



Cohoes City School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2005 — June 21, 2007

2008M-54



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Cohoes City 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 Cohoes City 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 Assistant Superintendent for Business and Operations maintains the accounting records, reports financial information to the Board and has been appointed as the purchasing agent. Payroll is prepared in-house, and most financial and non-financial data is maintained using the District's computer system.

Scope and Objective

The objective of our audit was to determine if internal controls over selected financial activities were appropriately designed and operating effectively for the period July 1, 2005 to June 21, 2007. However, in certain instances, we extended the scope of our audit period to prior or subsequent periods for the purpose of accumulating current or historical financial information, verifying leave accruals and separation payments, and verifying beverage revenues and product purchases. Our audit addressed the following related questions:

- Are internal controls over selected payroll processes appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over selected disbursements processes appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over selected cash receipts processes appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over selected purchasing processes appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over the District's computerized financial accounting system and its computer data and equipment appropriately designed?

Audit Results

District officials have not provided adequate oversight and attention to operations to adequately safeguard District assets. Although employment contracts and Board policies provided criteria to calculate payments and most fringe benefits, the Board did not provide sufficient guidance and oversight over separation payments. As a result, District officials paid the former Food Service Director and Treasurer separation payments totaling \$4,388 that were not authorized by the Board and to which they may not have been entitled.

The Board appointed the Secretary to the Superintendent to be the claims auditor. However, the Superintendent's secretary is ineligible for this position because her ability to act in an independent manner could be compromised. In addition, the District made payments to some vendors before transactions were properly audited and authorized. We identified 36 checks totaling \$817,987 that were printed, released and deposited by vendors before they were audited and authorized for disbursement. We also found that the Treasurer performs numerous incompatible duties. Due to these control weaknesses, there is an increased risk that inappropriate payments could be processed and remain undetected and uncorrected.

District officials have not established adequate controls over beverage revenues. Revenue from vending machine sales has been declining steadily since the 2003-04 fiscal year, although purchases have not declined in a corresponding way. Reported losses have totaled \$20,077 since 2003-04. We found that cash receipts are not always immediately counted or counted in the presence of others, and numerous individuals have unmonitored and unrecorded access to machines and inventories. In addition, certain beverage sales are not monitored and inventory records are not maintained to allow for a reconciliation of inventory to sales and purchases. As a result, this lack of accountability prevents District officials from determining whether cash or inventory has been misappropriated.

District officials are not consistently complying with competitive bidding laws and the provisions of the District's purchasing policy. We found three purchases totaling over \$96,000 that were made without advertising for public bids, as required. Further, although the Board has adopted a purchasing policy, District officials have not prepared specific procedures and forms for purchases that are not subject to competitive bidding, as required by the policy. As a result, the District did not seek competition for 8 of 14 purchases that we reviewed that did not require competitive bidding. In total, \$955,770 was purchased from these same vendors during our audit period with no indication that quotes or requests for proposals were obtained. Due to these control weaknesses, goods and services may not have been acquired at the lowest possible price.

Finally, District officials have not properly restricted access to the IT system and ensured that its assets are protected. The Treasurer is the computer system administrator and a number of other employees also have improper/imprudent levels of access. In addition, the Treasurer does not control the use of his electronic signature when checks are signed, audit logs are not reviewed to monitor access and the disaster recovery plan is inadequate. As a result, employees can improperly access records and process transactions without detection, checks can be produced for inappropriate purposes and the District may not be able to quickly resume operations in the event of a disaster.

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 plan to initiate corrective action. Appendix B includes our comment on the issue raised in the District's response letter.

Introduction

Background

The Cohoes City School District (District) is located in the City of Cohoes, Albany 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. The Assistant Superintendent for Business and Operations maintains the accounting records, reports financial information to the Board and has been appointed as the purchasing agent. Payroll is prepared in-house, and most financial and non-financial data are maintained using the District's computer system.

There are six schools in operation within the District, with approximately 2,110 students and 350 employees. The District's budgeted expenditures for the 2005-06 fiscal year were approximately \$28.6 million, which were funded primarily with State aid, real property taxes, and grants.

Objective

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

- Are internal controls over selected payroll processes appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over selected disbursements processes appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over selected cash receipts processes appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over selected purchasing processes appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over the District's computerized financial accounting system and its computer data and equipment appropriately designed?

**Scope and
Methodology**

We examined the District’s payroll processing, cash disbursements, cash receipts, purchasing and computerized data for the period July 1, 2005 to June 21, 2007. For certain issues, we extended the scope of our audit to prior or subsequent periods for the purpose of accumulating current or historical financial information, verifying leave accruals and separation payments, and verifying certain revenues and product purchases.

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

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B includes our comment on the issue raised in the District’s response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk’s office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

Payroll Process

Salaries, wages, overtime and employee benefits comprise a significant portion of the District's budget. District officials are responsible for establishing controls to prevent and detect payroll errors or irregularities, and to ensure that employees are only paid salaries and wages and provided benefits to which they are entitled. Policies and procedures must describe the responsibilities of each individual and must require written Board authorization for salaries and wages. Employment contracts must address matters such as hours worked, rates of pay, leave time, fringe benefits such as health insurance, and post employment benefits. Pay rates must be calculated in accordance with policies, procedures and contracts, and transactions must be verified and approved.

We tested employment contracts, time and attendance records, payroll records, Board authorizations and payroll checks to determine if salary changes, direct payments, personal reimbursements and health insurance buy-outs were properly supported and authorized. We conclude that internal controls over the payroll process are functioning appropriately since our tests identified no significant errors or irregularities. However, our review of separation payments identified concerns regarding two payments to non-union employees.

Separation payments are generally provided for in collective bargaining agreements, individual employment contracts or Board policies. Such payments are typically made in a lump-sum for leave time benefits not taken during employment. The Board is responsible for providing sufficient guidance and oversight to ensure that individuals receive only the separation payments to which they were entitled.

We found that the Board did not provide sufficient guidance and oversight over separation payments. The Treasurer or Assistant Superintendent for Business and Operations calculated separation payments using an electronic spreadsheet. A standard template or format was not used. The Assistant Superintendent signed off on the spreadsheets to indicate that the calculations were correct and in agreement with leave time balances, Board policy, contracts, etc. The Assistant Superintendent then forwarded the spreadsheets to the payroll clerk who prepared the checks. We reviewed the separation payments to one teacher, two principals and three non-union employees and identified concerns with the payments to the former Food Services Director and Treasurer, two of the non-union employees.

The District's Personnel Policy in effect when the former Food Services Director left the District provided that employees would receive payment for up to 23 unused vacation and personal days upon separation. In addition, the policy did not allow employees to roll over unused leave to subsequent years.

In February 2007, the former Food Services Director received a separation payment of \$14,870, which included \$2,723 for 13 unused vacation days. However, in September 2002, the former Food Services Director requested to carry over ten vacation days so she would have some vacation time in case of emergency. While not authorized by Board policy, the Superintendent approved this request. On June 29, 2006, the former Food Services Director requested to carry over an additional three days for use in July or August 2006 (the next fiscal year). The Superintendent also granted this request.

Based on a review of the minutes, the District Clerk informed us the Board had not authorized the Superintendent to approve the carryover of unused vacation days for any employees. The authority to do so resided in individual contracts or Board policies. Further, even if the Board had authorized the Superintendent to approve the carryover of unused vacation days, there was no indication in the approval letter of any intent for the days to be used in the separation payment calculation.

In September 2007, the former Treasurer received a separation payment of \$26,219. The Assistant Superintendent for Business and Operations and the payroll clerk asserted that this payment included six vacation days valued at \$1,665 for the 2008-09 fiscal year. However, this leave time would not be credited until July 1 (of 2008) when leave time is traditionally credited to employee leave records. Therefore, it was not available when he retired.

The District's employment contracts and Board policies provided criteria to calculate payments and most benefits. However, in the above cases, District officials analyzed this guidance and approved the carryover of leave time without Board authorization and made a questionable interpretation of Board policy. As a result, two individuals have received separation payments totaling \$4,388 which were not authorized by the Board and to which they were not entitled.

Recommendations

1. The Board should review and clarify its Personnel Policy regarding leave time carryovers and the inclusion of unused leave time in the separation payments for officers and employees not covered by collective bargaining agreements or individual employment contracts.

2. District officials should ensure that leave time records and personnel files have been reviewed, and that compliance with Board policy or contractual provisions has been verified before authorizing separation payments.
3. The Board should review the two situations identified above and, if appropriate, seek recovery of any overpayments that were not in compliance with Board policy.

Cash Disbursements

District officials are responsible for establishing an effective system of internal control to ensure that District funds are only disbursed for authorized purposes. The Board must appoint a claims auditor in accordance with State Education Department (SED) regulations and must ensure that audit certification dates are correct. Checks should not be printed and released prior to authorization.

District officials have not established an effective system of internal controls. We found that the Secretary to the Superintendent is the District's claims auditor, which diminishes the effectiveness of the claims audit process and is contrary to SED regulations. Further, audit certification dates are late or absent, and checks were printed, released, and deposited by vendors prior to being authorized for disbursement. In addition, the Treasurer performs numerous incompatible duties without compensating controls. As a result, there is an increased risk that inappropriate disbursements could occur and remain undetected and uncorrected.

Claims Audit

To ensure that disbursements are for valid expenses, or for goods or services that have actually been received, Education Law, with few exceptions, requires that claims be audited and approved prior to payment. Audited and approved claims must be listed on warrants that are certified and dated by the claims auditor. The Board is responsible for the audit of claims but may appoint a claims auditor for this purpose. SED regulations provide that the claims auditor shall report directly to the Board and that clerical or professional personnel directly involved in accounting and purchasing functions or under the direct supervision of the Superintendent of Schools not be appointed as the claims auditor. The appointment of a claims auditor, who has a clear understanding of the duties and responsibilities of the position, provides a level of assurance that District funds will be properly expended for authorized purposes.

The Board incorrectly appointed the Superintendent's secretary as claims auditor for the 2005-06 and the 2006-07 fiscal years. In addition, we found that the claims auditor did not audit and approve claims prior to payment and warrant certification dates were late or absent. All of the 2005-06 and 2006-07 warrants we tested were certified to indicate approval for payment. However, most of the 2005-06 warrant certifications were not dated and the warrants with dated certifications were printed well in advance of audit. In addition, Business Office staff members informed us that checks were printed before the warrants were printed.

Due to this control weakness, we tested 49 claims totaling \$961,830 to determine if they were valid claims. Although we found no improper claims, the failure to appoint a fully independent claims auditor increases the risk that District funds will be expended for unauthorized purposes.

In addition, we also examined 33 checks listed on the warrants with dated certifications, comparing the dates of certification with the clearing dates on the reverse sides of the checks. We found that 31 checks totaling \$784,859 were released by the District, deposited by vendors and in the process of clearing the bank, prior to the date of certification. We also examined 16 checks listed on the warrants without dated certifications, comparing the warrant printing dates with the clearing dates imprinted on the reverse sides of the checks. Five of these checks totaling \$33,128 were released by the District, deposited by the vendors and in the process of clearing the bank, before the warrants were printed. Finally, we tested the 33 claims to determine if they were properly authorized and accurate, and the underlying purchases represent valid District expenses for goods and services that were actually received. While generally these claims were adequately supported, we found four claims that were not sufficiently itemized, one claim without a signed purchase order, and three claims without signed receiving copies.

Although no errors or irregularities were noted, the failure to ensure that claims are audited and approved prior to payment and that warrant certification dates are timely increases the risk that the District could erroneously pay for items that are not authorized or valid District expenses, make duplicate payments or pay for goods and services that have not actually been received.

Treasurer

An effective system of internal control provides for the segregation of duties so that no single individual is responsible for all aspects of financial transactions (e.g., authorizing disbursements, disbursing moneys, and recording disbursements). A proper segregation of duties reduces the risk that errors and irregularities could occur and remain undetected and uncorrected.

The Treasurer's responsibilities include numerous incompatible duties. He makes transfers between bank accounts, records journal entries and deposits, has the authority to sign all checks, receives bank statements and cancelled checks without oversight, and prepares bank reconciliations, which are not independently reviewed. Further, the Treasurer is the computer system administrator. This allows him to control and use all aspects of the software, including management overrides, and circumvent the District's payroll check software for

fraud prevention by simply sending an e-mail to the bank to authorize the payment of checks with no review or audit trail. As a result, the Treasurer has the ability to initiate inappropriate cash disbursements and hide those transactions.

Due to these internal control weaknesses, we reviewed bank reconciliations, related bank statements and cash ledger accounts for May 2007 (except for the extra-classroom activity account). We also compared 49 checks to their corresponding claim vouchers and warrants, testing for agreement as to date, vendor and amount, and reviewed checks for questionable endorsements. In general, the work was performed correctly and supporting documentation was on file. However, the assignment of so many incompatible duties to one individual increases the risk that errors or irregularities could occur and not be detected and corrected.

Recommendations

4. The Board should appoint a claims auditor in accordance with SED regulations.
5. The Board should require that all claims be audited and certified by the claims auditor prior to disbursing funds to vendors.
6. District officials should review the financial duties of the Treasurer and, where possible, reassign those duties so that the Treasurer's work is independently verified by other District staff in the regular course of business. At a minimum, the duties of recordkeeping, check preparation, and bank account reconciliation should be separated. If these duties cannot be separated, compensating controls should be implemented.
7. District officials should ensure that the responsibilities of the system administrator are not assigned to anyone, such as the Treasurer, who is involved in Business Office functions.

Cash Receipts

The school lunch fund purchases bottled beverages pursuant to an exclusive contract with a beverage vendor. The beverages are sold in the high school cafeteria through the lunch line and four vending machines, and in the middle school cafeteria through three vending machines. Our analysis of revenue and expense ledgers disclosed that beverage sales had declined steadily since the 2003-04 fiscal year. However, purchases did not decline at a corresponding rate.

Juice	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Vending Machine Sales	\$45,116	\$35,789	\$44,191	\$36,649	\$28,647	\$15,453
Beverage Purchases	(\$37,375)	(\$34,032)	(\$40,040)	(\$43,415)	(\$31,619)	(\$25,792)
Gain/(Loss)	\$7,741	\$1,757	\$4,151	(\$6,766)	(\$2,972)	(\$10,339)

Because beverage sales are exclusively in the form of cash there is a significant risk of misappropriation and conversion to personal use. Due to this risk, we reviewed beverage operations and determined that internal controls are weak. District officials could not account for all purchases, could not verify cash collections and could not identify the causes of the negative trends.

Cash Collections — Sound internal controls require that cash be frequently removed from machines to prevent the accumulation of significant amounts. After removal, receipts should be counted immediately and the amounts recorded on cash count sheets or deposit slips. Two individuals should sign off on cash counts and be present when the moneys are placed into locked deposit bags. Moneys/deposit bags should be kept in a locked safe while awaiting deposit, deposits should be made frequently and deposit slips should be sufficiently detailed so that the source and composition of deposits can be readily identified. All beverage sales that are not made through vending machines should be recorded and reported separately to maintain accountability.

We identified several weaknesses in internal controls over cash collections that increase the risk that errors or irregularities can occur. For example, the food service secretary does not count high school cash receipts in the presence of a supervisor or anyone else. Middle school cash receipts are not counted before being placed into locked bags and sent to the Food Service Office. Beverage sales at the high school cafeteria¹ are not keyed to the cash registers separately and the

¹ Beverages have been sold through the high school cafeteria lunch line for at least five years.

Food Service Office does not report them separately on the monthly reports to the Board.

Access and Oversight — Cash and beverages can be removed from the vending machines when the doors are open. Therefore, access to machine keys must be restricted to only those staff members who are authorized to collect moneys and restock the machines, and the number of authorized individuals should be limited. Access to central inventories should also be limited to the individuals who restock the machines, and access to the machines and inventories should be monitored. Sales should be monitored, and inventory records should be maintained and reconciled to sales and purchases.

At least four individuals collect cash from and stock the vending machines. In addition, a number of cafeteria workers have access to the master keys for the middle school and high school vending machines and the beverage storage areas at both schools. Further, access to the machines and inventories is not monitored, and the Assistant Superintendent for Business and Operations does not monitor beverage sales or maintain inventory records to allow for a reconciliation of inventory to sales and purchases.

Due to the lack of internal controls at all levels, District officials cannot establish accountability and have no way to identify shortages in cash or inventory. District officials cannot account for the disparity between beverages purchased and cash collected for the last three fiscal years, all purchases cannot be accounted for, and cash collections cannot be verified.

Recommendations

8. The Food Service Office should ensure that receipts are counted immediately upon removal from the machines and that two individuals are present. Upon completion, the amount should be recorded and both individuals should sign off on the documentation.
9. The Food Service Office should keep accurate records of all beverage sales including lunch line sales.
10. The Food Service Office should ensure that access to vending machines keys and inventory storage areas is restricted to only those staff members who require it.
11. The Business Office should monitor monthly beverage sales and periodically reconcile inventory to sales and purchases.

Purchasing

To protect against favoritism, extravagance, fraud and corruption, procurement controls must be established to ensure that District resources are used effectively and in compliance with laws and regulations. General Municipal Law (GML) requires the District to comply with competitive bidding laws and to establish procedures for purchases that are not subject to competitive bidding to ensure that materials, supplies and equipment of the desired quality are obtained, in the quantities needed, and at the lowest price.

The District is not consistently complying with competitive bidding laws and has not established procedures and forms for purchases that are not subject to competitive bidding, as required by its policy. As a result, significant purchases have been made without the benefit of soliciting competition and District officials do not have adequate assurance that they are acquiring goods or services at the lowest price.

Competitive Bidding

GML requires school districts to advertise for bids for purchase contracts of \$10,000 or more and public work contracts of \$20,000 or more. In lieu of advertising for bids, school districts may use contracts awarded through the New York State Office of General Services (OGS) or participate in cooperative bidding with other governmental entities such as BOCES. The Board must award all contracts.

We reviewed seven vouchers totaling \$314,789 to test for adherence to competitive bidding requirements. We found that three vouchers totaling \$96,380 were not competitively bid, as follows:

Fiscal Year	Item	Amount of Award
2005-06	Computer Hardware	\$48,971
2005-06	Copier Maintenance	\$21,853
2006-07	Copy Paper	\$25,556
	Total	\$96,380

The District's purchase of computer hardware included 121 refurbished desktop computers with DVD burners and video cards installed, and a three-year hardware warranty. District officials stated that there were other sources for refurbished computers but they did not competitively bid this purchase because they felt were getting a good price.

The District copier maintenance costs were associated with machines rented from a State contract vendor. District officials felt that they acted in good faith and complied with bidding requirements because the maintenance was being provided by the same vendor. However, per the OGS contract, the maintenance services applied if the machines were actually purchased from this vendor.

District officials stated that the price obtained for copy paper was better than the OGS contract and that was the reason why the purchase was not bid.

The failure to comply with competitive bidding requirements increases the risk goods and services will not be procured at the lowest price possible.

Purchasing Policy

GML requires the Board to establish a policy for the procurement of goods and services that are exempt from competitive bidding. While the Board has adopted a purchasing policy, it does not specifically set forth the types of purchases and dollar thresholds for which competitive prices must be sought. Instead, the policy states that purchases not requiring competitive bidding will be procured in a manner that ensures the prudent and economical use of public monies. The policy also states that the Superintendent is responsible for establishing and implementing the procedures and standard forms for purchasing.

We found that quotations and requests for proposals (RFPs) were sometimes used to procure goods and services. However, the Superintendent and purchasing agent did not establish and implement procedures and standard forms. For example, there was no written guidance regarding the use of written or verbal quotations, dollar thresholds for quotations, the number and nature of quotations for various dollar thresholds and when RFPs were appropriate.

We reviewed ten purchase vouchers and four professional service vouchers totaling \$352,703 to determine the extent to which purchases were made without the benefits of soliciting competition. There was no indication that competitive prices (alternative proposals or quotations) were obtained for 8 of the 14 purchase and professional service vouchers that we reviewed totaling \$335,789.

Fiscal Year	Type of Voucher	Item	Amount of Voucher	Audit Period Total
2005-06	Purchase	Copier Rental	\$20,352	\$193,346
2006-07	Purchase	Copier Rental	\$20,352	as above
2005-06	Purchase	Floor Resurfacing	\$8,000	\$8,000
2005-06	Purchase	Sports Field Repairs	\$7,200	\$7,200
2006-07	Purchase	Custodial Supplies ^a	\$3,199	\$3,199
2005-06	Professional Service	Architectural Services	\$22,500	\$730,025
2006-07	Professional Service	Architectural Services	\$248,186	as above
2005-06	Professional Service	Literacy Program Evaluation	\$6,000	\$14,000
		Total	\$335,789	\$955,770

^a Although total purchases from this vendor were \$10,244 for the audit period, we did not examine the other vouchers and did not determine whether or not quotes were solicited.

In total, District officials purchased \$955,770 from these vendors during our audit period. There was no indication that alternative proposals or quotations were obtained for any of these purchases. Because the District did not use quotations or RFPs in these instances, the District may have incurred higher costs than necessary for the goods and services purchased.

Recommendations

12. District officials should comply with GML competitive bidding requirements when procuring goods and services.

13. District officials should formally establish a detailed procurement policy and standard forms for goods and services that are exempt from competitive bidding. At a minimum, this policy should provide written guidance regarding the use of written or verbal quotations, dollar thresholds for quotations, the number and nature of quotations required at various thresholds, when RFPs are appropriate, and documentation requirements.

Computerized Data

The District uses information technology (IT) to initiate, process, record, and report transactions. The pervasive use and complexity of these computerized functions produces internal control risks such as unauthorized access to data, unauthorized changes to master files, and the potential loss of data that must be addressed. District officials must ensure that system access is properly restricted, the check signing process is properly supervised, audit logs are reviewed to monitor user activity and a disaster recovery plan is established to ensure that operations can be resumed in the event of a disaster.

We found that access to the District's IT system is not properly restricted. The Treasurer, as the chief financial officer, is also the system administrator, and a number of other employees also have inappropriate levels of access. In addition, the Treasurer does not control the use of his electronic signature in the check signing process, audit logs are not reviewed to monitor user activity and the disaster recovery plan is inadequate. As a result, there is an increased risk that employees can improperly access records and process transactions without detection, checks could be produced for inappropriate purposes, and that the District may not be able to quickly resume operations in the event of a disaster.

User Access

An effectively controlled computerized financial system restricts user access to reduce the risk that financial information or resources could be used without proper authorization. The system administrator has administrative access and therefore the ability to add new users and change user access rights. With this ability, the system administrator can control and use all aspects of the software and override many controls built into software applications. Therefore, the duties of the system administrator must be segregated from the duties and financial responsibilities of the Business Office. In addition, the access rights of other individuals must be restricted to only those applications that they need to perform their job duties to prevent employees from being involved in multiple aspects of financial transactions.

The District uses an accounting software package to process and maintain financial transactions. The basic applications allow users to record cash receipts and disbursements, encumber purchase orders, process accounts payable and process payroll checks. Access privileges include the ability to add, update, delete and print transactions. Several individuals have inappropriate access because access rights have not been properly restricted. The failure to properly restrict user access has given several employees the ability to initiate

improper transactions and change the accounting records to prevent detection by management.

- **Administrative Access** — The Treasurer is the system administrator. As the Treasurer, he has broad financial responsibilities, is involved in the day-to-day Business Office operations and is significantly involved in financial transactions. As the system administrator, he has administrative access and therefore access that is greater than necessary to perform his job duties and he has the ability to control access to the system.
- **Purchase Orders** — The accounts payable clerks have the ability to add or modify purchase order amounts or information after purchase orders are approved and entered into the system. There is no supervisory approval or password required to make such changes.
- **Payroll** — The payroll clerk, District Clerk, Treasurer, Assistant Superintendent for Business and Operations, his secretary, and the Assistant Superintendent for Educational Services all have the ability to create new employee records, update employee information, input salary detail and set up direct deposits. We also found that any individual that has “Read only” access to the payroll module would actually have full access. However, at present, nobody has “Read only” access to the payroll module.

Treasurer’s Signature

The Treasurer is the custodian of all District moneys. As such, the Treasurer must sign checks for disbursement on behalf of the District. When authorized by the Board, the Treasurer may sign checks with a facsimile signature. To ensure that unauthorized payments are not made, the Treasurer must retain control over and directly supervise the use of any signature plates, signature disks or other media used to affix his signature.

The Treasurer does not control access to, or directly supervise, the use of his facsimile signature. An electronic signature disk is used for payroll. The disk is kept in a locked file cabinet near the payroll clerk’s desk. However, the payroll clerk has access to the contents of the file cabinet including the disk and the disk is not password-protected. The accounts payable software used for vendor checks and the signature used is also not password protected. We also found that the Treasurer does not supervise the payroll clerk or accounts payable clerks² when they generate checks with his signature affixed.

² There are two accounts payable clerks. Both have the ability to generate and electronically affix the Treasurer’s signature to vendor checks.

Because the Treasurer does not control access to or directly supervise the use of his facsimile signature, there is an increased risk that inappropriate checks can be generated without detection.

Audit Logs

An effective computerized financial system must have the capability to track and identify the individuals accessing the system, the transactions being processed and any changes made to the system or its data. Audit logs provide an automated mechanism for tracking individual activity, reconstructing events and monitoring problems. Audit logs can maintain a record of activity by system or application, identify each person who accesses the system, record the time and date of the access, identify the activity that occurred and record the time and date of logoff. Management should periodically review audit logs to monitor user activity for unusual or unauthorized transactions.

Prior to June 2007, the District's financial system applications were not capable of producing audit logs. In June 2007, the District upgraded some of its financial system applications to versions capable of generating these logs. However, as of October 24, 2007, at least one application still had not been upgraded. As a result, management's ability to periodically review audit logs to detect and address unauthorized activities was limited during most of our audit period and still is to some degree. These weaknesses could result in unauthorized access (or changes) to data or applications occurring and not being detected timely.

Disaster Recovery Plan

A disaster recovery plan is a key component of an organization's contingency planning program. A plan must be developed for restoring data and critical applications that includes arrangements for alternate processing facilities in case the usual facilities are significantly damaged or cannot be accessed. A disaster recovery plan should specifically:

- Identify and rank IT assets and associated risks.
- Detail the roles and responsibilities of all staff who will be involved in recovery activities.
- Address the order of reactivation and the safe location and maintenance of back-up components and data.
- Require contracts or arrangements for hardware, software, telecommunications and office supplies.

The plan should be developed with input from the user and data processing departments, and reflect the risks and operational priorities of the organization. The plan should be clearly documented, communicated to affected staff, updated to reflect current operations, and periodically tested and adjusted as needed.

While District officials have developed a disaster recovery plan, the plan does not sufficiently address all necessary components and does not contain the level of detail necessary to ensure that the IT system could be restored in a timely manner. For example, the plan does not identify and rank critical IT assets (including hardware, software, personnel and supplies) and the risks associated with those assets, does not sufficiently detail the roles and responsibilities of all staff who will be involved in the recovery process, or address the order of reactivation and the safe location and maintenance of back-up IT components and data. Additionally, the plan does not require formal contracts or arrangements with vendors to supply computer hardware and software, telecommunication services and facilities or business forms or other office supplies for alternate data processing.

Without a comprehensive (and implemented) disaster recovery plan, the District remains at risk that it may not be able to effectively recover its essential IT operations should a disaster occur.

Recommendations

14. District officials should change the system access rights of the Treasurer and appoint a system administrator who is external to the Business Office.
15. District officials should regularly monitor access to the computerized financial system to ensure that employees have access to only the functions that are consistent with their job duties.
16. District officials should instruct the system programmer to ensure that individuals with “Read only” access to the payroll module do not have full access to the payroll module.
17. The Treasurer should control access to his electronic signature, regardless of storage media, and should supervise its use when checks are generated with his signature affixed.
18. District officials should ensure that all financial software applications have the capacity to generate audit logs. District officials should routinely review audit logs to monitor user activity.

19. District officials should revisit the disaster recovery plan and modify it to include all the components of an effective plan.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

The District's response letter refers to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

Cohoes City School District
Administration Center
7 Bevan Street
Cohoes, NY 12047

Robert K. Libby
Superintendent of Schools
Phone: 518-237-0100 x2351
Fax: 518-233-1878
e-mail: rlibby@cohoes.org

Peggy O'Shea
Assistant Superintendent for
Educational Services
Phone: 518-237-0100 x2350
Fax: 518-233-1878
e-mail: poshea@cohoes.org

Karen Kemp
Director of Special Programs
Phone: 518-237-0990 x6226
Fax: 518-237-2532
e-mail: kkemp@cohoes.org

Adam J. Hotelling
District Treasurer
Phone: 518-237-0100 x2364
Fax: 518-237-2912
e-mail: ahotelling@cohoes.org

Web Page: www.cohoes.org

July 15, 2008

Office of the State Comptroller
Division of Local Government & School Accountability
110 State Street
Albany, New York 12236

Written Response to the Draft Audit Report

The Cohoes City School District would like to submit the following response to your report of examination for the "Internal Controls Over Selected Financial Activities" for the period July 1, 2005 to July 21, 2007.

We would like to extend our gratitude for the time spent reviewing the business operations of our district and for meeting with us on June 20, 2008. The District is appreciative of the explanations and guidance offered during that exit meeting. The District agrees with many of the recommendations in the report and will outline our appropriate action in our Corrective Action Plan. At this time, we are thankful for the opportunity to respond to your report so that the District may contextualize a few aspects of the report, as bulleted below.

- Separation Payments – The District has consistently applied the policy for the two employees mentioned during the audit period, as well as for the one employee that left the District after the audit period, but before receipt of the audit draft. The interpretation afforded a prorated earning of vacation leave, a concept routinely used with all of the other employment groups. The District has already clarified the policy in regard to vacation rollover approval and will further clarify the section of separation payments, as will be seen in the Corrective Action Plan, to decrease the variability of interpretation.
- Internal Claims Auditor – The District had been relying on a pamphlet prominently displayed on the SED webpage entitled "Claims Auditor Internal Audit Function & Audit Committee" published as recently as August 2006 for guidance (See Appendix A-1 for section). This outline specifically states who may not be appointed internal claims auditor, in which the Secretary to the Superintendent is not mentioned. At the time of appointment, the District felt we were within legal requirements and establishing a cost savings by appointing a current employee. The link referenced below was sent to us after the exit interview. The District is now researching its options and will provide its final decision in the Corrective Action Plan.
(http://www.emsc.nysed.gov/mgt/serv/fiscal_accountability_legislation/html/claims_auditor.htm)
- Food Services Vending – Due to the cash transactions that occur in beverage sales, the District agrees that there is risk in the collection of these funds. With regard to the negative trends, however, the

District contends that it may be the result of accounting for revenue in the incorrect account code. For instance, the beverage sales may have inadvertently been coded to snack or lunch sales. Despite this contention, the District has already implemented greater internal controls which will be detailed in the Corrective Action Plan.

- Purchasing

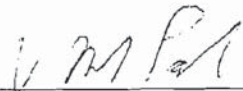
RFP / Professional Services - The District would like to reiterate the fact that architectural services fall under the umbrella of professional services, which is not required to be bid due to the specialization of the work and the realization that less is not always best for these extremely important services. The District would also like to stress that architectural services comprised a very large portion (\$730,025 of the \$955,770) of the expenses that were audited and criticized in the "Purchasing Policy" section of the report. Prior to the audit, the District had acquired architectural services through an RFP process. The firm the district used to use, however, fell out of favor with the District. In the attempt to choose a new vendor, the District used the verbal recommendations of other districts who were highly pleased with their architectural firms. Currently, we are very pleased with the outcome of those recommendations.

See
Note 1
Page 30

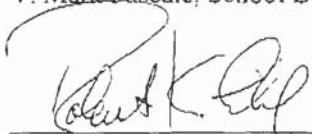
State Contracts - The District had been under the interpretation that purchases could be executed using the "OGS or less" standard, which is defined in state finance law and still be within competitive bidding requirements. During the audit, it was brought to our attention that state finance law does not apply to school districts. Therefore, this practice is no longer used. In regards to the Copier Rental, the District and the State contract vendor was under the impression that the lease was covered under the State contract. As a result, both parties felt the maintenance was covered as well.

The Cohoes City School District views the report and recommendations as a starting point to enhance the internal controls over the District operations. The District has already made numerous strides to comply with these recommendations and would like to extend its appreciation to the Office of the State Comptroller for their employees' professionalism during this process.

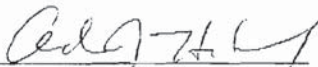
Sincerely,



V. Mark Pascale, School Board President



Robert K. Libby, Superintendent



Adam J. Hotelling, District Treasurer

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Our report does not state that this professional service (architectural services) should have been competitively bid. Our report discloses that the District did not have written guidance concerning the use of written or verbal quotes or RFPs for those purchases that do not require competitive bidding. Competitive proposals or quotations were not sought for the architectural services and the District may not have acquired these services in the most economical manner.

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

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial 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 objective and scope by selecting for audit those areas most at risk. We selected certain aspects of payroll processing, cash disbursements, cash receipts, purchasing and computerized data for further audit testing. To accomplish our audit objective and obtain valid evidence, we reviewed:

- Administrator and employee contracts, separation payments, time and attendance records, personnel files, payroll records, Board minutes and payroll checks. We also reviewed the leave time and attendance records for the period June 22, 2007 through September 30, 2007 for the former District Treasurer.
- Cash disbursement journals, paid claims, payrolls, abstracts, bank statements, all District bank reconciliations for the month of May 2007 (excluding extra-classroom activity funds), deposit slips and cancelled checks.
- Monthly and daily sales receipts spreadsheets for juice sales, and ledgers. We also interviewed Business Office and Food Service Department personnel, and observed operations.
- Competitive bidding laws, bid and quote files, vouchers, and minutes of the Board and District policies for the period July 1, 2005 through June 21, 2007.
- All District policies for computer use and information technology. In addition, we interviewed District officials concerning user access, facsimile signatures, audit logs, backups of data and disaster recovery plans. We also physically inspected the location of system equipment.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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