



Elizabethtown-Lewis Central School District

Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2006 — August 31, 2007

2008M-32



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

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

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Elizabethtown-Lewis School District (District) is governed by the Board of Education (Board) which comprises five 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 reported approximately \$6.9 million in general fund expenditures during the 2006-07 fiscal year. During the same year, the extra-classroom activity fund recorded more than \$122,500 in receipts and disbursements. Computer applications are networked and are used by the District in day-to-day operations for instructional purposes and to process and record financial transactions.

Scope and Objective

The objective of our audit was to determine if the District had established effective internal controls over cash receipts and disbursements, business continuity of information technology, and extra-classroom activity funds for the period July 1, 2006 to August 31, 2007. Our audit addressed the following related questions:

- Are internal controls over the cash receipts and disbursements process appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls appropriately designed and operating effectively to ensure the recovery and business continuity of the District's information technology (IT) system?
- Are internal controls over extra-classroom activity funds adequate?

Audit Results

The Board did not establish critical internal controls or ensure that controls that had been established were properly implemented and operating effectively. As a result the District was vulnerable to the possibility of errors and/or irregularities occurring and not being detected in a timely manner.

The District did not have an adequate segregation of duties over cash receipts and disbursements in the Business Office. The Business Manager, who also served as the District Treasurer, was responsible for the following duties with minimal oversight: collecting cash; recording receipts in the financial accounting software; making deposits; transferring funds from District accounts; signing checks;

preparing, approving, and reviewing journal entries; and performing all bank reconciliations. The claims auditor did not approve all claims before the District paid them. We examined 23 warrants totaling \$3.8 million and found that the claims auditor approved all of the claims on the 23 warrants up to 71 days after the checks were written, and the Business Manager paid the claims before receiving approved warrants from the claims auditor. We also found that the Superintendent and Business Manager have full administrative access to the financial accounting system, which is beyond what is necessary for them to perform their job functions. Both can add, change, or delete data related to employee and vendor files, make journal entries, and edit and assign their own user access levels within the application.

The District does not have adequate written policies and procedures over its IT system, specifically as it relates to business continuity and the recovery of stored electronic data. Although the Board adopted a technology acceptable use policy, the policy does not adequately address procedures for backing up and restoring the District's IT system and the data that are stored on it. Because District officials had not designated an individual to change or alternate the back-up tape, we found that it had not been changed for six months.

The District's policy governing the operations of the extra-classroom activity fund (activity fund) was inadequate. The Board had not appointed a faculty auditor¹ to monitor the activity fund, and contrary to the Regulations of the Commissioner of Education, the District had established a Grade 5 activity fund, which had an account balance in excess of \$4,400 at the end of the 2006-07 fiscal year. In addition, we found that District personnel did not provide adequate supporting documentation for extra-classroom payments totaling approximately \$2,300.

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 have initiated, or indicated they planned to initiate, corrective action.

¹ The faculty auditor reviews the books and records of the central treasurer and the activity treasurers.

Introduction

Background

The Elizabethtown-Lewis Central School District (District) is located in the Towns of Chesterfield, Elizabethtown, Lewis, and Westport in Essex County. The District is governed by the Board of Education (Board) which comprises five 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 employed a District Treasurer through early March 2007 and then hired a Business Manager/District Treasurer (Business Manager) in late March 2007. The responsibilities of the Business Manager include the oversight of District finances and accounting records and reports.

There is one school in operation within the District, with approximately 350 students and 96 employees. The District's budgeted expenditures for the 2007-08 fiscal year are \$7.4 million, which are funded primarily with State aid, real property taxes, and grants.

The District reported approximately \$6.9 million in general fund expenditures during the 2006-07 fiscal year. During the same year, the extra-classroom activity fund recorded more than \$122,500 in receipts and disbursements. Computer applications are networked and are used by the District in day-to-day operations for instructional purposes and to process and record financial transactions.

Objective

The objective of our audit was to determine if the District had established effective internal controls over cash receipts and disbursements, business continuity of information technology, and extra-classroom activity funds. Our audit addressed the following related questions:

- Are internal controls over the cash receipts and disbursements process appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls appropriately designed and operating effectively to ensure the recovery and business continuity of the District's information technology (IT) system?

- Are internal controls over extra-classroom activity funds adequate?

Scope and Methodology

We examined the District’s control environment and its internal controls over cash receipts and disbursements, information technology, and extra-classroom activity funds for the period July 1, 2006 to August 31, 2007.

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

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, 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*.

Cash Receipts and Disbursements

The Board is responsible for designing internal controls that help safeguard the District's resources and ensure that these resources are used economically and efficiently. Such a system reasonably ensures that all monies handled by District personnel are in the proper amount, recorded accurately, deposited in a timely manner, properly supported, and are appropriately reported and disbursed to the proper parties. An effective system of internal controls separates incompatible duties so that no single individual controls most or all aspects of a transaction, reducing the risk of errors or irregularities. When it is not practical to segregate duties because of limited staff resources, it is important that the Board establish compensating controls. The Board also is responsible for auditing the District's claims before they are paid. If the Board chooses, it may appoint a claims auditor to assume the powers and duties of the Board with respect to auditing claims. The Board, or Board-appointed claims auditor, must perform a deliberate and thorough review of claims to determine whether proposed payments are proper and valid charges against the District and that they are incurred by authorized officials.

An effective system of internal controls to safeguard computerized data includes policies and procedures adopted by the Board to minimize the loss or corruption of essential data. It is important that the Board and District officials design policies and procedures to limit user access to only authorized persons to protect data from loss by intentional or unintentional manipulation. One means of tracking user access within a computerized financial system is provided through audit logs, which allow management to track users' computer activity by system or application process.

The District did not have adequate segregation of duties over cash receipts and disbursements in the Business Office. The Business Manager was responsible for collecting cash; recording receipts into the financial accounting software; making deposits; transferring funds from District accounts; signing checks; preparing, approving and reviewing journal entries; and performing all bank reconciliations. The claims auditor did not approve all claims prior to the District paying the claims, and the Business Manager paid the claims before receiving approved warrants from the claims auditor. In addition, the Superintendent and Business Manager have full administrative access to the financial accounting system, which is beyond what is necessary for them to perform their job functions. During our audit period, the District's fiscal management software did not generate audit log reports needed to properly monitor

financial activity. While we did not find any material exceptions, it is important that the District correct these weaknesses to reduce the risk of errors and irregularities occurring without timely detection.

Segregation of Duties

An effective system of internal controls provides for the segregation of duties such that no single individual controls all phases of a transaction. While it may not always be possible to achieve an optimal segregation of duties, at a minimum, it is important to separate the duties of recordkeeping, bank account reconciliation, and cash disbursements. Management also can institute compensating controls that include a review of the work performed by staff and the periodic rotation of work duties. In addition, when reviewing the Business Manager's monthly bank reconciliations, it is important for the Board to compare the reconciliations to bank statements and/or to the monthly ledger account balances.

We reviewed key controls over the cash receipts and disbursement process to determine if they were appropriately designed and operating effectively and found that there was an inadequate segregation of duties. The Business Manager was responsible for collecting cash; recording receipts into the financial accounting software; making deposits; transferring funds from District accounts; signing checks; preparing, approving and reviewing journal entries; and performing all bank reconciliations. These duties are incompatible when performed by one individual because they would allow the Business Manager to initiate, authorize, and record inappropriate transactions. Also, no one performed any oversight of the Business Manager's work.

Based on the lack of segregation of duties, we reviewed all deposits made from March 1, 2007 to April 30, 2007 for the general, extra-classroom activity, and cafeteria funds, and 35 receipts, totaling approximately \$1.4 million. We determined that all of the receipts had been recorded accurately. Additionally, we reviewed five bank reconciliations performed by the Business Manager during our audit period. While the reconciliations were accurate, performed in a timely manner, and reviewed by the Board on a monthly basis, the Board did not compare the bank reconciliations to the bank statements and/or to the monthly ledger account balances.

Because the Business Manager performs conflicting duties without adequate supervisory review as a compensating control, the District has an increased risk that errors and irregularities may occur and not be detected and corrected in a timely fashion. In addition, without a review of the Business Manager's bank reconciliations by an individual independent of the cash custody function, there is a

decreased level of assurance that the accounting records are correct or that monies are accounted for properly.

Claims Auditor

The Board has appointed a claims auditor to assume its powers and duties with respect to auditing and authorizing claims for payment. The claims auditor is responsible for auditing all claims against the District before they are authorized for payment to verify that claims are valid, legal, and represent necessary obligations incurred by authorized officials; sufficiently itemized, in proper form, and mathematically correct; do not include charges previously paid; and include evidence of departmental approval and the District's receipt of the goods and/or services. Except for a few statutory exceptions, the Treasurer must pay claims only after receiving documentation from the claims auditor authorizing the payment of the claims.

The Board assigned the role of claims auditor to an administrative assistant within the District office. Although the administrative assistant reports to the Superintendent, she told us that if she had questions or concerns while auditing claims that she would report them to the Board and not to the Superintendent. In addition, she does not perform any other Business Office function; therefore, her role as claims auditor is not incompatible with her role as an administrative assistant. The claims auditor told us that she reviews District claims monthly, comparing the invoice dollar amount to the check amount, looking for evidence of supporting documentation (such as purchase orders or requisitions), and verifying that the supporting documentation contains signatures of approval. The claims auditor provided evidence for her review of each claim by making a checkmark next to the claims listed on the warrants as she reviewed them, and then initialing and dating the warrants. However, we reviewed 23 warrants totaling \$3.8 million and found that the claims auditor did not approve all claims listed on the warrants prior to payment. She approved the claims on the 23 warrants up to 71 days after the checks were written, and the Business Manager paid the claims before receiving approved warrants from the claims auditor.

We tested 45 general fund claims totaling more than \$104,000 that were paid during our audit period to determine if the payments were for valid and legal purposes, contained supporting documentation, and had been properly authorized. For 10 of the 45 payments totaling \$28,205, we also verified whether the payments agreed with the cancelled checks. We found no deficiencies in the claims reviewed. However, when the Business Manager pays claims before they are audited, it increases the risk that the District may make inappropriate and/or unauthorized payments.

User Access

Financial accounting software users must have authorized access to only those computer functions necessary to fulfill their job responsibilities. Proper access controls help prevent users from being involved in multiple aspects of financial transactions. Generally, a system administrator is designated to have oversight and control of the system and the ability to add new users and change users' passwords and access rights. With this ability, the administrator is able to control and use all aspects of the software. A good system of controls requires that this position be separate from the Business Office function.

The District does not use the access controls that are programmed into the financial software application. As a result, the system does not limit or restrict the access level of different users, allowing users full access to all levels of the application. Currently, the Superintendent and the Business Manager have full administrative access, which is beyond what is necessary for them to perform their job functions. Each can add, change, or delete data related to employee and vendor files, make journal entries, and edit and assign their own user access levels within the application.

Because of these weaknesses, we reviewed payroll and accounts payable payments and leave accruals to verify that transactions were appropriate. We did not find any material exceptions. However, the District's failure to limit user access increases the risk that unauthorized users could inappropriately gain access to the District's financial accounting system and change, destroy, or manipulate data and computerized assets.

Audit Logs

Effective computerized financial systems provide a means of determining, on a constant basis, the identity of individuals who are accessing the system and what transactions are being processed. Audit logs generally provide information such as the identity of each user who has accessed the system, the time and date of the access, a description of the activity that occurred, and the time and date of sign off. Ideally, management or management's designee, would review this audit log to monitor the activity of users who access the financial software. This tool provides a mechanism for individual accountability, reconstructing events, and problem monitoring.

During our audit period, the District's fiscal management software did not generate audit log reports needed to properly monitor financial activity. Specifically, the software would not generate change reports showing information such as vendor changes, or the addition or deletion of general and subsidiary ledger accounts. The software also did not have the ability to generate reports showing the identification of those who entered transactions into the system (audit

logs). This is a significant weakness that could allow unauthorized activities to occur and go undetected and unresolved.

Recommendations

1. The Board and District officials should evaluate the duties and responsibilities of Business Office staff, specifically in the area of cash receipts and disbursements, and where practicable, properly segregate duties.
2. The Business Manager should not pay claims that the claims auditor has not audited and approved.
3. District officials should evaluate employee job descriptions and assign computer system access rights to match employees' job functions.
4. The Board should designate the responsibility for assigning user access rights to the financial accounting system to someone who is independent of the Business Office operations.
5. The District should update its financial accounting software and implement the use of audit logs.

Business Continuity

The District relies on an information technology (IT) system for computer education, access to the Internet, e-mail communication, storing student data, maintaining financial records and reporting to various State and Federal agencies. Therefore, the IT system and the data it holds are a valuable resource. If the IT system fails, the results could range from inconvenient to catastrophic. Even small disruptions in electronic data systems can require extensive employee and consultant hours to evaluate and repair. For this reason, it is important that the District physically secure computerized data and assets and that District officials establish a formal disaster plan to provide guidance to staff on the prevention of the loss of computerized data and the recovery of computerized data in the event of a disaster.

The District does not have adequate written policies and procedures over its IT system, specifically as it relates to business continuity and the recovery of stored electronic data. Because District officials had not assigned an individual to change or alternate the back-up tape, we found that it had not been changed for six months. In addition, the backups had not been tested periodically to verify the capability of restoring the District's system from the back-up copies. The Board also had not established a formal disaster plan.

Data Backup

A basic internal control for IT is to protect data by backing up files regularly. Even the most reliable computers can break down eventually. It is important for the District to ensure that data stored on computers and servers is backed up (i.e., a duplicate copy of information made) routinely to enable restoration in the event of a loss. Effective written backup procedures include provisions for maintaining multiple back-up copies and storing these copies at a secure off-site location.

The Board had not established policies or procedures for the backup of District information including the financial data. District officials established a system to back up financial and operational data automatically each day to a tape on a network server that is located in the same building as the computer system. However, no one had been assigned the responsibility for changing or alternating the back-up tape. We determined that the back-up tape had not been changed for the six-month period of time since the individual who had been performing that function left District employment in June 2007. For that six-month period of time, each day the backup of District data simply overwrote the previous day's backup information. The

technology coordinator also acknowledged that the backups had not been tested periodically to verify the capability of restoring the District's system from the back-up copies. If the system were to become compromised, the District could lose essential information which may not be recoverable.

Disaster Recovery

IT contingency plans address the potential loss of computer equipment and data and outline the procedures needed for recovery. A Disaster Recovery Plan, sometimes referred to as a Business Continuity Plan or Business Process Contingency Plan, describes how an organization can effectively deal with potential disasters. It is important that the District's internal control system include a formal disaster recovery plan to address the possible loss of computer equipment and data and to establish procedures for recovery in the event of such a loss. An effective disaster plan includes a significant focus on disaster prevention and explains precautions for staff to take to minimize the effects of any disaster and enable the District to either maintain or quickly resume its mission-critical functions.

We found that the Board had not established a formal disaster plan. In the event of a disaster, District personnel have no clear guidelines or plan to follow to help minimize or prevent the loss of equipment and data, or guidance on the steps to take to implement timely and effective data recovery procedures.

Recommendations

6. The Board should adopt relevant policies and establish procedures to strengthen internal controls relating to IT backup and disaster recovery.
7. District officials should store back-up tapes of District information at an environmentally and physically secure off-site location. In addition, District officials should ensure that this data is periodically tested to verify that it is capable of restoring the District's system.
8. District officials should ensure that back-up tapes are changed daily or whenever a backup has been initiated.

Extra-Classroom Activity Funds

The Regulations of the Commissioner of Education (Regulations) require each school district's board of education to make rules and regulations for the safeguarding, accounting, and auditing of all monies received and derived from extra-classroom activities. The Regulations require the board to appoint a central treasurer who is responsible for the extra-classroom activities fund's receipts and disbursements and a faculty auditor² to oversee management of the extra-classroom activities fund. One of the intended purposes of an extra-classroom activity is to allow students to be directly involved in the financial management of the activity. The Regulations do not allow extra-classroom activity funds to be established for students in Kindergarten through Grade 5. The Board and District officials are responsible for protecting and overseeing the District's cash assets, including the extra-classroom activity fund monies. These responsibilities include adopting policies and procedures that describe the records that District personnel and students must maintain, and the duties and control procedures that they must follow to adequately safeguard fund monies. Having a good system of internal controls over these funds helps minimize the risk that errors or irregularities may occur and go undetected. In addition, good business practices require that all activity fund transactions be supported with appropriate documentation to help District officials ensure that activity fund monies are being used for proper District expenditures.

Generally, extra-classroom activity funds are raised through charges for, by, or in the name of organizations whose activities are conducted by students. Students raise and spend these funds to promote the general welfare, education, and morale of all students and to finance the normal and appropriate extracurricular activities of the student body. The District's 16 accounts in the extra-classroom activity fund (activity fund) recorded more than \$122,500 in receipts and disbursements during the period July 1, 2006 to June 30, 2007 and had a combined cash balance of approximately \$53,000 as of June 30, 2007.

The Board had not adopted adequate policies and procedures providing guidance and internal controls with regard to the activity fund. The District had not appointed a faculty auditor to oversee the management of the activity fund. As a result, neither the Board nor District officials had reasonable assurance that activity fund

² The faculty auditor reviews the books and records of the central treasurer and the activity treasurers.

monies were being properly accounted for in compliance with the Regulations. Additionally, contrary to the Regulations, the District maintained a Grade 5 activity fund which recorded more than \$26,500 in receipts and disbursements and had an approximate balance of \$4,470 as of June 30, 2007.

We reviewed all 99 disbursements totaling \$61,107 made from the activity fund accounts during the audit period to determine if the expenditures were made for appropriate student activities. We found that District personnel did not provide adequate supporting documentation for 25 of the 99 disbursements totaling \$26,265. While we were onsite, District personnel subsequently provided us with supporting documentation from the activity fund advisors for 19 of the 25 payments in question, leaving approximately \$2,300 of activity fund expenditures that were not adequately accounted for (\$1,350 reportedly pertained to meals for a Grade 5 extra-classroom activity trip).

Although we did not identify any inappropriate use of activity fund monies, the failure of District personnel to provide appropriate documentation for financial transactions could result in the activity funds being more susceptible to fraud and abuse. The lack of adequate oversight and the failure to conduct extra-classroom activities in accordance with prescribed Regulations and good business practices creates a greater likelihood that errors and irregularities could occur and remain undetected and that activity fund monies could be misused.

Recommendations

9. The Board should establish adequate policies and procedures for the extra-classroom activity fund covering the duties, records, procedures, and oversight required to ensure that all activity fund monies are adequately safeguarded and used as intended.
10. District officials should appoint a faculty auditor to oversee the management of activity fund monies in accordance with requirements in the Regulations.
11. District officials should ensure that District personnel submit adequate supporting documentation with all extra-classroom activity invoices before making purchases.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Elizabethtown-Lewis Central School

Gail S. Else, Superintendent • Scott J. Osborne, Principal

May 1, 2008

Office of the Comptroller

One Broad Street Plaza
Glens Falls, New York 12801

Dear [REDACTED],

The Elizabethtown – Lewis Central School District Board of Education is committed to high standards of performance within our fiscal internal control process at all levels. Your reported observations, coupled with our ongoing efforts, have been and continue to be acted upon. We are committed to effective, efficient and responsible applications of economy, balancing oversight responsibilities to our students and taxpayers. We hold the public trust in high regard. We respectfully present our response.

The Elizabethtown – Lewis Central School District Board of Education recognizes that segregation of duties over **cash receipts and disbursements** in a very small school is challenging. We have been assessing our options since November 2007. We have selected an approach incorporating compensating controls to further mitigate our risks while meeting our professional obligations. We are pleased that your review of plus/minus five per cent of our cash receipts and disbursements were pronounced routine and all receipts were in place. We have a claims auditor process which has been rearranged to implement your observations. We were pleased that no deficiencies were found and all items were appropriate. We recognize the opportunity for further improvement, such as augmenting our practices of assigning financial software user access. Our financial software vendor is providing technical assistance to ensure all audit logs are properly engaged, more specifically, we will monitor this process regularly. We were pleased that your review of our payroll, purchasing, and personnel leave accruals were deemed appropriate and you found no material exceptions.

The Elizabethtown – Lewis Central School District Board of Education recognize that **business continuity** is a high priority in our information technology systems. We have spent a considerable amount of time and resources over the last four years rebuilding our information technology systems. We were pleased you recognized the vigilance we apply to our information technology systems and that all inventory sought was located under proper security. We take seriously our responsibility to safeguard students and taxpayers resources. We are in the process of researching and building an information technology system for our business applications. Our data back up tapes reside at an offsite vault location under a separate and independent security system accessible to authorized users. An employee has been assigned the responsibility of doing the back up data tapes. A disaster plan is in the works. Once developed, it will be tested, monitored and refined as required.

The Elizabethtown – Lewis Central School District Board of Education recognizes that **Extra-classroom Activity Funds** require safeguarding and oversight. We will initiate a reexamination of our policies and procedures to appropriately address your observations that 93 out of the 99 disbursements you tested, totaling \$67,107, were adequately supported with documentation. We will seek to appoint a Faculty Auditor for oversight. After school year 2007 – 2008, the grade 5 extra-classroom activity fund will be extinguished. We are informing grade 4 parents shortly so there will be no surprises in school year 2008 – 2009.

We were also pleased you did not identify any inappropriate use of extra-classroom activity funds. As you state, the purpose of these funds is to teach our students financial lessons. None the less, the Elizabethtown – Lewis Central School District Board of Education recognizes the need for continuous improvement of our process therefore has appointed an additional employee to this task.

In selected areas of concern regarding internal controls, you identified areas of vulnerability. We are cognizant that we can always improve. Reduction of vulnerabilities has been and remains a goal in a continuous improvement environment. We are committed to providing value via decisions and leadership.

Thank you for your review. While we have selected areas to improve, it is gratifying to hear we employ practices which protect our taxpayers.

Sincerely,



William B. Haseltine
President
Elizabethtown – Lewis Central School District Board of Education

Cc: Gail S. Else, Superintendent
Elizabethtown – Lewis Central School District Board of Education
Business Manager

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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected internal controls over extra-classroom activities, cash receipts and disbursements, and business continuity for further audit testing, and performed the following audit steps:

- We reviewed all District policies relating to extra-classroom activities.
- We interviewed the central treasurer of the activity fund, observed transactions, and examined extra-classroom activity fund records such as the central treasurer's ledger, payment order forms, cancelled checks, bank statements, validated deposit slips, student activity deposit forms, student ledgers, cash receipts, and cash receipts reports, to determine the effectiveness of internal controls over extra-classroom activity fund functions and any associated effects of deficiencies in those controls.
- We determined if cash receipts and disbursements were adequately segregated, and if not, if the necessary compensating controls were in place.
- We interviewed officials, reviewed policy manuals, observed transactions, and examined financial records such as the general ledger, monthly trial balances, cancelled checks, cash receipt slips, cash receipts book, bank statements, bank reconciliations and payroll registers to determine the effectiveness of internal controls over cash receipts and disbursements and any associated effects of deficiencies in those controls.
- We reviewed all District policies related to computer use and information technology.

- We interviewed the District's technology coordinator specifically regarding network passwords, physical access to the system, controls within the fiscal management software, backups of data, and disaster recovery plans.
- We physically inspected the location of system equipment and viewed Business Office employees' computer screens to determine the software that each employee had access to.

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

APPENDIX C

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