



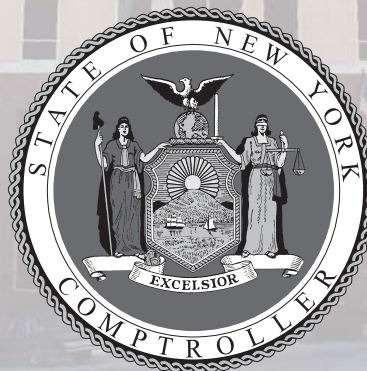
Carmel Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2006 — May 31, 2008

2008M-202



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 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 Carmel Central School District, entitled Internal Controls over Selected Financial Activities. 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

EXECUTIVE SUMMARY

The Carmel Central 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.

The Board has appointed a purchasing agent to develop and administer the purchasing function and commit the District to purchases by approving purchase orders. The Board has appointed a claims auditor to audit all District claims on its behalf. The Director of Pupil Services is responsible for all of the District's special education needs. The District's Acting Supervisor of Technology has been in charge of the Information Technology (IT) functions since February 2008.

Scope and Objective

The objective of our audit was to examine internal controls over selected financial activities for the period July 1, 2006 through May 31, 2008. Our audit addressed the following related questions:

- Has the Board consistently exercised its authority to approve contracts?
- Are internal controls over purchasing appropriately designed and operating adequately to safeguard the District's assets?
- Are internal controls over information technology appropriately designed and operating adequately to safeguard the District's assets?

Audit Results

The Board did not always exercise appropriate oversight or establish adequate controls to ensure that District assets were safeguarded. As a result, professional service contracts were not always appropriately signed or authorized by the Board, and the Superintendent amended an employee's contract without Board approval. Other weaknesses were evidenced by the District's failure to comply with General Municipal Law or its procurement policy and procedures, and to adequately protect the District's student and financial data.

The District's controls over its special education service providers' contracts were inadequate. We reviewed 18 special education service contracts totaling \$527,000 to verify that they were approved by the full Board and properly signed. We found that, although the Board had not delegated the

responsibility for approving contracts to the Board President or any other official, the Board President approved and signed 14 of the contracts totaling \$347,000, and the Director of Pupil Services signed three contracts totaling \$153,000; one contract for \$27,000 was not signed at all. Because the whole Board does not review and vote on the special education service providers' contracts, the Board cannot be assured that the services paid for were reasonable and legitimate District expenditures. Also, one employee's contract was amended so that she could get paid to work from home at an hourly rate, in conjunction with using her accruals, while on leave for three consecutive months. This amendment, which was authorized by the Superintendent rather than the Board, allowed to employee to receive \$27,400 during this period.

Similarly, District officials did not provide the oversight needed to ensure that District staff complied with the Board's purchasing policy and procedures. As a result, District staff often circumvented the established procedures and used confirming purchase orders. We reviewed 45 purchases totaling \$621,000 and found that 17 purchases totaling \$142,000 were made using confirming purchase orders. In addition, District officials did not adhere to General Municipal Law (GML) and the District's policy when they entered into independent contracts with two employees for services totaling \$34,200. Furthermore, special education services claims were not properly audited and submitted to the accountant for payment on a timely basis. District officials did not use competitive bidding for four purchases totaling \$140,000 and did not request competitive proposals before selecting six service providers who were paid a total of \$1.2 million. In addition, the District did not obtain quotes for five individual purchases totaling \$42,000 that fell below the bidding threshold. When purchases are made without pre-approval or following the competitive purchasing process, the risk is increased that goods and services will not be obtained prudently and economically.

District officials did not implement a procedure to delete inactive employees from the active directory and the accounting system on a timely basis. Also, employees were not required to regularly change their passwords to the active directory, and users were not automatically logged out from the system after a period of inactivity. These weaknesses could result in access and manipulation of sensitive data by unauthorized individuals.

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.

Introduction

Background

The Carmel Central School District (District) is located in the Town of Kent, as well as parts of the Towns of Carmel, Putnam Valley, Patterson and Southeast, in Putnam County; and East Fishkill, in Dutchess 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 4,800 students and 1,125 employees. The District's budgeted expenditures for the 2006-07 and 2007-08 fiscal year were \$92.5 million and \$98 million respectively, which were funded primarily with State aid, real property taxes, and grants.

The Board has appointed a purchasing agent to develop and administer the purchasing function and commit the District to purchases by approving purchase orders. The Board has appointed a claims auditor to audit all claims on its behalf. The Director of Pupil Services was responsible for all special education needs of the District's students. Beginning in February 2008, the District Acting Supervisor of Technology was in charge of the Information Technology (IT) functions.

Objective

The objective of our audit was to determine if internal controls over selected financial activities were designed and operating effectively. Our audit addressed the following related questions:

- Has the Board consistently exercised its authority to approve contracts?
- Are internal controls over purchasing appropriately designed and operating adequately to safeguard the District's assets?
- Are internal controls over information technology appropriately designed and operating adequately to safeguard the District's assets?

Scope and Methodology

We examined internal controls of the District for the period July 1, 2006 through May 31, 2008.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**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.

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, 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 Approval of Contracts

The Board is the governing body of the District and has an obligation to protect the District's assets. The Board is responsible for developing policies to manage the District, including approving contracts for professional services, approving any amendments to existing contracts, and establishing and monitoring the implementation of internal controls over District operations.

The Board is responsible for committing the District into contracts with employees and independent contractors. The Board may elect to delegate this important duty to one of its members or to one of its officials. Any delegation action taken by the Board should be voted on and included in the Board minutes.

We found that the Board, as a whole, was not involved in approving contracts for special education service providers. We reviewed 18 contracts totaling \$521,000 with special education service providers. We found that the Board President signed 14 contracts totaling \$347,000, the Director of Pupil Services signed three contracts totaling \$153,000, and one contract for \$27,000 was not signed at all. The Director of Pupil Services informed us that the contracts do not go before the entire Board for approval; instead she presents them to the Board President for his approval. The Board President agreed with her statement. There was no indication in the Board minutes that this responsibility has been delegated to the Board President. Furthermore, another Board member informed us that he did not recall voting on a resolution granting the Board President sole responsibility for approving contracts. Because the Board does not vote on the special education service providers' contracts, the Board is not aware of the terms and conditions of these contracts and the amounts to be paid. Therefore, the Board cannot be assured that these services are in the best interests of the District.

The Board is responsible for entering the District into contracts with its employees. Any changes to an employee's contract must be Board-approved. Without the Board's review and approval of changes to contracts, the District cannot be assured that employees are receiving the benefits that the Board intended them to receive. We found that one employee's contract was amended so that she would be paid to work from home at an hourly rate while on leave, in conjunction with using her leave accruals, for a period of three consecutive months. This amendment was not Board-approved. Instead, the former Superintendent authorized the amendment. Payment during her leave period totaled approximately \$27,400;

of that amount \$10,700 was for work at the stated hourly rate and \$16,700 was for the use of her leave accruals. By acting on the behalf of the Board without its approval, the former Superintendent exceeded his authority and may have provided a benefit the Board did not intend to offer District employees.

Recommendations

1. The Board should either approve all contracts or formally delegate this responsibility.
2. The Board should ensure that any amendments to an employee's contract are Board-approved.

Procurement

The Board is responsible for designing internal controls that help safeguard the District's assets and ensure the prudent and economical use of its moneys when procuring goods and services. In general, an effective procurement process helps the District obtain services, materials, supplies, and equipment of the right quality, in the right quantity, from the right source, at the right price, with sufficient appropriations available, and in compliance with all applicable legal requirements to ensure that taxpayers' monies are well spent. To avoid conflicts of interest, District officers and employees who have an interest in a contract with the District must publicly disclose, in writing, the nature and extent of such an interest. An effective procurement system ensures that every claim contains enough supporting documentation for District personnel to determine whether it complies with statutory requirements and District policies, and that the amounts claimed represent actual and necessary District expenses. The Board has appointed a purchasing agent to be responsible for developing and administering the purchasing function, including approving purchase orders.

We found that the District has not established an internal control system that provides adequate oversight over purchasing, and that procedures relating to procurement were not operating effectively. Of the 45 purchases we tested, we found that 17 purchases totaling \$142,000 were made using confirming purchase orders. This allows staff to bypass the purchase order system and make purchases without proper approval. The District did not adhere to General Municipal Law (GML) and its own policy by contracting with two employees for services totaling approximately \$34,200. In addition, special education services claims were not properly processed and submitted timely to the accountant for payment. District officials did not use competitive bidding or solicit Requests for Proposals or obtain quotes, as required, for purchases totaling approximately \$1.4 million. When purchases are made without obtaining pre-approval and utilizing a competitive purchasing process, there is the risk that goods and services will not be purchased at the best prices and not obtained prudently.

Confirming Purchase Orders

A properly functioning purchase order system requires pre-approval via purchase requisitions. Such a system is effective in controlling expenditures because it confirms that the purchasing agent is aware of and authorizes the procurement of goods and services, and that adequate funds are available for the purchase. Approved purchase requisitions are used to generate purchase orders, which specify

price and other terms. Confirming purchase orders result when purchase orders are prepared after the actual purchase is made. The use of confirming purchase orders should be strictly limited to emergency purchases, since such purchases circumvent the approval and price verification features of the normal purchasing process.

Although the District established a purchase order system, District staff often circumvented the system by using confirming purchase orders. Instead of obtaining the purchasing agent's pre-approval for purchases via purchase requisitions, District staff placed orders for goods and services on their own and then submitted confirming purchase orders after receiving the goods and services.

During our audit period the District disbursed \$62,187,048 for 11,006 claims. We examined 45 District disbursements totaling \$621,000 that required purchase orders. We determined that 17 of the 45 disbursements (38 percent) totaling \$142,000 had purchase orders that were dated after the claim/invoice date. None of these purchases were made on an emergency basis. The purchasing agent informed us that confirming purchase orders occurred for other reasons, which generally appeared to be for the convenience of staff.

Although all the purchases made using confirming purchase orders appeared reasonable and necessary, allowing District staff to bypass the purchase order system by means of confirming purchase orders can lead to over-expenditure of appropriations or the purchase of goods and services that are not necessary or reasonable for District operations.

Conflicts of Interest

Article 18 of the GML prohibits District officers and employees from having interests¹ in contracts with the municipality for which they serve, but only under certain circumstances. Even if an interest in a contract is not prohibited by Article 18, section 803 of GML generally requires District officers and employees who have, will have or later acquire an interest in an actual or proposed contract with the District to publicly disclose, in writing, the nature and extent of such interest. The disclosure must be made as soon as the District officer or employee has knowledge of the actual or

¹ Section 800(3) of the General Municipal Law defines "interest" as a direct or indirect monetary or material benefit accruing to a municipal officer or employee from a contract with the municipality that the officer or employee serves. Section 800(3) further provides that a municipal officer or employee is deemed to have an interest in the contracts of his or her spouse, minor children and dependents (except an employment contract with the municipality); a firm, partnership or association of which the officer or employee is a member or employee; a corporation of which the officer or employee is an officer, director or employee; and a corporation that the officer or employee directly or indirectly owns or controls any of the corporation's stock.

prospective interest. The disclosure must be made to the officer or employee's immediate supervisor, and to the governing body of the District, which must include the disclosure in the official record of its proceedings.

We examined the Board minutes for the audit period and spoke with the District Clerk to determine if certain officers and employees publicly disclosed the nature and extent of their interests in contracts with the District. Disclosure required by Section 803 was not made in the following instances:

- The District entered into a contract with an employee to perform student psychological and educational evaluations. This employee was paid \$27,400 for services rendered from February 1, 2007 through June 30, 2007.
- The District entered into another contract with a company owned by a District employee for the calibration of scales and microscopes. The employee's company was paid a total of \$7,200 during our audit period.

When school districts enter into contracts with their officers and employees, the contracts can raise questions as to the propriety of the transactions. This is especially true when proper disclosures are not made.

Special Education Claims Processing

Education Law requires all claims, with few exceptions, to be itemized and audited before payment can be made. The Board is responsible for auditing all claims against the District. The Board may either audit claims itself or appoint a claims auditor. If the Board appoints a claims auditor, that individual assumes the Board's powers and responsibilities to audit and approve each claim. The claims auditor is responsible for determining whether each claim is properly authorized, accurate, and in compliance with contractual agreements; whether it represents a valid District expense; and whether the goods or services were actually received.

The Board has designated a claims auditor. However, District officials did not ensure that the claims auditor properly reviewed special educational services claims, as required by Education Law. Instead, the claims auditor relied on the Director of Pupil Services to examine, validate and submit these claims for payment. Because of this weakness, we tested 10 invoices that were submitted by five different contractors totaling \$71,000. We found that eight of the invoices totaling approximately \$64,000 were not itemized. We also found the following deficiencies:

- One contractor providing physical therapy billed the District a total of \$173 for mileage between schools for the months of May, June, and December 2007, although reimbursement for mileage was not included in the contract. The contractor also billed for six physical therapy evaluations at a rate of \$180 each, totaling \$1,080. However, the contract is silent about physical therapy evaluation and rate. The invoices were not itemized and did not indicate the times and dates the services were provided.
- A contractor providing occupational therapy submitted an invoice for the months of September through November 2007 totaling \$3,300 and another invoice for the months of February and March 2008 totaling \$4,900. Neither invoice was itemized.
- Although the special education service providers submitted their invoices on a regular basis, the Director of Pupil Services did not submit them to the accountant for payment on a timely basis. For example, one contractor submitted an invoice for \$3,900 which was received on December 28, 2007, five invoices totaling \$5,700 which were received in January 2008, and three invoices totaling \$1,800 which were received in February 2008. The Director of Pupil Services submitted all of these invoices to the accountant at the same time for payment on one check totaling \$11,400, dated March 7, 2008. We also found the same situation for the other seven payments we tested.
- None of the invoices contained a signature of a person confirming the services were rendered, such as a school principal, or a parent if the services were performed in a home setting. The Director of Pupil Services relied only on the report from the contractors.

Without a proper and thorough audit of claims, the District does not have adequate assurance that payments for special education services are appropriate. As a result, District officials do not have adequate assurance that the District's students are receiving specialized educational services that the District intended them to have and have paid for.

Competitive Bidding

General Municipal Law (GML) requires school districts to advertise for bids when a purchase contract aggregates to more than \$10,000 or a public works contract exceeds \$20,000. The purpose of obtaining bids is to encourage competition in the procurement of supplies, equipment and services which will be paid for with public

funds. The appropriate use of competition provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner; goods and services of desired quality are being acquired at the lowest possible price; and procurement decisions are not influenced by favoritism, improvidence, extravagance, fraud or corruption.

The District did not adhere to GML or its own purchasing policies regarding competitive bidding. We tested nine payments totaling \$582,000 that were made to vendors and found that the District did not use competitive bidding for four purchases totaling approximately \$141,000, as follows:

Type of Transaction	Items	Amount
Purchase	Antivirus protection	\$10,593
Purchase	MS Office license	\$54,975
Public Work	Repair and maintenance of cafeteria equipment	\$49,735
Public Work	Tubing of boiler	\$25,646
Total	4	\$140,949

The former Director of Technology made the first two purchases. The Director of Food Services, who procured the contract for the repair and maintenance of cafeteria equipment, told us she did not realize the contract needed to be publicly bid. As for the tubing of boiler, the Director of Facilities & Transportation informed us that it was an oversight, and he would make sure to bid it for the next year. However, the purchasing agent, who approved these purchases and should have been aware of the competitive bidding threshold, did not ensure that these contracts were competitively bid. Awarding contracts without the benefit of a public bid process for goods or services that exceed bidding thresholds violates GML and the District’s own policies. As a result, District officials cannot be assured that goods and services of suitable quality were obtained at the lowest price.

Request for Proposals (RFP)

GML requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. The District’s adopted policy requires requests for proposals (RFPs) in the selection of professional services. The District procedure for RFPs states that the District will first locate prospective qualified firms by advertising in trade journals, checking listings of professional services, or making inquiries to other districts or other appropriate sources.

We tested seven professional service providers who were paid \$1.21 million during the audit period and determined that the District paid \$1.18 million to six of the seven service providers without first obtaining RFPs. These services included:

Items	2006-07 Amount	2007-08 Amount
Special Educator	\$34,170	\$100,111
Physical Therapy	\$91,709	\$90,369
Physical Therapy	\$85,000	\$93,028
Architect	\$356,927	\$150,939
Attorney	\$41,851	\$23,956
IT Consultant	\$112,585	-
Total	\$722,242	\$458,403

The Director of Pupil Services is currently seeking RFPs to select special education services and physical therapy contractors for 2008-09. She told us that she is sending the RFP to contractors that the District is currently using and has used in the past. We reviewed the RFP for special education services providers and found that it was only sent to the special education services providers that the District is currently using.

The Assistant Superintendent for Business/purchasing agent informed us that the District has been using the services of the architect for over 10 years and attorney for over 20 years and that, lately, their services have not been satisfactory. He was unable to locate any RFPs that were done in the past for these services. However, the District had stopped using their services and is currently using another architect and attorney who were selected through RFPs. We were also told that the District's current IT consultant was a former employee of a company that the District had contracted with in the past. However, this individual left the company to become an independent contractor, and the District contracted with her without using the RFP process.

By not properly seeking RFPs according to the District's policy, District officials cannot be sure that they are receiving proposals from all prospective qualified providers and that they are selecting the best services at the lowest cost.

**Request For Quotes
(RFQ)**

The District's procurement policy requires that quotations be obtained for supplies and equipment that are not required by law to be procured through competitive bidding. The District's policy requires verbal quotes for purchase contracts between \$100 and \$1,000 and public works contracts from \$1,000 to \$5,000. Written quotes are required for purchase contracts between \$1,000 and \$10,000 and public works contracts from \$10,000 to \$20,000.

The District did not adhere to its own purchasing policies regarding soliciting quotes. We tested payments that were made to ten vendors totaling \$82,000 and found that payments to five vendors totaling approximately \$42,000 were made without seeking required written or verbal quotes. These payments include (some of the five vendors provided multiple items):

Items	Amount	
	2006-07	2007-08
Transportation	\$4,900	\$6,980
Toner cart laser jet	\$1,135	
HP fast Ethernet server	\$1,384	
Digital camera	\$1,364	
DVD player	\$1,530	
Repair and maintenance of cafeteria equipment		\$15,019
Tubing of boiler		\$4,872
Student Mentor T-Shirt	\$864	\$1,200
Singlette		\$1,524
Camcorder	\$540	
Laser Jet Printer	\$600	
Total	\$12,317	\$29,595

We spoke to the individuals who placed the initial orders and they all informed us that they did not know that they were required to get quotes. By not obtaining quotes before making a purchase, the District does not adhere to its own policy and cannot be assured that it is getting the best items at the lowest possible prices.

Recommendations

3. District officials should ensure that purchase requisitions and purchase orders are prepared and approved in advance of the purchase.
4. District officials should ensure a prudent selection of vendors to avoid any conflict of interest and ensure public disclosure when necessary.
5. The claims auditor should ensure that all claims submitted for special educational services are valid District expenditures. All claims should include adequate documentation of the work performed and be subject to a proper audit and approval prior to payment.
6. The Director of Pupil Services should submit all claims for payment timely. District officials should review the contract for

special education services and include a requirement to submit claims on a timely basis, such as once a month.

7. District officials should provide proper oversight and ensure that the purchasing agent implements the District's purchase policy and seeks competitive bidding when required.
8. The purchasing agent should ensure that RFPs are used to select professional services and proper documents are maintained for future needs.
9. The purchasing agent should ensure that all necessary quotes are obtained as required by the District's policy for items that are below the competitive bidding thresholds.

Information Technology

Internal controls should be established to provide reasonable assurance that assets and resources are used in accordance with laws, regulations, policies, and sound business practices, and that assets are safeguarded against waste, loss, and misuse. The IT system and the data it holds are valuable District resources. The District relies on the information technology system to provide computer education and internet access, communicate by e-mail, store student data, maintain financial records, and report to State and Federal agencies. If the system fails, resulting problems could range from inconvenient to catastrophic. Even small disruptions can require extensive employee and consultant hours to evaluate and repair. Access to computer systems should be controlled and monitored to reduce the risk of misuse and alteration of data, which could result in financial loss.

The District did not sufficiently address the safeguarding of its computerized data. The District did not implement a procedure to timely delete inactive employees from the active directory and the accounting system. In addition, employees were not obligated to regularly change their passwords and users were not automatically logged out from the system after a period of inactivity. These weaknesses could result in access and manipulation of sensitive data by an unauthorized person.

User Access

Good internal controls include policies and procedures designed to limit access to data. District employees are assigned user accounts that enable them to access the network. All changes to user accounts, including additions, deletions and modifications, should be authorized and approved in writing by an appropriate District official (for example, Superintendent or Principal), and user accounts should be deactivated as soon as employees leave District service.

The Board has not adopted comprehensive user access policies and procedures for employees who are no longer working for the District. User accounts are not deactivated in a timely manner after employees leave District service. We found that the user account for one employee who left District service in June 2006 remained active on the network and the accounting software during our field work.

The District implemented a procedure to deactivate employees' access by Board resolution. However, employees' deactivation could take some time, since the Board only meets once a month and the Board minutes are not finalized and made available right away. Failure to timely remove access rights from inactive employees could increase the risk that unauthorized users could inappropriately

gain access to a system and change, destroy or manipulate data and computerized assets. Employee deletion should be done by direct written notification to the active directory administrator and the accounting System Administrator from the department head or Superintendent to ensure that deletions are completed timely.

Passwords/Screen Savers

Passwords and locking screen savers protect computer resources from unauthorized modification. To access a network, computer or application, users must enter their user name and password. The computer compares this information with the user account database. If a match is found, access is granted as provided for the user account. Passwords should be changed every 30 to 90 days. A locking screen saver automatically causes a computer to turn off after a set period of inactivity and requires the input of a user name and password to regain access.

We found that District personnel were not required to change their passwords and the locking screen savers were disabled on all District computers. As a result, there was an increased risk that unauthorized users could have gained access to the system, which could have resulted in corruption of financial data or confidential records being revealed.

Without a strong password system, there is an increased risk that an unauthorized person could access, change or delete sensitive information.

Recommendations

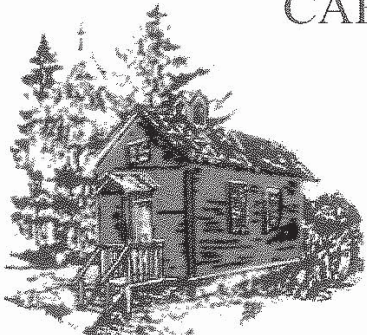
10. The Board and District officials should develop and adopt comprehensive IT policies and procedures for the deactivation of user accounts as soon as employees leave District service.
11. District officials should implement a policy requiring all users to change their passwords after a period of no longer than 90 days and monitor compliance with this policy.
12. District officials should ensure that District computers go on the time-out mode after a short period of inactivity.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

ORIGINAL SCHOOLHOUSE



CIRCA 1812

CARMEL CENTRAL SCHOOL DISTRICT

2008-2009 Board of Education
Richard Kreps, President
Greg Riley, Vice-President
Jennifer Dougherty, Trustee
James MacDonald, Trustee
Heyam Nesheiwat, Trustee
Steve Port, Trustee
William Shilling, Trustee

November 20, 2008

Newburgh Regional Office
Christopher J. Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Dear Mr. Ellis:

This letter is in response to Carmel Central School District's Report of Examination on the Audit of Internal Controls over Selected Financial Activities. We are in agreement with your audit findings and have prepared the following corrective action plan.

Board Approval of Contracts:

Audit Recommendation:

1. The Board should either approve all contracts or formally delegate this responsibility.
2. The Board should ensure that any amendments to an employee's contract are Board approved.

Implementation Plan of Action:

1. The Board of Education will formally delegate the Board President to sign all contracts. Subsequently the contracts will be sent to the full board for their review.
2. The Board of Education will see to it that any amendments to an employee's contract are approved by the Board of Education.

Implementation Date:

1. Delegation of Board President will take place in December 2008.
2. Will be approved on an on going basis.

Person(s) Responsible for Implementation:

1. Board of Education.
2. Superintendent, Assistant Superintendent for Business, Assistant Superintendent for Curriculum and Director or Pupil Services.

Procurement:

Audit Recommendation:

3. District officials should ensure that purchase requisitions and purchase orders are prepared and approved in advance of the purchase.
4. District officials should ensure a prudent selection of vendors to avoid any conflict of interest and ensure public disclosure when necessary.
5. The claims auditor should ensure that all claims submitted for special educational services are valid District expenditures. All claims should include adequate documentation of the work performed and be subject to a proper audit and approval prior to payment.
6. The Director of Pupil Services should submit all claims for payment timely. District officials should review the contracts for special education services and include a requirement to submit claims on a timely basis.
7. District officials should provide proper oversight and ensure that the purchasing agent implements the District's purchase policy and seeks competitive bidding when required.
8. The purchasing agent should ensure that RFPs are used to select professional services and proper documents are maintained for future needs.
9. The purchasing agent should ensure that all necessary quotes are obtained as required by the District's policy for items that are below the competitive bidding thresholds.
10. District officials should review the claims paid to the physical therapy contractor for mileage and determine whether the District should seek reimbursement.

Implementation Plan of Action:

3. The District will notify/re-notify all employees involved in the purchasing process with district procedures and policies. The Board of Education has approved training for all employees by the Internal Claims Auditor.
4. The District will do its best due diligence that any conflicts of interest will be discovered and be eliminated, or in rare instances, where it would be in the best financial interest of the District, will be approved and authorized by the Board of Education.
5. The District will implement a new procedure whereby a detailed claim form including required components and approvals must be submitted with the invoice prior to payment.
6. The Director of Pupil Services will work with the business office to submit claims on a timely basis. The district will implement a procedure where special education contracts are reviewed by district officials and the Board of Education.
Please refer to Implementation Plan #1.
7. Purchasing has implemented a procedure of monitoring vendor reports. The respective departments are notified when vendors are approaching aggregate limits. The Board of Education is considering the addition of a full time Purchasing Agent, but it is unknown as to whether or not the District will be able to add this position immediately given the current state of the economy and the uncertainties about the NYS Budget and funding levels of State Aid.
8. The district has done RFPs for professional services in the past and will ensure that RFP's are used to select all professional services in the future. The proper documentation will be retained for future needs.
9. The District has amended its policy and will ensure that all necessary quotes are obtained for items that are below the competitive bidding requirements.
10. The District will bring this to the Audit Committee and to the Board of Education if they wish to pursue any further.

Implementation Date:

3. Completion expected by June 2009
4. On going basis.
5. Completion expected by June 2009
6. On going basis.
7. September 2008, New position unknown

8. On going basis.
9. Policy changed October 28, 2008.
10. December 2008 or January 2009 Audit Committee Meeting.

Person(s) Responsible for Implementation:

3. Business Office, Internal Claims Auditor
4. Business Office, Board of Education
5. Business Office, Director of Pupil Services, Internal Claims Auditor
6. Business Office, Director of Pupil Services, Board of Education
7. Business Office, Board of Education
8. Business Office
9. Board of Education, Purchasing Agent
10. Audit Committee, Board of Education

Information Technology:

Audit Recommendation:

11. The Board and District officials should develop and adopt comprehensive IT policies and procedures for the deactivation of user accounts as soon as employees leave District service.
12. District officials should implement a policy requiring all users to change their passwords after a period of no longer than 90 days and monitor compliance with this policy.
13. District officials should ensure that District computers go on the time-out mode after a short period of inactivity.

Implementation Plan of Action:

11. A new procedure has been put in place. The policy will be sent to district attorneys for their review and sent to the Board of Education for their approval.
12. All employees of Carmel Central School District will be required to change their passwords every 90 days.
13. The District is in the process of implementing a time out mode district wide.

Implementation Date:

11. Completion expected by June 2009.
12. Completion expected by June 2009.
13. Completion expected by June 2009.

Person(s) Responsible for Implementation:

11. Acting Supervisor of Technology
12. Acting Supervisor of Technology
13. Acting Supervisor of Technology

Respectfully submitted,



Richard Kreps, President
Board of Education
Carmel Central School District

Teaching Children; Building Futures

Administrative Offices Post Office Box 296 81 South Street Patterson, New York 12563
(845) 878-2094 FAX # (845)878-2566 <http://www.carmelschools.com>

APPENDIX B

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. 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 Board Oversight, Purchasing, and Information Technology for further audit testing. Our testing included review and examination of the following:

- Policy manuals
- Financial statements and reports
- Invoices
- Purchase orders
- Claim forms
- Bid files
- Request for proposals (RFP) files
- Employees' contracts and amendments
- Contracts with independent contractors

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 C

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AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
John C. Traylor, Assistant Comptroller

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