination – Period Covered: July 1, 2006 – August 31, 2007 – 2008M-176."

This response has been amended from its original form to reflect the finding that three of the District's present seven Board members had received only partial fiscal oversight training.

See  
Note 1  
Page 30

The District appreciates the professionalism of the staff of the Office of the State Comptroller and their assistance with the audit, review and response process.

Very truly yours

Dr. William J. Fanning  
Interim Assistant Superintendent  
for Finance and Operations

WJF:wjf

pc: Dr. John Williams, Superintendent

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**Written Response to the Draft Audit Report**  
of the Office of the State Comptroller

**Amityville Union Free School District**  
**Internal Controls Over Selected Financial Operations**

*Report of Examination*

**Period Covered:**

**July 1, 2006 through August 31, 2007**

**2008M-176**

**Exit Conference – October 20, 2008**

## **Board Fiscal Oversight**

There were two areas of concern identified by the Office of the State Comptroller (OSC) under the heading of "Board Fiscal Oversight," 1. Board fiscal oversight training, and 2. approval of budget transfers.

### ***Board Fiscal Oversight Training***

It became immediately apparent during the open discussion of the draft audit on October 20, 2008 that the Office of the State Comptroller may not have been provided with complete information regarding the required fiscal oversight training for members of the Board of Education. Upon reading the draft comments, members of the Board of Education and members of the administrative staff were perplexed to see a finding that some Board members had not received the required training. All Board members had received at least some portion of the required training.

At the discussion, the parties agreed that the District would assemble all available documentation to confirm that all Board members had been trained, and that copies of the documents would be forwarded immediately to OFC.

On October 22, 2008, Dr. John Williams, Superintendent of Schools, transmitted a letter with 29 pages of Certificates and two summary pages to [REDACTED] OSC. A review of these documents established that four of the seven Board members had completed the required six hours of training, but that three members had completed only part of the training. Appropriate arrangements will be made to secure the additional training still required.

The Board is especially interested in asserting its continuing commitment to exercising strong prudent fiscal oversight on behalf of the Amityville Community. The Board thoroughly understands its obligation to set the "tone at the top," and is confident that its behavior with regard to preparation and continued training is exemplary.

### ***Approval of Budget Transfers***

The Board acknowledges that OSC identified a number of budget transfers that were made prior to securing formal Board of Education approval. The Board understands that this practice is contrary to current Board Policy but is not restricted by statute. The Board understands its option to either amend its policy and establish a monetary limit below which transfers are permitted prior to securing Board approval, or to enforce the current policy and prohibit the execution of all transfers until formal Board approval is secured.

The Board further acknowledges that any transfer that becomes permissible through a revision to District Policy must be reported in a Treasurer's Report at the next Regular Board Meeting following the month in which the transfer is made.

These options will be considered and will be reported in the Corrective Action Plan that will be submitted by the Board of Education after the final audit has been issued by OSC.

### **Claims Auditing**

The Board of Education acknowledges the OSC findings that the District, “. . . has not adopted a policy, developed written procedures or guidelines, or provided the claims auditor with a job description . . .”

The Board will adopt the appropriate policy and job description and will comment in greater detail in its Corrective Action Plan. The Board is, however, pleased to acknowledge the OSC comment that, notwithstanding the absence of a policy and a position description, the OSC test “. . . did not disclose any material exceptions . . .”

### **Procurement**

OSC noted that the District had adopted purchasing policies that clearly outline when and how to use competitive bidding and when to obtain quotes when procuring goods or services, but that District officials did not always follow these policies.

#### ***Competitive Bidding***

**Bidding:** Two general areas of concern were identified. The first involved the bid process with a heating and pipe contractor, and a general contractor. The heating contractor, [REDACTED] was paid a total of \$75,946 during the audit period. This total amount was made up of numerous individual purchase orders, none of which rose to the bid threshold of \$20,000 for public works contracts.

The Board acknowledges that the threshold applies to the “aggregate of all purchases” to this vendor within the expense category and understands its obligation to solicit competitive bids when the threshold is likely to be exceeded during the course of the fiscal year.

To address this issue, the district will prepare specifications for the heating services and will solicit bids for an annual service contract. This matter will be discussed further in the Corrective Action Plan.

The second bid-related item involved a general contractor, [REDACTED] who was paid a total of \$39,914 during the fiscal period.

[REDACTED] performed demolition and removal services and installation services for two playgrounds. The original plan had been to award the entire contract to a New York State Contract vendor, [REDACTED]. Purchase Orders were prepared for [REDACTED] but the District learned subsequently that [REDACTED] did not perform demolition and removal of existing

playgrounds. The initial course of action was to have [REDACTED] sub-contract to a demolition service. However, when that option proved unviable, the District contracted directly with [REDACTED]

The Board acknowledges that competitive bids should have been solicited for this contract, but were not.

**Sole Source:** The second concern focused on “sole source” as it related to the purchase of textbooks. Textbooks are generally sold by the publisher, and should, therefore, qualify as “sole source” materials. The Board acknowledges that the current procurement policy “suggests” rather than “requires” that all “sole source” determinations be documented. A note on the purchase order simply indicating that the named vendor is the publisher and is, therefore, the only source for the textbooks might have been sufficient to address the OSC comment.

The Board acknowledges the need to amend the procurement policy so that supporting documentation is required rather than suggested. This issue will be addressed again in the Corrective Action Plan, and the policy will be amended to stress the fact that justification is required rather than suggested.

### *Professional Service Providers*

The Board acknowledges the audit finding that “. . . District officials generally did not solicit RFPs when obtaining professional services . . .” The Board understands that the District is not specifically required to issue RFPs for professional services, but that its “. . . process ensures that the District obtains qualified, necessary professional services as economically as possible . . .”

The District is highly conscious of its obligation to secure required goods and services in a way that ensures “. . . the most prudent and economical use of public moneys in the best interest of the taxpayers.”

The Board will undertake a review of its procurement policy as it relates to professional services and will make those revisions that require the purchaser to “. . . document the basis for the selection of service providers.” Language will be developed that avoids the unequivocal requirement that RFPs be issued for the purchase of all professional services, but virtually guarantees that the district has secured those services in the most prudent and economical way, and can produce the documentation that supports the selection process.

### *Competitive Quotations*

The Audit Report of OSC acknowledges that the District’s procurement policy requires District officials to solicit quotes for certain purchase or public work contract that fall below competitive bidding thresholds. However, the report identifies specific instances where the policy was not enforced.

In prior years, the District had implemented the use of standardized forms to document the collection of either verbal telephone quotes, unsealed written quotes and sealed written quotes. With staff changes in the Business Office, some variability in the use of these standard forms resulted. However, whether through the use of attached catalogue pages and related pricing information, or through the use of the standardized forms, - with very limited exceptions - all proposed purchases were reviewed to ensure that competitive prices had been secured. The Board acknowledges that the exceptions present a problem that must, and will, be addressed.

An excellent illustration of an exception is the group of auto repair invoices that were cited in the OSC report. The district had not established a bid or quote based relationship with a specific auto repair facility. As this response is being written, the district is in the process of developing a specification to receive either a bid or an RFP for automobile repairs. The specification will focus on industry standard billing rates for specific repairs, coupled with discounts off manufacturer's list prices for replacement parts, depending upon whether the parts are manufacturer's original equipment replacement parts, high level after-market replacement parts, or generic after-market parts. District staff recognizes the difficulty in ensuring that essential auto repairs are purchased in the most prudent and economical manner, but fully understands its responsibility to implement procedures that work toward that objective.

This matter will be resolved before the Corrective Action Plan is submitted to OSC. That notwithstanding, it will again be referenced in the CAP.

## **Information Technology**

### *Computer Data Policies and Procedures*

The OSC Audit Report indicated that during its audit period, ". . . the District did not have a Board-adopted IT policy." The report acknowledged that the District had a "working draft" date October 2007, but that the draft had not been formalized and adopted.

The Board of Education is in the process of reviewing all of its policies, with emphasis on those that have been assigned the highest priority. In view of the concern expressed in the OSC Audit Report, adoption of a formal IT Policy has been assigned a high priority.

### *Access to Servers*

The District's IT Policy will contain a provision that requires restricted physical access to the IT hardware such as servers. The Policy will require that the server be located in a secure location and that access doors will be locked at all times. Access will be controlled and a log of access will be maintained.

The Policy will also require that the software track access and maintain a permanent log of all sign-in and sign-off activity.

### *Password Changes*

The audit found that “. . . District employees do not periodically change their system network password because they are not required to.”

The district’s financial management software can be programmed to require a periodic password update. The user is required to update the password, or is denied access to the system.

See  
Note 2  
Page 30

The District’s IT Policy will contain a provision that require periodic update of the user password. Compliance can be ensured by utilizing the software’s ability to limit the time that a password remains operational.

### *Audit Logs*

The District’s [REDACTED] financial software has the capability to prepare audit trail log reports, but they are not routinely printed or reviewed by District officials. The Board acknowledges the need to determine, on a constant basis, who is accessing the system and what transactions are being processed.

The need to monitor the activity of users who access the District’s applications and data will be addressed in the District’s IT Policy and the responsibility will be assigned to the appropriate manager.

### *Segregation of Duties*

At the time of the OSC Audit, the report indicates that “The District has not segregated the function of the financial software administrator from the function of the individual who is responsible for accounts payable operations.

With staff turnover, the IT function was in a state of transition during the time that the audit was conducted. With the appointment of a permanent, full-time Assistant Superintendent for Data and Technology, this problem has been resolved. Oversight for the administration of the District’s IT system now resides with the Assistant Superintendent.

A Computer Controls Plan, which outlines the policies and procedures pertaining to system controls and the segregation of duties, is presently being developed by the Assistant Superintendent. It will address the necessary controls required for oversight of the District’s IT environment, including the Student Information System, the Finance/Personnel System, Instructional Support Systems, and the Network Infrastructure.

## *Disaster Recovery*

The Board recognizes the need to develop a Disaster Recovery Plan and is in the process of formulating a comprehensive policy to ensure the security and immediate recovery of the District's data in the event of a catastrophic system failure.

The District has also taken steps to ensure that critical data are backed up and stored offsite, and are readily recoverable. In September, 2008, the District began backing up the [REDACTED] and the [REDACTED] server, offsite, through [REDACTED]. In addition to tape backups for each of these servers, financial data and email server data are now electronically transmitted offsite to secure storage containers located in New Jersey and Massachusetts. The ability to restore the financial and email data is regularly tested. In addition, prior to transmission, all data files are encrypted using 256-bit AES encryption technology, and all transmissions are conducted via Secure Socket Layer (SSL) technology.

In addition, the [REDACTED] and [REDACTED] servers are hardware redundant and can continue operating with the failure of a single hard drive and/or a single power supply. An extended hardware warranty provides for replacement of failed hardware by the next business day. The server is equipped with an Uninterruptible Power Supply (UPS), which protects the server against power spikes, brownouts, and power failures.

In 2007, the District implemented a hosted service for its Student Management System requirements. The application provider, [REDACTED] is hosted offsite, and provides fully redundant, 24/7 network operation with secure offsite backups, which are conducted daily.

The District is in the process of securing offsite backup for its remaining network servers. The backup and offsite storage services will be provided by [REDACTED] and will be implemented in November, 2008.

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

After the exit conference, District officials provided us with certificates of completion for the courses that Board members attended. Our report has been revised to indicate that three Board members, instead of the five previously referenced in our report, did not complete the minimum of six hours of training. The documents provided to us after the exit conference included certificates for two Board members who had only completed one hour of training each, and the third Board member had completed two and one-half hours. Furthermore, as stated in our report, these certificates were not filed with the District Clerk upon completion of each course.

#### Note 2

As stated in our report, there is no requirement, and users do not periodically change their system password to access the network.

## 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, and payroll and personal services.

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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected Board fiscal oversight, claims auditing, procurement and information technology for additional review.

We accomplished the audit objectives by evaluating internal controls over the areas of procurement and information technology to determine whether the controls were appropriately designed and operating effectively.

Our audit procedures included the following:

- We interviewed appropriate District officials to obtain an understanding of the organization, the District's accounting system, and to identify key personnel.
- We examined the District's Budget Transfer policy, Budget Transfer Schedules and Budget Transfer Authorizations to determine if transfers were made in accordance with Board policy.
- We interviewed the claims auditor to learn about procedures used for the auditing of claims.
- We examined paid claims to determine whether they were for valid District purposes; were sufficiently itemized and included original invoices; contained departmental approval; were mathematically correct; and agreed with the purchase orders.
- We examined public bids, quotes and RFP documentation to determine if the lowest-priced responsible vendor was selected.

- We interviewed District personnel and evaluated internal controls and safeguards over computer-generated data.

We conducted this 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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