



Eastport-South Manor Central School District

Internal Controls Over Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — January 31, 2008

2008M-107



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials	6
PROCUREMENT	7
COMPUTERIZED FINANCIAL SYSTEM	8
APPENDIX A Response From District Officials	9
APPENDIX B Audit Methodology and Standards	11
APPENDIX C How to Obtain Additional Copies of the Report	13
APPENDIX D Local Regional Office Listing	14

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

July 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 Eastport-South Manor Central School District, entitled Internal Controls Over 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*

Introduction

Background

The Eastport-South Manor Central School District (District) is located in the Towns of Brookhaven, Riverhead, and Southampton, Suffolk County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The District uses a computerized financial system, maintained by the Information Technology Department, to process the District's accounting transactions.

There are four schools in operation within the District, with approximately 4,000 students and 700 employees. For the period ending June 30, 2007, the District spent approximately \$64.3 million. The District's budgeted expenditures for the 2007-08 fiscal year are approximately \$72.4 million, funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to determine whether the District's internal controls over financial operations were appropriately designed and operating effectively. Our audit addressed the following related questions:

- Are internal controls over the procurement process appropriately designed and operating effectively to protect District assets?
- Are access controls over the computerized financial system appropriately designed to safeguard District assets?

Scope and Methodology

We examined the internal controls over information technology for the Eastport-South Manor Central School District for the period July 1, 2006 to January 31, 2008.

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, and information technology. Based on

that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the purchasing and information technology areas and, therefore, we examined internal controls over the procurement process and the computerized financial system.

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

**Comments of District
Officials**

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.

Procurement

Effective controls over the procurement process include policies and procedures to help District personnel obtain necessary goods and services at reasonable cost and in compliance with Board and legal requirements. The use of competition provides taxpayers with the greatest assurance that goods and services of suitable quality are acquired at the lowest possible price, and that procurement is not influenced by favoritism, extravagance, or fraud.

District officials have adopted sound purchasing policies that clearly outline when and how to use competitive bidding and when to obtain quotes when purchasing goods or services that are not subject to bidding requirements set by law. The District's procurement policy and General Municipal Law require that purchase and public works contracts of more than \$10,000 and \$20,000, respectively, during a fiscal year be publicly advertised for bids and awarded to the lowest bidder. In addition, where bidding is not required, the District's policy requires District officials to solicit a minimum of three verbal quotes for aggregate purchases (i.e., one or more purchases from the same vendor) between \$3,000 and \$5,000, and a minimum of three written quotes for aggregate purchases exceeding \$5,000. Where possible, the District can procure goods and services through Board of Cooperative Educational Services (BOCES) purchasing programs. The District is a participant in the Eastern Suffolk BOCES Cooperative Purchasing Program.

Our testing revealed only minor discrepancies in the District's adherence to these policies, which we discussed orally with District officials to help them improve controls in this area.

Computerized Financial System

A school district's information technology (IT) system and the data stored on it are critical resources the District relies on to initiate, process, and record its transactions. District personnel also use the IT system for computer education, Internet access, electronic mail (e-mail), processing and storing student data, and operating the Business Office. Business Office personnel access a computerized financial system through the IT network to maintain and process financial data, report to State and Federal agencies, make financial decisions, and pay the District's employees and vendors. If the computers or servers on which this data is stored fail, or if the data is lost or inappropriately altered, the results could range from inconvenient to severe. Accordingly, the Board and District officials are responsible for establishing effective controls to protect the District's IT system and financial data from the risk of loss, damage, or misuse.

District officials have generally established adequate control policies and procedures to safeguard the District's IT system, including access to the computerized financial system and data. We found that the Board and District officials have established a comprehensive acceptable-use policy and effective controls over users' remote access and network access. Further, District officials established control procedures to ensure that data is properly backed up and secured, and a comprehensive disaster recovery plan to protect the District's IT system and data from the risk of loss, damage, or misuse.

We examined system-wide user permissions for approximately 25 individuals in the District's administrative offices and then tested the application on several users' computers to verify the functions indicated. Our examination revealed only a minor weakness in the application of user access controls, which we discussed orally with District officials to help them improve those controls.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Eastport-South Manor Central School District

149 Dayton Avenue • Manorville, New York 11949 • (631) 874-6720 • Fax (631) 878-6308

MARK A. NOCERO
Superintendent of Schools



G. CHRISTOPHER MARZUK
Assistant Superintendent for Personnel

RICHARD R. SNYDER
Assistant Superintendent for Business

DR. LEE WILSON
Interim Assistant Superintendent for
Curriculum and Instruction

June 27, 2008

[REDACTED]
Office of the State Comptroller
New York State Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear [REDACTED]:

Please consider this our Response Letter to the preliminary draft findings of your most recent examination of the Eastport / South Manor Central School District. On June 25th 2008, we held an exit conference with your office regarding this draft report. Attending this meeting with me were Mr. Richard Snyder, Assistant Superintendent for Business; Ms. Karen Kesnig, Board of Education President; Ms. Donna Dewey, Board of Education Vice President and Mr. Arthur Abbate, Board of Education Trustee and Audit Committee Chairperson. Representing the Comptroller's Office were [REDACTED] and [REDACTED].

At the conclusion of our exit conference, the District was pleased to learn that there were only minor exceptions noted in your audit report. Based on our conversations, we will implement your suggestions regarding these minor findings.

We would like to thank you for your services throughout this process. We found your staff members to be highly competent, professional and courteous at all times. If there is any further information I can provide, please do not hesitate to contact me at the number listed above.

Respectfully,

A handwritten signature in black ink, appearing to read "Mark Nocero", is written over a white background.

Mark Nocero
Superintendent of Schools

Cc: Board of Education

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services.

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft, and/or professional misconduct. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected procurement and user access to the financial software system for further audit testing. Our findings were not significant and were communicated to the District orally.

Our tests for controls over procurement included:

- Scanning vendor payment histories for vendors of like items
- Obtaining copies of bids and vendor price lists
- Verifying that District personnel referenced the correct bids
- Selecting a sample of claims and verifying the purchases against the related bids.

Our tests for controls over user access to the software system included:

- Reviewing user permissions reports for the financial accounting software and verifying the user access controls on the system
- Interviewing District officials to determine employees' roles and responsibilities and whether they agreed to the permissions reports.

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

APPENDIX C

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AND SCHOOL ACCOUNTABILITY

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

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