



Cooperstown Central School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — January 28, 2008

2008M-134



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

September 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 Cooperstown Central School District, entitled Internal Controls Over Selected Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Cooperstown 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 District also employs a Business Manager who is responsible for managing the District's finance-related operations and overseeing the work of the Business Office staff. The Board appointed the Business Manager as the District Treasurer; therefore, he is responsible for signing all the District checks. The Board also appointed the Superintendent as the District's Deputy Treasurer which authorizes her to sign the District checks in the Business Manager's absence.

The District uses one networked computer system, supported by 10 servers, to process and store financial and non-financial data. Financial data is stored on a separate and dedicated server. The District employs a Network System Administrator and a computer technician to oversee the network system.

The District, as a public employer, enrolls its eligible employees in the New York State and Local Employees' Retirement System (ERS).

Scope and Objectives

The first objective of the audit was to evaluate internal controls over payroll, cash receipts and disbursements, and computerized data and assets and the second objective was to review the District's compliance with Education Law relating to fingerprinting for the period of July 1, 2006 to January 28, 2008. The third objective was to determine if District officials properly classified employees enrolled in the ERS for the period March 1, 2007 through March 6, 2008. Our audit addressed the following related questions:

- Did the Business Manager properly segregate duties over payroll and cash receipts and disbursements processes to ensure that District assets are adequately safeguarded?
- Did the Board establish comprehensive policies and procedures addressing the safeguarding of computerized data and assets?

- Did District personnel fully comply with Education Law regarding fingerprinting prospective school employees and contractors?
- Did District officials take steps to ensure that the persons they enrolled in the ERS were valid public employees rather than independent contractors or consultants?

Audit Results

We found weaknesses in the District's controls over the payroll and cash receipt and disbursement processes. We also identified weaknesses in IT administration and background checks for independent contractors caused by a lack of management oversight and attention to these operations. At times, District officials had not established appropriate policies and procedures to guide the actions of officials and employees, and at other times, officials or employees did not implement the policies established. Although we did not find any material exceptions, the potential exists for errors and irregularities to occur and not be corrected in a timely manner, and the welfare of students is at risk.

For example, the Business Manager did not properly segregate duties over payroll and cash receipts and disbursements processes and has not implemented sufficient mitigating controls. We found that the payroll clerk has complete control over the payroll process. The payroll clerk, the accounts payable clerk, and the Business Manager all have full user access rights to the payroll functions in the financial software. In addition, the Business Manager has most controls over the cash receipts and disbursements processes and also has administrator rights¹ in the financial software which gives him full user access rights to all functions within the general ledger and budgeting software. Although we did not find any material discrepancies, the concentration of key duties with one individual and granting access to the financial software with insufficient oversight increases the risk that errors and/or irregularities could occur and go undetected and uncorrected.

The Board also has not established comprehensive policies and procedures to effectively address the safeguarding of computerized data and assets. Specifically, no policies and procedures have been designed to limit access to the financial data. We found that user access rights were not limited within the financial software based on job functions, and access to the payroll software was not protected by a password system. In addition, the Board has also not developed a formal disaster² recovery plan. These weaknesses significantly increase the risk that sensitive or mission-critical data and assets could be lost, compromised, or damaged.

Further, District personnel did not fully comply with Education Law regarding fingerprinting prospective school employees and contractors. Although the District had procedures in place to perform employee background checks, they did not have any procedures in place to ensure that the background checks were performed for independent contractors who have direct contact with students. We found that District officials did not perform fingerprint-supported criminal background checks on 14 independent contractors who had direct contact with students and file the information with the New York State Education Department, as required by law. Without proper background checks, the District is potentially placing its students' welfare at risk.

¹ Administrator rights grant a user sufficient access rights to allow them to manage the access rights of other users and carry out other high-level computer management tasks.

² A disaster is defined as a sudden, unplanned catastrophic event that compromises the integrity and data of the IT systems. This could include fire, a computer virus or inadvertent employee action.

Lastly, although we did not find any material exceptions, we found weaknesses in internal controls over the District’s worker classification process, increasing the risk that the District could improperly enroll non-employees (independent contractors) in the ERS.

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 take corrective action. Appendix B includes our comment on an issue raised in the District’s response letter.

Introduction

Background

The Cooperstown Central School District (District) is located in the Village of Cooperstown and the Towns of Burlington, Hartwick, Middlefield, New Lisbon, and Otsego in Otsego 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 District also employs a Business Manager who is responsible for managing the finance-related operations of the District and overseeing the work of the Business Office staff. The Board appointed the Business Manager as the District Treasurer; therefore, he is responsible for signing all the District checks. The Board also appointed the Superintendent as the District's Deputy Treasurer which authorizes her to sign the District checks in the Business Manager's absence.

The District uses one networked computer system, supported by 10 servers, to process and store financial and non-financial data. Financial data is stored on a separate and dedicated server. The District employs a Network System Administrator and a computer technician to oversee the network system.

The District, as a public employer, enrolls its eligible employees in the New York State and Local Employees' Retirement System (ERS).

Objectives

The first objective of the audit was to evaluate the internal controls over payroll, cash receipts and disbursements, and computerized data and assets and the second objective was to review the District's compliance with Education Law relating to fingerprinting. The third objective was to determine if District officials properly classified employees enrolled in the ERS. Our audit addressed the following related questions:

- Did the Business Manager properly segregate duties over payroll and cash receipts and disbursements processes to ensure that District assets are adequately safeguarded?

- Did the Board establish comprehensive policies and procedures addressing the safeguarding of computerized data and assets?
- Did District personnel fully comply with Education Law regarding fingerprinting prospective school employees and contractors?
- Did District officials take steps to ensure that the persons they enrolled in the ERS were valid public employees rather than independent contractors or consultants?

Scope and Methodology

We examined the District’s internal controls over payroll, cash receipts and disbursements and over the computerized data and assets for the period July 1, 2006 to January 28, 2008. In addition, we reviewed the District’s compliance with Education Law regarding fingerprinting prospective school employees and contractors for the same audit period. We also reviewed the District’s classification of employees enrolled in the ERS for the period March 1, 2007 through March 6, 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 C of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on an 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, 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.

Segregation of Duties

The Business Manager has the responsibility to assess the risks associated with the payroll and cash receipts and disbursements processes and institute appropriate internal controls to mitigate those risks. One way to accomplish this is to make sure that duties are properly segregated so that one person may not control all phases of a transaction. In general, the transaction approval function, the record keeping function, the asset custody function and the reconciliation function must be separated. Segregation of duties is primarily designed to prevent or detect errors and fraudulent activity in a timely manner. If the Business Manager is not able to adequately segregate duties, mitigating controls should be implemented.

We determined that the Business Manager had not adequately segregated duties over the payroll and cash receipts and disbursements processes and has not implemented sufficient mitigating controls. Furthermore, the District's internal and external auditors reported these same weaknesses to the District within their reports.³

Payroll

An effective component of the payroll process is proper segregation of duties. Payroll duties need to be segregated to ensure that no one person controls all phases of the payroll cycle, such as adding and deleting employees, entering and modifying pay rates, processing the payroll, preparing and signing the payroll checks, and reconciling the payroll account. If it is not feasible to segregate duties, the District official responsible for overseeing this process needs to consider mitigating this weakness by having someone independent of the process review and certify the completed payrolls. At a minimum, this review could include random checks to verify that payrolls are based upon actual hours or days worked and that Board authorized hourly rates or annual salaries are used. In addition, payrolls should be assessed for reasonableness and scanned for unusual, unexpected and unexplained transactions or potential fictitious employees.

The Business Manager did not properly segregate the duties over the payroll process to ensure that payroll-related transactions were being accounted for properly and accurately. The payroll clerk has complete control over the payroll process and full user access rights to the payroll functions in the financial software. She is directly responsible for adding and deleting employees, entering and modifying pay rates, processing the payroll, preparing paychecks,

³ The internal auditor cited this weakness in his report dated April 19, 2007. The external auditor cited this weakness in his report for the year ended June 30, 2007.

and reconciling the payroll account. The accounts payable clerk, who is the back-up payroll clerk, and the Business Manager (Treasurer), who is responsible for signing the paychecks, also have full access to the payroll functions in the financial software. The Superintendent certifies the payroll by signing a payroll detailed expense distribution report. However, we did not find this certifying process to be sufficient to mitigate this weakness because the report only indicates the payroll dollar amounts by account code and does not include the employees' names.

Due to the lack of segregation of duties over the payroll process, we reviewed the following compensation payments to verify that the payroll clerk was accurately accounting for wages and benefits and if payments were made in accordance with Board-approved rates and employee contracts:

- Compensation payments made to 20 employees during the 2006-07 and 2007-08 fiscal years
- All additional benefits paid to the Superintendent and Business Manager
- Lump-sum payments made to 14 employees.

In order to ensure that employees receiving compensation were legitimate, we reviewed personnel files, including identification forms and employment eligibility verification and wage withholding forms, for employees on payroll who were not reported to the ERS or TRS⁴ in November 2006 and January 2008. We also reviewed payroll withholdings for five employees during the 2006-07 and 2007-08 fiscal years to verify that they were accurate and adequately supported.

Cash Receipts and Disbursements

The Business Manager also has the responsibility to ensure that all District moneys are accounted for properly. One way to accomplish this is to make sure that duties are properly segregated over the cash receipts and disbursements processes so that one person may not control all phases of a transaction. For example, one person must not be able to collect cash, record receipts, make deposits, reconcile bank accounts, perform bank transfers and journal entries, and sign checks. If it is not feasible for officials to adequately segregate the duties over cash receipts and disbursements, then District officials must ensure that mitigating controls are in place to protect assets. These controls could include having a different staff member prepare the bank reconciliations. In addition, someone other than the person

⁴ Teachers' Retirement System

preparing journal entries and bank and wire transfers should review and approve them.

The Business Manager did not properly segregate the duties over the cash receipts and disbursements process to ensure that these transactions were being accounted for accurately. The Business Manager has administrator rights⁵ within the financial software, which gives him full user access rights to all functions within the general ledger and budget software. The Business Manager also has complete control over most of the cash receipts and disbursements processes. He is directly responsible for receiving most of the moneys, creating press-numbered duplicate receipts, recording all moneys received within the financial software except capital moneys which he records in his own manual records, making the majority of the deposits, signing all checks, and reconciling all bank accounts (which includes comparing adjusted bank balances to accounting records) except the payroll account. In addition, he makes all journal entries and bank and wire transfers without the review and approval of someone else. The accounts payable clerk and the payroll clerk are responsible for entering all disbursements into and printing all checks from the District's financial software. Although the Business Manager does not enter disbursements and print checks from the financial software he has access to these functions through his administrator rights. The Business Manager records all capital disbursements in his manual records and prepares all capital checks manually because the capital projects fund accounting records are not included in the financial software.

Due to the lack of segregation of duties over the cash receipts and disbursements processes we reviewed certain cash receipts to ensure they were properly received, recorded and deposited timely and intact and reviewed certain adjusted bank balances to ensure they agreed with the accounting records. We also reviewed certain disbursements to ensure they were supported and represented proper charges against the District. Lastly, we reviewed certain journal entries and bank and wire transfers to ensure they were appropriate. Specifically we reviewed the following for accuracy, appropriateness and timeliness:

- All bank reconciliations for all accounts for November 2006 and December 2007
- Thirty-five inter-fund bank transfers totaling \$3.5 million between District bank accounts

⁵ Administrator rights grant a user sufficient access rights to allow them to manage the access rights of other users and carry out other high-level computer management tasks.

- Thirty outgoing wire transfers, debit memos, unusual withdrawals, or transfers totaling \$11.4 million
- Ten general journal entries totaling \$866,630
- All credits to the general ledger cash accounts
- Twenty-eight press-numbered duplicate receipts totaling \$705,590
- Five State aid payments totaling \$1.5 million
- Ten voided checks from the general, trust and agency, and Federal funds to ensure they were properly defaced and kept on file
- Fifty-eight disbursements totaling \$28,950 from the general, trust and agency, and Federal funds
- All deposits and withdrawals from the capital project fund checking and savings account bank statements.

While our testing of payroll and cash receipts and disbursements transactions did not reveal any material discrepancies, concentrating key duties with one individual with little or no oversight significantly increases the risk that errors and/or irregularities might occur and go undetected and uncorrected.

The Business Manager informed us that he is unsure how to adequately segregate duties in the payroll and cash receipts and disbursements processes with the limited staff within the Business Office.

Recommendation

1. The Business Manager should provide for an adequate segregation of duties so that no one person controls all aspects of the payroll and cash receipts and disbursements processes. If it is not feasible to adequately segregate these duties, the Business Manager should implement mitigating controls for payroll and cash receipts and disbursements.

Computerized Data and Assets

District officials rely on computerized data to make financial decisions and report to State and Federal agencies. If the computers on which this data is stored fail or if the data is lost or altered, the results could range from inconvenient to catastrophic. The Board is responsible for adopting policies and procedures and developing controls to safeguard computerized data and assets. It is important that these policies and procedures include controls to monitor access to the financial software and reduce the risk of misuse and/or alteration of data and a potential financial loss to the District. For example, someone outside of the Business Office functions should have administrator rights to the financial software so that the Business Office employees cannot grant themselves unauthorized access. It is also important that the Board adopts a formal disaster⁶ recovery plan to provide guidance on the prevention of the loss of computer information as well as the recovery of data in the event of a disaster. The Board should communicate this plan to all District employees and periodically test the plan to ensure that it is effective.

The Board has not effectively addressed the safeguarding of computerized data and assets by establishing and monitoring policies and procedures. Specifically, no policies and procedures have been designed to limit access to the financial data. We found that user access rights were not limited within the financial software based on job functions and access to the payroll software was not protected by a password system. In addition, the Board has not developed a formal disaster recovery plan. These weaknesses significantly increase the risk that sensitive or mission-critical data and assets could be lost, compromised, or damaged.

Access to Financial Software

It is important that policies and procedures be designed to limit access to financial data. In addition, the Network System Administrator needs to periodically review the user access rights within the District's financial software to ensure that access is limited based on the needs of particular job functions. Furthermore, the administrative module⁷ within the District's financial software must not be assigned to someone within the Business Office. Also, it is essential that access to all the financial software modules be password

⁶ A disaster is defined as a sudden, unplanned catastrophic event that compromises the integrity and data of the IT systems. This could include fire, a computer virus or inadvertent employee action.

⁷ The administrative module allows a user with access to add, delete or modify a user's rights and the ability to change a user's password.

protected. Finally, the default administrator user account⁸ within the financial software should be removed or deactivated, or the password associated with this account changed.

We found that District officials had not developed and adopted policies and procedures designed to limit access to the financial data. The Network System Administrator informed us that he did not review the user access rights within the District's financial software, nor did he even have a user account to access the financial software. Additionally, user access rights were not limited based on job duties within the District's payroll software. The Business Manager, payroll clerk, and accounts payable clerk all had full user access rights to the payroll software. In addition, the Business Manager was assigned the administrative module for the District's financial software. Also, access to the payroll software module was not password protected. Finally, the default administrator user account was not removed or deactivated and the account allowed for the use of a blank password to gain full administrative access to the general ledger, budgeting, and administrative modules.

Due to these user access weaknesses we reviewed computer access and security protocols, policies, and procedures, made inquiry about the access to the financial software including the password system, and reviewed user access account reports for the financial software. Also, within the financial software, we tested certain payrolls and cash receipts and disbursements transactions to ensure that they were accounted for properly. Although we did not find any material discrepancies, the failure to establish policies and procedures to limit user access within the financial software increases the risk that individuals could inappropriately gain access to the system and change, destroy, or manipulate the financial data.

District officials informed us that the financial software currently used for payroll processing does not have the capability to limit user access based on job duties or require a password. In addition, the District's version of payroll software is no longer supported by the vendor (i.e., provides updates, patches, or trainings). Furthermore, District officials informed us that the administrative module was given to the Business Manager because only the computers in the Business Office are connected to the financial server. Finally, District officials were unaware that the default administrator user account existed. As soon as we informed the Business Manager of this, he immediately created a password for this account.

⁸ The default administrator user account on the District's financial software has full user access rights to the general ledger, budgeting, and administrative modules.

Disaster Recovery Plan

It is important that a comprehensive disaster recovery plan be established to prevent the loss of computer equipment and data, and provide procedures for recovery and precautions necessary to minimize the effects of disaster, so that mission critical functions can be maintained or quickly resumed. The Board must communicate the plan to all District employees and periodically test it to ensure its effectiveness.

The Board has not established a formal disaster recovery plan to protect the District's data and systems in the event of a disaster. Consequently, in the event of a disaster, District personnel have no guidelines to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures. If there was a disaster causing computer failure, the problems could range from inconvenient to catastrophic. Even small disruptions in electronic data systems can require extensive employee and consultant hours to evaluate and repair.

Recommendations

2. The Board should consult with its vendor regarding the financial software used for payroll processing to explore the possibility of having a password protection mechanism installed and request the ability to assign access based on job functions.
3. District officials should establish policies and procedures over the administration of financial software user accounts that require assignment of the administrative module to someone outside of the Business Office and removal or deactivation of all default administrator user accounts.
4. The Board should adopt a comprehensive disaster recovery plan that details specific guidelines for the protection of private and essential data against damage, loss, or destruction.

Criminal Background Checks

To protect the safety and well-being of students, New York State Education Law (Education Law) requires all employees and independent contractors who have direct contact, or are reasonably expected to provide services that involve direct contact, with students under the age of 21 to have criminal background checks including fingerprinting. The background check requirement also applies to employees of independent contractors. Certain individuals, such as performing artists, visiting lecturers and sports officials, if they are reasonably expected to provide services on no more than five days in the school year, are exempt from the requirements of a criminal background check. These fingerprint-supported criminal history background checks are required to be filed with the New York State Education Department's Office of School Personnel Review and Accountability (OSPRA), which will provide the school district with a fingerprint clearance form. If an individual is arrested subsequent to providing fingerprints to OSPRA, the New York State Division of Criminal Justice Services (DCJS) will make notice of arrest to OSPRA. OSPRA then notifies the school district of the name of the arresting agency, the date of arrest, and the court jurisdiction.

We found that the District was not fully complying with Education Law with regards to fingerprinting contractors. Although the District had procedures in place to perform employee background checks, they did not have any procedures in place to ensure that the background checks were performed and filed with OSPRA for independent contractors who had direct contact with students. Therefore, we tested the records for seven employees and 20 individuals providing contractual services to the District who had direct contact with students, including: four sports officials, three visiting lecturers, a psychologist, an occupational therapist, three special-education evaluators, five health-center workers, and three pre-kindergarten workers. The District had not performed the required criminal background checks on 14 of the 20 individuals providing contractual services: two sports officials, one visiting lecturer that provided services at the District more than five days; the occupational therapist, two special-education evaluators, the five health-center workers and the three pre-kindergarten workers. Because District officials did not comply with Education Law and obtain the required background checks for independent contractors who were in direct contact with students, they may have placed the welfare of District students at risk.

District officials informed us that they were unaware that the District was required to do criminal background checks for these independent contractors because it can take several months before a clearance is obtained and their services may be needed immediately. The Athletic Director stated that he is aware of the requirements for background checks for sports officials officiating at the District more than five days, but some sports officials belong to particular athletic associations who are unwilling to pay the fingerprint processing fee for these background checks. After we brought the lack of background checks and fingerprinting to the attention of District officials, they obtained the necessary background and fingerprinting clearances for the occupational therapist. The background checks for the other contractors were not obtained as of the completion of our field work and accordingly students remain at risk.

Recommendations

5. District officials should develop a procedure to ensure that required background checks are conducted for independent contractors.
6. District officials should ensure that the independent contractors currently providing services to the District have the required background checks.

Classification of Employees

Local governments and school districts obtain services from both public employees and independent contractors and consultants. The Office of the State Comptroller's *Financial Management Guide for Local Governments*⁹ provides information to help distinguish between independent contractors and employees. The New York State and Local Retirement System (NYSLRS) provides a checklist of indicators¹⁰ that can help localities and school districts make this determination correctly. In addition, as of April 3, 2008, enhanced regulations are available that more clearly define how local governments and school districts should classify professional service providers as employees or independent contractors. These regulations are posted on the Office of the State Comptroller's (OSC) internet website.

For the period March 1, 2007 through March 6, 2008, we audited the status of four individuals the District enrolled in the ERS to determine whether they met the criteria for employee classification as established by the *Financial Management Guide for Local Governments* and the ERS indicators. Although District officials properly classified all four individuals as employees, the District had no formal procedures for staff to follow in distinguishing employees from independent contractors (for example, checking criteria related to the worker's supervision, reporting structure, work hours, benefits, and so forth).

This weakness in internal controls over the District's classification process increases the risk that the District could improperly enroll non-employees in the ERS.

Recommendation

7. District officials should strengthen controls over the employee classification process to help ensure that they correctly determine the status of individuals who work for the District in compliance with the *Financial Management Guide for Local Governments* and the enhanced regulations posted on the OSC website.

⁹ Financial Management Guide for Local Governments, Subsection 8.4020, page 1, issued December 1992

¹⁰ The NYSLRS Checklist: Distinguishing Between an Employee and an Independent Contractor

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



COOPERSTOWN CENTRAL SCHOOL
 District Offices
 39 Linden Avenue
 Cooperstown, New York 13326-1496

BOARD OF EDUCATION
 Rosemary Craig, President
 Susan L. Mulligan, Vice-President
 David C. Borgstrom
 Paula M. Greene
 Mary B. Leonard
 Theresa J. Russo
 Anthony J. Scalici
 Darlene H. Bennett, Clerk

MARY JO A. McPHAIL, Superintendent of Schools — 607-547-5364
 JAMES A. COLLISON, Business Manager — 607-547-5386

September 10, 2008

[Redacted]

Office of the State Comptroller
 110 State Street
 Albany, New York 12236

Received

SEP 12 2008

*Office of the State Comptroller
 110 State Street Albany, NY 12236*

Dear [Redacted]

Please allow this letter to serve as official acknowledgement that the State's audit of the fiscal operations of the Cooperstown Central School District has been conducted. The Report of Examination draft was reviewed by members of the Board of Education, district staff, and members of your department on August 21, 2008. While the audit outlined recommendations for improvement in several areas of district operations, it is noted that no material findings were cited.

Segregation of Duties

Increased oversight for payroll reporting functions and controls has already been addressed. The payroll certification document now includes not only account codes but the names of individual employees. The Superintendent of Schools has and will continue to certify all payrolls. The Business Manager, rather than the payroll clerk, now reconciles the payroll account in order to segregate authority for payroll functions. Again, no material findings were noted in the review of payroll functions.

Cash receipts and disbursements have been addressed by alternating responsibility for bank reconciliations among the three Business Office staff members. This will ensure that the staff member having primary responsibility for a particular function such as recording receipts and making deposits does not also reconcile bank statements for the same. The Superintendent of Schools will sign off on all bank transfers and journal entries. No material findings were noted in respect to cash receipts and disbursements.

Computerized Data and Assets

Recommendations focused on the need to ensure appropriate password protection for the district's financial software, to establish policies and procedures to govern the access and management of the financial software, and to adopt a comprehensive disaster recovery plan for data stored on the district's network. Passwords have been enacted on the current software, where possible. The district will research and consider implementing new software that has increased safeguards built into the system. We will research the most effective way to reassign the administrative module for designating software user accounts. The district is in the process of drafting a comprehensive disaster recovery plan that will be reviewed and adopted by the Board of Education. No material findings were noted in respect to Computerized Data and Assets.

Criminal Background Checks

Recommendations were noted and discussed at length with the district taking exception to several items. The district had one independent contractor, the occupational therapist, who required fingerprinting and that has been completed and approved. The district contracts with Opportunities for Otsego to provide our pre-kindergarten program. The three employees in this program are fingerprinted by the Office of Children and Family Services, a State agency. We contract with Bassett Hospital for the School Based Health Center with the five employees in this program having gone through background checks as per Bassett's employment practices. It would be helpful, sensible, and cost-effective for the State's Office of School Personnel Review and Accountability to interface with other State agencies as it pertains to background clearances.

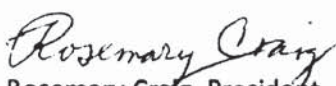
See
Note 1
Page 23

The two special education evaluators noted were at the specific request of parents for independent evaluations for their children. These evaluations were done outside of school and with the evaluator mutually agreed upon by the parents and the district. The psychologist was hired per diem and does have fingerprinting on file with OSPRA. In the future, the district will ensure that visiting lecturers working in the district for five days or more will have fingerprinting clearance. Sports officials will not be allowed to officiate at district athletic events for more than five times unless they have submitted proof of their fingerprinting clearance as per the State requirements. However, this is a much larger issue that needs to be addressed by the State given the lack of uniform practices among the boards charged with assigning officials and the eleven different Sections governing NYS athletics.

Classification of Employees

The audit recommends that the district adopt a policy and procedures that would strengthen controls over the employee classification process. A policy has been developed and will be adopted by the Board of Education on October 1st, having already gone through a first required reading. Internal controls will be established. It should be noted, however, that at no time has the district improperly enrolled an employee in either State retirement system.

The Board of Education and administration appreciate the time and effort put forth by the State examiners throughout the audit process. We take great pride in the fact that no material findings were noted throughout the audit and will work to ensure that suggested processes and procedures will be enacted to further improve district functions.

Respectfully,

Rosemary Craig, President
Board of Education

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

District officials did not have the required fingerprint clearance form on file to indicate that criminal history background checks were filed with the New York State Education Department's Office of School Personnel Review and Accountability (OSPRA).

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. In addition, we reviewed the District's classification of employees enrolled in the ERS for the period March 1, 2007 to March 6, 2008.

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected segregation of duties over the payroll and cash receipts and disbursements processes, safeguards over computerized data and assets, criminal background checks, and classification of employees for further audit testing.

To accomplish the objectives of this audit, we performed the following steps:

- We interviewed officials and employees about the existing internal controls systems.
- We tested 20 employees' compensation payments made during the 2006-07 and 2007-08 fiscal years to determine if employees were being paid in accordance with established rates and contracts.
- We verified that employees receiving compensation were legitimate by reviewing the personnel files, including identification forms and employment eligibility verification (I-9) and wage withholding (W-4) forms, for those employees on payroll but not reported to a retirement system for November 2006 and January 2008.
- We verified that all additional benefits paid to the Superintendent and Business Manager were in accordance with their employee contracts.
- We verified that 14 balloon (lump-sum) payments made to employees were accurate and in compliance with employee contracts.

- We verified that payroll withholdings for five employees during the 2006-07 and 2007-08 fiscal years were accurate and adequately supported.
- We verified that bank reconciliations for all accounts were performed accurately for November 2006 and December 2007.
- We traced 35 inter-fund bank transfers totaling \$3.5 million between District bank accounts to ensure that all transfers were properly accounted for.
- We tested 30 outgoing wire transfers, debit memos, unusual withdrawals, or transfers totaling \$11.4 million from bank statements to supporting documentation to ensure they were appropriate.
- We reviewed 10 general journal entries totaling \$866,630 and reviewed all credits to the general ledger cash accounts for appropriateness.
- We verified the duplicate press-numbered receipt sequence integrity for the entire audit period.
- We traced 28 press-numbered duplicate receipts totaling \$705,590 to the cash receipts journal, deposit slip, and bank statement to ensure that they were deposited timely and intact.
- We traced five State aid payments received by the District totaling \$1.5 million to the cash receipts journal and bank statement to ensure that they were recorded timely and deposited in full.
- We verified check sequence integrity for the entire audit period and reviewed 10 voided checks from the general, trust and agency, and Federal funds to ensure they were properly defaced and kept on file.
- We reviewed 58 disbursements totaling \$28,950 from the general, trust and agency, and Federal funds to ensure they agreed with the cancelled check image, were supported, and were for proper District purposes.
- We reviewed the capital project fund checking and savings account bank statements and verified all deposits or withdrawals were appropriate and supported and that all cancelled check images were accounted for.
- We reviewed computer access and security protocols, policies, and procedures.
- We inquired about the access into the financial software including the password system.
- We reviewed user access account reports for the financial software.
- We inquired about the procedures followed for performing fingerprint-supported criminal background checks on employees and contractors.

- We reviewed the records for seven employees and 20 individuals providing contractual services to the District to ensure that the District was performing fingerprint-supported criminal background checks as required by New York State Education Law.
- We interviewed District officials to learn about the internal controls over the District’s process for classifying workers to ensure that the District enrolls only valid public employees rather than independent contractors or consultants in the ERS.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX D

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