



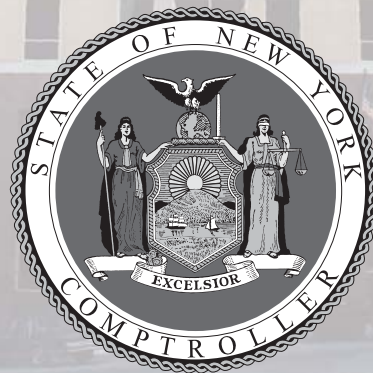
Elwood Union Free School District Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — November 30, 2007

2008M-192



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

December 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Elwood Union Free 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 Elwood Union Free 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.

There are four schools in operation within the District, with approximately 2,620 students and approximately 410 employees. The District's actual expenditures for the 2006-07 fiscal year were \$42.6 million, which were funded primarily with State aid, real property taxes, and grants.

Scope and Objective

The objective of our audit was to examine the District's internal controls over financial operations for the period July 1, 2006 through November 30, 2007. Our audit addressed the following related questions:

- Did the Board exercise proper oversight of its summer sports program?
- Are internal controls over the procurement of goods and services appropriately designed and operating effectively to adequately safeguard District assets?
- Has the District established adequate internal controls over its Information Technology (IT) system?

Audit Results

Internal controls over the summer sports programs, the procurement of goods and services and information technology need to be improved. The Board did not establish appropriate policies to guide employees' actions and District officials did not establish or use available control procedures.

The Board did not exercise proper oversight over the summer sports program. In 2006, the program had revenues and expenditures totaling \$93,782 and \$77,898, respectively. However, not all revenues and expenditures were included in the budget and District officials did not ensure that all fees charged were appropriate. In addition, checks and cash were collected at the home of a District teacher, rather than the Business Office, no record of students participating in the program was prepared, and no receipts were issued. As a result, there is an increased risk that all fees may not

be charged, collected and deposited. Further, all five claims for the summer sports program tested, totaling \$5,950, lacked adequate supporting documentation and several individuals were paid as independent contractors, rather than as employees through the regular payroll system. Consequently, no taxes or social security payments were withheld. We question whether these individuals would meet the IRS standard for being independent contractors. If an employer fails to deduct and withhold taxes and social security payments from an employee's earnings, the employer can be held liable for the taxes, social security payments, and applicable penalties and interest.

In 2007, the Board allowed an outside organization to run the summer sports program, which it did not charge for the use of District facilities. The Board did not pass a resolution to authorize the program, approve the use of buildings and grounds or enter into a written agreement to run the program. In addition, the program documentation submitted to the District listed two organizations, each doing business under the name of a third organization. Consequently, District officials could not determine which organization ran the program, if it was a not-for-profit corporation, or if it had the proper insurance coverage. As a result, there is an increased risk that the District property has been used for an unauthorized program, without appropriate insurance coverage.

We also found that internal controls over the procurement of goods and services were not appropriately designed or operating effectively. Although the Board adopted a procurement policy, the policy did not require competition when acquiring professional services. Consequently, professional services totaling \$132,000 were procured from three providers without competition. Furthermore, District officials did not enter into, and the Board did not approve, written contracts with two of those providers, totaling \$25,143. We also found that six of 20 purchase orders that we reviewed, totaling \$17,428, were issued after the purchases were made with no indication that they were for emergency purchases. As a result, there is an increased risk that goods and services procured may not be of the best quality and procured at the lowest price. In addition, there is an increased risk that service providers may submit bills for services for which they are not entitled to payment and that purchases may not be properly authorized.

The District also did not establish adequate internal controls over its IT system. The Board did not adopt comprehensive IT policies and procedures, an acceptable use policy or adopt a formal disaster recovery plan. In addition, District officials did not periodically review access rights, produce or review audit logs, or verify changes to vendor files. As a result, employees had computer access not related to their job functions and the IT system and electronic data are subject to an increased risk of loss or misuse.

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 that they plan to implement corrective action.

Introduction

Background

The Elwood Union Free School District (District) is located in the Town of Huntington, Suffolk 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.

There are four schools in operation within the District, with approximately 2,620 students and approximately 410 employees. The District's actual expenditures for the 2006-07 fiscal year were \$42.6 million, which were funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to examine the District's internal controls over financial operations. Our audit addressed the following related questions:

- Did the Board exercise proper oversight of its summer sports program?
- Are internal controls over the procurement of goods and services appropriately designed and operating effectively to adequately safeguard District assets?
- Has the District established adequate internal controls over its Information Technology (IT) system?

Scope and Methodology

We examined the District's controls over summer sports program, the procurement of goods and services and information technology for the period July 1, 2006 to November 30, 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 indicated that they plan to take corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the GML, 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.

Summer Sports Program

The Board and District officials are responsible for the overall financial management of the District. This includes designing internal controls to ensure that programs are properly authorized, managed, and monitored. A good system of internal controls is designed to provide reasonable assurance that District assets are properly safeguarded and accounting transactions are recorded and reported properly. The Board and District officials were responsible for ensuring that the summer sports program was included in the annual budget, that fees charged were appropriate, collected and deposited, and that claims were properly audited. Additionally, the Board has the authority to adopt reasonable regulations with regard to granting the use of school buildings and grounds to outside organizations and is responsible for the oversight and monitoring of that use.

It has been the practice of the District to provide a comprehensive sports program for students during the summer months for a number of years. The summer sports program was run by the athletic teachers and coaches, and accounted for in the District's trust and agency fund. The District failed to enforce its internal control policies and procedures in regard to this program. In 2006, the program coordinator collected \$93,782, but did not issue receipts or provide a proper accounting of the funds. The District made payments totaling \$77,898 from the Trust and Agency fund for the program without requiring proper support. Beginning in 2007, the Board allowed an organization of District teachers to run the program. The Board did not exercise adequate oversight over 2006 or the 2007 summer sports program.

2006 Summer Sports Program

The Board and District officials did not include all summer sports program revenues and expenditures in the budget, or ensure that fees charged were appropriate, collected and deposited, and that claims were properly audited. As a result, the District has no assurance that the fees charged were appropriate. In addition, all fees may not have been charged, collected and deposited, funds may not have been used for appropriate purposes, and the District could be liable for taxes, social security payments, penalties and interest.

- Program Charges – The Board was responsible for including the summer sports program in the District's annual budget and taking action to provide assurance that the fees charged were appropriate. District officials informed us that the athletic teachers and coaches ran the summer sports program and that

the Treasurer recorded monies collected and disbursed in the trust and agency fund. The program had revenues and expenditures totaling \$93,782 and \$77,898, respectively. Although the Board approved salaries and stipends for teachers and coaches, program revenues and costs associated with the program were not included in the budget. A District official's explanation was that the program had always been self-sustaining. In addition, although the brochure indicated that each participant was charged between \$40 and \$100 for three to five day sessions in July and August 2006, there was no indication that the Board took any action to ensure that the fees charged were appropriate.

- Cash Receipts – The Board and District officials were responsible for establishing policies and procedures to ensure that all fees were charged, collected and deposited into a District bank account. For example, a good procedure would be to require that checks¹ and cash be sent to the Business Office and that the envelopes be opened and logged by a clerk specifically charged with this function and under the direct control of the Treasurer. However, the Board and District officials did not establish policies and procedures for cash receipts related to the summer sports program. As a result, checks were mailed to the home address of the program coordinator, a District teacher, who delivered checks and cash to the Treasurer for deposit. Although the program coordinator delivered checks and cash totaling \$93,782, there was no record of the students who signed up for the program, no receipts were issued, and there was no accounting for the total number of checks received. As a result, District officials could not determine if all fees were charged, collected and deposited into a District bank account.
- Cash Disbursements – The Board is responsible for auditing and approving all claims for payment prior to disbursement, or for appointing a claims auditor to do so on its behalf, to ensure that claims contained sufficient documentation to determine that they complied with District policies, and that the amounts paid were for actual and necessary District expenses.

The Board appointed a claims auditor to audit claims, which totaled \$77,898 for the summer sports program for the 2006 fiscal year. However, one of the warrants he signed to authorize disbursement was signed a month after the date that the checks were issued.

¹ Payable to the “Elwood Public Schools”

Therefore, we question whether these claims were in fact audited. Due to this control weakness, we tested five claims totaling \$5,950 and found that they lacked adequate documentation to support the payments made. For example, one claim for tee shirts totaling \$2,700 had no documentation to indicate where the shirts were delivered, or if all shirts were received. We also found a second claim totaling \$1,125 to pay an assistant coach for 50 hours worked at \$22.50 per hour that did not include a time sheet or record to indicate the days and hours worked or approval by a supervisor. Further, this individual was paid as an independent contractor, rather than as an employee through the regular payroll system.² Consequently, no taxes or social security payments were withheld. Overall, we found that payments for non-District employees totaling \$30,083 were paid through the Trust and Agency fund. We question whether these individuals would meet the IRS standard for being independent contractors. If an employer fails to deduct and withhold taxes and social security payments from an employee's earnings, the employer can be held liable for the taxes, social security payments, and applicable penalties and interest.

Upon the recommendation of the District's external auditor, the Treasurer discontinued the practice of accounting for the summer sports program in the trust and agency fund at the end of the 2006 season, and transferred \$35,981 to the general fund as "miscellaneous income". However, District administrators subsequently spent \$21,480 of this amount for athletic supplies without the Board approving an appropriation in the 2007 budget.

The failure to audit and approve claims for payment increases the risk that District funds will be used for purposes that are unauthorized, inappropriate or not in compliance with District policies, and that the District will be held liable for taxes, social security payments, penalties and interest.

2007 Summer Sports Program

School building and grounds and all property belonging to the District are under the control and supervision of the Board, which has the authority to adopt regulations relating to the use of school buildings and grounds to outside organizations. The Board has delegated the authority to grant the use of buildings and grounds to the building principals and specified that the organizations doing so must be designated not-for-profit and require proof of insurance and reimbursement for damages. However, the ultimate oversight and

² The District paid salaries and stipends totaling \$37,611 through the regular payroll system for individuals who were teachers and coaches in the District.

responsibility for the protection of school property and participants remains with the Board.

The Board did not sufficiently exercise its oversight responsibilities in regards to the summer sports program and the use of the school district building and fields. The Board allowed an outside organization, formed by District teachers, to run the summer sports program for 2007. The Board was responsible for approving the use of buildings and grounds, entering into a written agreement to identify the parties involved and the rights and responsibilities of each, and for ensuring that proper insurance coverage was in effect to protect participants in the program from injury and the District from liability.

The Board did not approve the use of buildings and grounds or enter into a written agreement to identify the parties involved and establish the rights and responsibilities of each party to ensure that policies and procedures for the safety of participants were in effect and that the entity was in compliance with State and local regulations. In addition, the Board did not ensure that the entity had proper insurance coverage. The Board-adopted policy stated that any non-profit organization with membership in, or base of operations within the District, was eligible to apply for use of the school buildings and grounds and that the application must be approved by the building principal. However, the application to use District property was approved by the Athletic director, rather than a building principal. In addition, this application should have been approved by the Board, along with one or more building principals, because the program involved the District-wide use of property such as fields, gymnasiums, cafeterias and restrooms at all District buildings, for almost the entire summer, and the health and safety of hundreds of students.

Further, the Board did not pass a resolution to authorize the change from a District-run program to a privately run program, enter into a written agreement to identify the organization and the rights and responsibilities of each party, or verify that the organization had proper insurance coverage. Additionally, the brochure for the 2007 program, which looked similar to the brochure for 2006, directed participants to make checks payable to the "Elwood Sports Program," mail checks to the same teacher's home address as in 2006, and indicated that cash would be accepted there as well.

In addition, program documentation was submitted by two organizations, each doing business as the Elwood Sports Program. Consequently, District officials could not determine which organization ran the program, if it was a not-for-profit corporation,

or if it had the proper insurance coverage. District officials stated that the organization running the summer program was the Elwood Sports Program, which was formed by District teachers, and that no fee was charged for the use of buildings and grounds. However, we found that the Elwood Athletic Club, which filed the application to run the program in January 2007, was not incorporated until April 2007. The insurance certificates listed another entity as the insured. However, nothing was submitted to the District to indicate that any of these corporations received IRS recognition as tax exempt not-for-profit entities.

The failure to properly authorize the use of District property, enter into written agreements and ensure that insurance coverage is in effect increases the risk that the District will be held liable for any damages. In addition, without a written agreement there is no way to determine exactly what services the organization is to provide, the rights and responsibilities of each party, or if the safety of participants and compliance with regulations is ensured. Further, if the organization is not a not-for-profit corporation, then the use of buildings and grounds would be a violation of District policy and the failure to collect a fee could be interpreted as a gift of public funds.

Recommendations

1. If the District chooses to run the summer sports program internally, the Board should:
 - Include all revenues and expenditures in the annual budget, and ensure that all fees charged are appropriate.
 - Establish policies and procedures for cash receipts to ensure all money is sent directly to the Business Office, a record of student participation is prepared, receipts are issued, and that all checks are accounted for and deposited.
 - Direct the claims auditor to properly audit all program claims, prior to disbursement to ensure they have adequate documentation and that deductions are made and withheld, when required.
 - Ensure that amounts are expended only when budgetary appropriations are in place and only after audit and approval by the claims auditor.
2. The Board should amend the policy for the use of the buildings and fields for extended summer use to require Board approval for the District-wide use of property, approve the use of property

for District-wide purposes, and ensure that building principals approve the use of property when required.

3. The Board should pass a resolution to authorize the change from a District-run program to a privately run program.
4. The Board should only allow an entity to run a program of this scope after entering into a written agreement which clearly identifies the parties involved, establishes the organization as a not-for-profit organization authorized to operate a summer camp, and outlines the responsibilities of the organization and the District.
5. The Board should verify that the organization that runs the program has insurance coverage.
6. The District should routinely monitor the activities of the organization running the summer sports program on District property to ensure that it is in compliance with the contract.

Procurement of Goods and Services

District officials are responsible for establishing a procurement process to help ensure that the District obtains goods and services of suitable quality and quantity, from the best-qualified and lowest-priced source, and in compliance with Board and legal requirements. It is important that the District use competition when acquiring professional services and ensure that contracts are entered into for such services. District officials also should limit the use of confirming purchase orders to emergency situations and ensure that documentation is prepared and retained to ensure that goods and services are procured at the best price, and that payments made are appropriate, properly authorized, and within budgeted appropriations.

The Board did not require the use of requests for proposals or other competition (RFPs) when acquiring professional services or ensure that written contracts were entered into for those services. In addition, District officials made frequent use of confirming purchase orders and did not ensure that claim documentation was prepared and/or retained to determine if the charges were appropriate. Consequently, professional services totaling \$132,000 were procured from three providers without competition and there were no written contracts with two of those providers. In addition, we identified six confirming purchase orders totaling \$17,428 issued for non-emergency purchases. Due to these control weaknesses, there is an increased risk that services of the best quality will not be procured at the lowest price, and that unauthorized purchases will be made and appropriations overspent.

Professional Services

General Municipal Law requires the Board to adopt a procurement policy that governs the procurement of goods and services when competitive bidding is not required. While competitive bidding is not required for professional services, an effective procurement policy should require competition such as RFPs whenever such services are needed, to help ensure that the District receives the desired services for the best price. The Board is also responsible for ensuring that the District enters into written contracts with service providers and should approve those contracts to define the responsibilities of both parties, the contract period, the goods and services to be procured and the basis for compensation to ensure that all fees paid are in accordance with the Board's intent.

While the Board has adopted a procurement policy, it does not require the use of RFPs. We tested claims for six providers that

were paid a total of \$202,528 and found that RFPs were not issued for the procurement of services totaling \$132,000 from three of the providers. Specifically, \$101,804 paid to a provider for occupational and physical therapy, \$13,038 to a tutoring service and \$17,158 to an advertising agency. We also found that the District did not enter into, and the Board did not approve, written contracts with two service providers for legal and advertising services totaling \$25,143.

The failure to issue RFPs and enter into written contracts increases the risk that the services procured may not be of the best quality and procured at the lowest price, and that the District will pay for services that the Board did not intend to procure.

Confirming Purchase Orders

Effective controls over purchasing include the use of a purchase order system, under which a fiscal officer verifies that funds are available for a requisitioned purchase and then issues a purchase order to the vendor to acquire the goods or services to ensure that purchases are properly authorized and budgeted appropriations are not overspent. It is important that purchase orders be issued before orders are placed. However, this may not be possible in emergency situations. In such cases, confirming purchase orders may be issued after the goods or services have been ordered and/or retained to determine if the charges were appropriate. However, because this process provides a lesser degree of control, it is important that District officials adopt procedures to ensure that the use of confirming purchase orders is strictly controlled and reserved for emergency situations. All purchase orders should be included in claims packages to be audited and approved for payment and retained on file.

District officials did not have procedures to limit the use of confirming purchase orders and have not ensured claims documentation was prepared and/or retained. We tested 20 claims totaling \$57,174 and found that District employees issued six purchase orders after the purchases were made, totaling \$17,428. None of the six transactions were emergency purchases. For example, a claim for advertising services totaling \$6,775 was paid on June 25, 2007. The invoice for this purchase was dated on May 31, 2007 and the confirming purchase order was dated on June 19, 2007. In addition, District employees could not supply a claims package with supporting documentation for a school-sponsored trip to Disneyland for \$6,000. District officials were not able to determine if this trip was properly authorized or if a confirming purchase order was used.

The failure to limit the use of confirming purchase orders and to prepare and/or retain claims documentation increases the risk that purchases will not be properly authorized and that District funds will be used for inappropriate purposes.

Recommendations

7. The Board should revise its procurement policy to require the use of competition when professional services are procured.
8. The Board should ensure that District officials enter into written contracts with professional service providers to define the responsibilities of both parties, the contract period, the goods and services to be procured and the basis for compensation. All contracts entered into should be approved by the Board.
9. District officials should adopt procedures to limit the use of confirming purchase orders and specify the exceptional circumstances under which they can be issued.

Information Technology

Computer data is a valuable resource that District officials rely on for initiating, processing, and recording the District's financial transactions, filing reports with State and Federal agencies, and for making financial decisions. If the computers on which this data is stored fail, the problems could range from inconvenient to severe. Even small disruptions in electronic data systems can require extensive effort to evaluate and repair. Effective controls require that District officials establish comprehensive information technology (IT) policies and procedures and an acceptable use policy for employees. District officials should periodically review access rights, produce and review audit logs, verify changes to vendor files, and adopt a formal disaster recovery plan to provide reasonable assurance that the District's IT system and electronic data are adequately safeguarded.

The Board did not adopt comprehensive IT policies and procedures, a formal disaster recovery plan or an acceptable use policy. In addition, District officials do not periodically review access rights, produce or review audit logs or verify changes to vendor files. As a result, employees had computer access not related to their job functions and the IT system and electronic data are subject to an increased risk of loss or misuse.

Policies and Procedures

Policies and procedures addressing IT operations are an integral part of a district's internal controls. The pervasive use and complexity of the computer applications produce internal control risks, such as unauthorized access to data, unauthorized changes to master files, and the potential loss of data. The Board and District officials can mitigate these risks by developing comprehensive IT policies and procedures, including an acceptable use policy, to provide clear guidance to District employees on acceptable computer use.

The Board and District officials have not developed comprehensive IT policies and procedures or an acceptable use policy. As a result, there is an increased risk that computerized equipment and data can be damaged, misused, or lost. Financial loss could occur due to disruptions of computer operations and the reduced productivity during such disruptions.

Access Controls

The District uses a financial accounting software package (financial software) to process and maintain financial transactions. This financial software consists of modules that segregate various financial recording and reporting processes. Access privileges within

the financial software include the ability to add, update, delete, and print transactions within these modules. District officials are responsible for periodically reviewing user access rights to ensure that users only have access to functions within the scope of their responsibilities.

District officials did not periodically review access rights. As a result, three users of the financial accounting software program had full or partial access to applications and data that were not related to their job functions. For example, the District Treasurer had full access to the Human Resources module and access to the system maintenance module, which allowed the Treasurer to assign and change users' access permissions, including her own. In addition, full- time and part-time accounts payable clerks also had access to the payroll module.

The failure to prevent users from being involved in multiple aspects of financial transactions increases the risk that employees can change the accounting records and initiate improper transactions. For example, the Treasurer could add people to the payroll and then issue checks. District personnel began to revise access privileges to restrict users to only those computer functions necessary to fulfill their job responsibilities when we brought this to their attention.

Audit Logs

District officials did not produce or review audit logs or verify that changes to vendor files were reflected in the accounting module. District employees access the computer system to perform their duties, and the software vendor and BOCES use remote access for technical assistance and updates. However, although the financial accounting software had the ability to produce audit logs to indicate when, where and who entered the computer system and a log of all changes made to the vendor master files, District officials did not run, or review, these reports. In addition, although the Assistant Superintendent for Business reviewed changes made by the accounts payable clerk to vendor files, and entered these transactions in a manual log, he did not compare the manual log to the vendor records in the accounting module.

Virtually all District accounting records and reports are computer generated. Consequently, the failure to produce and review audit logs, and verify that changes to vendor files are reflected in the accounting module represents a significant internal control weakness. As a result, there is an increased risk that a system user could change computer data (i.e., add and delete employees, change pay rates, add and delete vendors, change vendor information, and print checks) and the unauthorized activity could remain undetected and uncorrected.

Disaster Recovery

A disaster recovery plan, sometimes called a business continuity plan, should specify how the District will deal with a disaster such as a power outage, hardware failure, fire, flood, or storm. It is important for District officials to establish a formal disaster recovery plan to protect the District's IT system and data so that the District can avert or minimize potential damage and maintain or quickly resume critical operations in the event of a disaster. We found that the Board has not established a formal disaster recovery plan. Consequently, in the event of a disaster, District personnel have no guidelines or plan to follow to prevent the loss of equipment and data, or data recovery procedures.

Recommendations

10. The Board should develop and adopt comprehensive IT policies and procedures to address all major areas of IT operations, including an acceptable use policy for District employees.
11. District officials should periodically review user access rights, to ensure that users have access to functions only within the scope of their responsibilities.
12. District officials should produce and review audit logs and verify that changes made by the accounts payable clerk to vendor files are reflected in the accounting module.
13. The Board should adopt a formal disaster recovery plan that provides guidelines to help minimize the loss of computer data and guidance on how to implement data recovery procedures.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Elwood Public Schools
100 Kenneth Avenue
Greenlawn, New York 11740-2900
www.elwood.k12.ny.us
Fax: (631) 368-2338

David J. Cenerelli
Superintendent of Schools

William J. Pastore
Assistant Superintendent for Business
(631) 266-5404

December 12, 2008

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

RE: Report of Examination
Elwood Union Free School District

Dear [REDACTED]:

We are in receipt of the preliminary draft findings of the report of examination of the Elwood Union Free School District. We understand that the goal of the recent audit conducted by your office is to assist in the effective and efficient management of the district's business operation. The efforts and recommendations provided by your staff are appreciated. Enclosed is our response, including procedures we are implementing to comply with your recommendations.

Thank you for the high level of professionalism, guidance and recommendations suggested by your audit team aimed at improving our operations and providing the best services to our students and our taxpayers.

Very Truly Yours,

David Cenerelli
Superintendent

Pc: William J. Pastore
Assistant Superintendent/Business

Elwood Union Free School District

Response from District Officials

To The Report of Examination

From the Office of the State Comptroller

2007 Summer Sports Program

Recommendations:

1. If the District chooses to run the summer sports program internally, the Board should:
 - Include all revenues and expenditures in the annual budget, and ensure that all fees charged are appropriate.
 - Establish policies and procedures for cash receipts to ensure all money is sent directly to the Business Office, a record of student participation is prepared, receipts are issued, and that all checks are accounted for and deposited.
 - Direct the claims auditor to properly audit all program claims, prior to disbursement to ensure they have adequate documentation and that the deductions are made and withheld, when required.
 - Ensure that amounts are expended only when budgetary appropriations are in place and only after audit and approval by the claims auditor.

Response: As of June 2007 the Board of Education changed the process and stopped administering the summer programs. However, we acknowledge the suggestions and will apply these recommendations in the future, when appropriate in similar operations.

2. The Board should amend the policy for the use of buildings and fields for extended summer use to require Board approval for the District-wide use of property, approve the use of property for District-wide purposes, and ensure that building principals approve the use of property when required.

Response: The Board of Education does have a policy (KG-R-2) addressing the use of facilities which has been reviewed by the policy committee, and, in a consultancy capacity, by the New York State School Boards Association. The responsibility for administering that policy is delegated to the Building Principal and Athletic Director. All of the Facilities Use Forms are reviewed and approved by a Building Principal or the Athletic Director.

3. The Board should pass a resolution to authorize the change from a District-run program to a privately run program.

Response: The District is currently working on a licensing agreement requiring Board of Education approval. Once the license agreement is implemented, the Board would approve a resolution for each agreement that is made with an outside organization.

4. The Board should only allow an entity to run a program of this scope after entering into a written agreement which clearly identifies the parties involved, establishes the organization as a not-for-profit organization authorized to operate

a summer camp, and outlines the responsibilities of the organization and the District.

Response: Please see the response to item #3 above. The licensing agreement being considered will address the concerns outlined in item #4.

5. The Board should verify that the organization that runs the program has insurance coverage.

Response: The Board of Education policy directs the District to obtain proof of insurance. Once obtained the District matches it to the names on the Facilities Use Form and has it reviewed by our insurance agent. The issue raised by the audit was caused by a discrepancy in the name of the organization but insurance protecting the district was always in place.

6. The District should routinely monitor the activities of the organization running the summer sports program on District property to ensure that it is in compliance with the contract.

Response: The District agrees and will check to see that the outside organization adheres to the use of facilities policy and that the buildings and fields are being used for the intended purpose. The District will randomly monitor to ensure compliance.

Confirming Purchase Orders

Recommendations:

7. The Board should revise its procurement policy to require the use of competition when professional services are procured.

Response: The Board of Education has a policy in place and the District does get Requests for Proposals (RFP) to ensure the lowest cost for the services needed. Providing special education services is a highly specialized field, and it is important to correctly match an available specialist with an individual's specific educational need. This comment was a result of using special education service providers without doing a request for proposal. The district is working with the local BOCES to issue an RFP which will satisfy legal requirements while providing the flexibility for obtaining high quality specialists for our special education program.

8. The Board should ensure that District officials enter into written contracts with professional service providers to define the responsibilities of both parties, the contract period, the goods and services to be procured and the basis for compensation. All contracts entered into should be approved by the Board.

Response: The District agrees and has contracts approved by the Board for professional services and will check to ensure that none of the providers were missed.

9. District officials should adopt procedures to limit the use of confirming purchase orders and specify the exceptional circumstances under which they can be issued.
Response: The District agrees with the recommendations and has met with all the staff and administrators utilizing the requisition management feature of the accounting software to discuss and address purchasing issues in general and specifically confirming orders. This has also been discussed with the administrators. We have developed a letter requesting an explanation of why an item was purchased without a purchase order and instructions on how to properly use a purchase order. In addition, the business office provides periodic training to the staff and administrators to address this and other purchasing issues.

Information Technology IT-

Recommendations:

10. The Board should develop and adopt comprehensive IT policies and procedures to address all major areas of IT operations, including an acceptable use policy for District employees.

Response: The District started reviewing and updating the Board policies during the 2007-2008 school year. As part of that update, district policies addressing IT issues were developed and have passed a first reading by the Board.

11. District officials should periodically review user access rights, to ensure that users have access to functions only within the scope of their responsibilities.

Response: Currently the District only allows employees access to the financial functions that they need to complete their assigned tasks. The District agrees with this recommendation and will review user rights randomly throughout the year and each time the software is updated.

12. District officials should produce and review audit logs and verify that changes made by the accounts payable clerk to vendor files are reflected in the accounting module.

Response: The District agrees with this recommendation and will review audit trail reports and permissions. At the same time we will review audit logs randomly and every time there is an update to our financial software.

13. The Board should adopt a formal disaster recovery plan that provides guidelines to help minimize the loss of computer data and guidance on how to implement data recovery procedures.

Response: The District's Technology Director has addressed the issue of off-site disaster recovery and we have entered into an agreement with BOCES to store financial data at a facility in upstate New York. Other software, such as our student data, is backed up by our vendor. We currently have a formal backup procedure for our local servers that is done weekly and is kept at another school. The school is locked and alarmed and the room where the back-up data is stored is separately locked and alarmed.

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, payroll and personal services, and information technology.

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

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objective and scope by selecting for audit those areas most at risk. We selected the summer sports program, procurement of goods and services, and information technology for further audit testing.

To test for controls over the summer sports program:

- We interviewed District staff to determine the internal controls, policies and procedures were in place.
- We examined 2006 and 2007 budgets and program brochures.
- We reviewed selected cash receipt and disbursements transactions and supporting documentation (such as warrants and claims).
- We reviewed journal entries related to the trust and agency fund.
- We inquired as to Board policies and resolutions concerning the summer programs and the trust and agency fund.
- We reviewed the 2007 application for the use of District facilities, New York State Corporate filing, IRS tax identification document and insurance certificates.

To test for controls over procurement:

- We interviewed District staff to determine what internal controls and procedures were in place.
- We reviewed the Board's procurement policy.
- We reviewed six claims for professional services totaling \$202,528 to determine if procurement practices conformed to the Board's procurement policy and General Municipal Law.
- We inquired as to whether written contracts were entered into for professional services.
- We reviewed 20 claims totaling \$57,174 to determine if purchases orders were properly authorized, approved, and issued before goods and services were received.

To test for controls over information technology:

- We interviewed District staff to determine what internal controls were in place, and if the District had comprehensive IT policies and procedures or an acceptable use policy.
- We reviewed user permission reports to determine whether user access was based upon job functions.
- We interviewed District staff to determine the extent to which audit logs were used, changes to vendor files were verified and if a disaster recovery plan was in place.

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

APPENDIX C

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