



Greenville Central School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2006 — September 17, 2007

2008M-59



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 Greenville 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 and 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 Greenville Central School District (District) is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District has appointed a purchasing agent and claims auditor to perform the purchasing and claims auditing functions. In July 2006, the District entered into an inter-municipal agreement with the Rensselaer, Columbia and Greene Counties Board of Cooperative Educational Services (known as Questar III) to perform the internal audit function for the 2006–07 fiscal year.

Scope and Objective

The objective of our audit was to review internal controls over selected financial activities for the period July 1, 2006 through September 17, 2007. Our audit addressed the following related questions:

- Are internal controls over claims processing adequate and operating effectively to protect District assets against fraud, abuse and professional misconduct?
- Has the District appropriately established an internal audit function?
- Are internal controls over information technology appropriately designed to adequately safeguard District assets?

Audit Results

Our evaluation of internal controls over the claims processing function revealed that currently internal controls are adequate and operating effectively. However, from July 1, 2006 to October 23, 2006, the Board was responsible for the audit and approval of claims. During this portion of the audit period, the Board did not perform a proper audit of the individual claims as required by law.

The Questar III employee serving as the internal auditor is not independent in performing the internal audit function. Consequently, the District's current arrangement may put this Questar III employee in the position of evaluating significant District services or programs that are provided by Questar III.

We also found weaknesses in internal controls over information technology. Because of these weaknesses, the District's computerized data is not adequately safeguarded. The District has not developed a formal disaster recovery plan describing how it would deal with potential disasters and the data backup process is not sufficient. Consequently, the District's computerized data are at risk of loss in the event of an unforeseen event.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Our comments concerning the District officials' response can be found in Appendix B.

Introduction

Background

The Greenville Central School District (District) is located in the Town of Greenville and also serves students from the Towns of Cairo, New Baltimore, Cossackie and Durham in Greene County and the Towns of Berne, Coeymans, Rensselaerville, New Scotland and Westerlo in Albany County and Conesville in Schoharie 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.

There are three schools in operation within the District, with approximately 1,440 students and 380 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$22.3 million, which were funded primarily with State aid, real property taxes, and grants.

The District has appointed a purchasing agent and claims auditor to perform the purchasing and claims auditing functions. In July 2006, the District entered into an inter-municipal agreement with the Rensselaer, Columbia and Greene Counties Board of Cooperative Educational Services (known as Questar III) to perform the internal audit function for the 2006-07 fiscal year.

Objective

The objective of our audit was to review internal controls over selected financial activities. Our audit addressed the following related questions:

- Are internal controls over claims processing adequate and operating effectively to protect District assets against fraud, abuse and professional misconduct?
- Has the District appropriately established an internal audit function?
- Are internal controls over information technology appropriately designed to adequately safeguard District assets?

Scope and Methodology

We examined internal controls over claims processing, the internal audit function and information technology of the Greenville Central School District for the period July 1, 2006 to September 17, 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 C of this report.

**Comments of District
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Our comments concerning the District officials' response can be found in Appendix B.

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*.

Claims Processing

The Board is responsible for auditing, or appointing a claims auditor to audit claims against the District. Conducting a proper audit of claims, prior to payment, is an integral part of an effective claims processing system. The Board or claims auditor must conduct a deliberate and thorough review of claims to ensure that each claim is a proper and valid charge against the District, and an authorized official incurred that such charge. In addition, an appropriate claims audit ensures that the claim is properly itemized and contains enough supporting documentation to determine whether it complies with statutory requirements and District policies, and whether the District actually received the goods or services described in the claim.

Our evaluation of internal controls over the claims audit function revealed that internal controls were not operating effectively for the period of July 1, 2006 to October 23, 2006. We interviewed District personnel and reviewed District policies and procedures relating to the processing of claims and found that the District had not appointed a claims auditor during the period July 1, 2006 to October 23, 2006. While the Assistant Superintendent for Business reviewed and paid claims, during this period, her assumption of the duties of claims auditor did not comply with Education Law. The individual appointed claims auditor must be independent of the District's Business Office. The Assistant Superintendent for Business is not independent of the Business Office. By accepting and performing the task of claims auditing, the Assistant Superintendent for Business was approving claims she may have initiated or authorized. This does not allow for a sufficient segregation of duties and leaves the District open to fraud and abuse.

Auditing a District's bills before they are paid is the responsibility of the Board. The Board may adopt a resolution and appoint an individual who holds this position subject to the pleasure of the Board. A claims auditor serves a critical District function since the individual assumes the Board's powers and duties with respect to auditing claims. On October 24, 2006, the Board appointed a claims auditor who now, according to District policy, verifies the appropriateness of all claims paid by the District.

We tested 100 claims, totaling \$953,284, which the District paid during our audit period. Even though our tests did not identify any improper or unsupported payments or any material discrepancies, the Board's failure to audit claims or appoint a claims auditor to handle

that duty for the period July 1, 2006 to October 23, 2006 may have allowed payments for inappropriate expenses that would not have been detected and corrected in a timely manner.

Recommendation

1. The claims auditor should continue to ensure that all claims submitted are for actual, necessary and proper District purposes prior to approving them for payment.

Internal Auditor

Generally, all school districts were required by law to have an internal audit function in operation no later than December 31, 2006, which includes, at a minimum, the development of a risk assessment of district operations. The risk assessment should include, but not be limited to, a review of financial policies, procedures and practices; an annual review and update of such risk assessment; annual testing and evaluation of one or more areas of the district's internal controls, taking into account risk, control weaknesses, size and complexity of operations; and preparation of reports (at least annually or more frequently as the Board may direct), which analyze significant risk assessment findings, recommend changes for strengthening controls and reducing identified risks, and specify timeframes for implementation of such recommendations.

A district may use its own employees, inter-municipal cooperative agreements, shared services to the extent authorized by Education Law, or independent contractors to fulfill the internal audit function. The internal auditor must have professional auditing qualifications and be independent of other district functions. The internal auditor must have no other responsibilities related to district business operations, and cannot be a close or an immediate family member of an employee, officer, or contractor providing significant or material services to the district. In addition, an individual or consultant hired for the internal audit function may not have a significant or material interest in any other contracts with the district.

In July 2006, the District entered into an inter-municipal agreement with the Rensselaer, Columbia and Greene Counties Board of Cooperative Educational Services (known as Questar III) to perform the internal audit function for the 2006–07 fiscal year. Questar III and the District agreed to employ an internal auditor who would report directly and exclusively to the Board. The internal auditor would have suitable qualifications that allow him or her to undertake internal audit functions. Further, the parties agreed that the jointly employed internal auditor would be considered an employee of Questar III for purposes of payroll administration and benefits.

In 2006-07, the District spent \$1.4 million on services provided by Questar III. Based on the material nature of these payments by the District to Questar III, we conclude that the Questar III employee serving as the internal auditor would not be independent in performing the District's internal audit function. This current arrangement is

likely to put the Questar III employee in the position of evaluating significant District services or programs that are provided to the District by Questar III, the individual's employer.

Recommendation

2. The Board should terminate the internal audit relationship with Questar III and replace this position with an internal auditor who meets the independence requirements in Education Law and State Education Department guidance.

Computerized Data

An effective system of internal controls to safeguard computerized data includes policies and procedures to minimize the loss of essential data, protect data from threats, accidents or disasters¹ and restore data if it is unavoidably lost or corrupted. The District should have a disaster recovery plan to detail the responsibilities of individuals, precautions to be taken and procedures to follow, in the event of a disaster, to allow the recovery of lost data, minimize business cycle interruption, maintain or quickly resume mission-critical functions and return to normal business functioning as soon as possible. Typically, a disaster recovery plan involves an analysis of threats to business processes and continuity needs. It may also include a significant focus on disaster prevention. Data should be backed up on a routine basis and the backup copy should be stored at an environmentally and physically secure off-site location for retrieval as needed.

The District has not developed a formal disaster recovery plan describing how it would deal with potential disasters. Consequently, in the event of a disaster, District personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures. Also, although the District performs a periodic backup of computerized data to server hard drives, a network storage device and eventually to a backup tape, depending upon the critical nature of the data, the backup tapes are initially stored in the server room and then taken off-site to the home of an employee on either a weekly or monthly basis. Storing backup tapes at the same location as the server subjects the tapes to many of the same risks (disasters) as the original data and defeats the purpose of the backup control process. Because of the potentially sensitive nature of some of the data on the backup tapes, the backup tapes should not be stored at the home of any District employee. As a result of these weaknesses, the District's computerized data may be subject to an increased risk of loss.

Recommendations

3. District officials should develop a formal disaster recovery plan. This plan should address the range of threats to the District's information technology system and the need to adequately backup mission-critical data. The plan should be distributed to all responsible parties, periodically tested and updated as needed.

¹ A disaster is any sudden, catastrophic event (e.g. fire, computer virus, power outage, or inadvertent employee action) that compromises the integrity or data of the information technology system.

4. District officials should ensure that backup copies of computerized data are stored at a secure off-site location.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



GREENVILLE
CENTRAL SCHOOL DISTRICT

Cheryl A. Dudley
Superintendent of Schools

Tammy J. Sutherland
Assistant Superintendent for Business

May 14, 2008

████████████████████
Local Government and School Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear ██████████

This letter is submitted in response to the draft of your "Report of Examination on Internal Controls Over Selected Financial Operations" for the Period of July 1, 2006 through September 17, 2007.

On behalf of the Greenville Board of Education please accept our appreciation for the professional manner and courteous demeanor exhibited by your personnel conducting this audit which was appreciated by the Greenville CSD Business Office and financial personnel who take their financial responsibilities very seriously.

As you noted, to the extent that you and your colleagues made recommendations to improve in any area, two of three of those recommendations have already been implemented and the remaining recommendation regarding the Internal Auditor will be corrected at the Organizational Meeting of July 2008 as a result of an RFP process within your specified timeframe.

In your "Introduction" on page six (6) it is requested that there be a distinction made in the second paragraph which references "...there are two schools in operation within the District. Please note there are actually three schools as recognized by the New York State Education Department and as found in our accounting codes: Scott M. Ellis Elementary School (BEDS CODE 190701040005), Greenville Middle School (BEDS CODE 190701040001), and the Greenville High School (BEDS CODE 190701040004). Perhaps this is merely a matter of nomenclature of "schools" compared actual "buildings" as the Middle School of approximately three hundred (300) students and High School of approximately five hundred (500) students are educated in connected educational school facilities.

See
Note 1
Page 18

Claims Processing: It was noted that a claims auditor to audit claims was not in place for the time period from July 1, 2006 to October 23, 2006, claims of which processed during that period were subsequently tested by your personnel. Your tests did not identify any improper or unsupported payments or any material discrepancies and the District greatly appreciates your specific review of those claims during this time period to ensure proper payment for goods and

services to verify that there were not any improper or unsupported payments. As noted the corrective action was implemented after a recruitment process to employ a claims auditor and the District employed the current claims auditor effective October 24, 2006 and into the future to conduct proper audit of claims prior to payment providing segregation of duties and protecting the District from fraud and abuse. The claims auditor continues to ensure that all claims submitted are for actual, necessary, and proper District purposes prior to approving them for payment as noted in your recommendation on page nine (9).

Internal Auditor: In response to Recommendation # 2 on page eleven (11), the District will act to terminate the internal audit relationship with Questar III and to replace this position with an internal auditor thereby meeting your standard for independence requirements as noted. As we stated, this was originally implemented to provide the tax payers with a cost-effective means of responding to the New York State requirement of ensuring an internal audit function by December 31, 2006. However, the District will take immediate action to procure services which meet your standard complying with the ninety day time period for corrective action with an official appointment of an Internal Auditor at the Organizational Meeting on July 14, 2008.


Computerized Data:

Recommendation #3 as found on page twelve (12) of the report specifies that "District officials should develop a disaster recovery plan..." The process of writing a plan for the Greenville Central School District commenced immediately after your visit of April 24, 2008 and a first draft will be completed by June 1st. This plan will include the formation of a "disaster recovery team comprised of the appropriate personnel on this team with specificity regarding their roles in this process.

Recommendation #4 as found on page twelve (12) of the report indicated that "District officials should ensure that backup copies of computerized data are stored at a secure off-site location." The District has procured a safety deposit box at the National Bank of Coxsackie in Greenville to store the backup tapes off-site as immediate action and will be developing a long-term solution and plan with the NERIC for a program to be in place by the fall 2009.

In summary, the Board of Education and I would again like to thank the Office of the Comptroller and your personnel for your recommendations to our District and we were very pleased that there were no improper or otherwise identified inappropriate expenditures or other financial irregularities. Please note that we consider our timely response to your specific recommendations as an indication of the audit recommendations as, not only a requirement of the Office of the Comptroller, but as a resource to our Board of Education and to our District to effectively ensure cost efficiencies, quality service, and transparency in all the financial matters of the Greenville Central School District.

Cordially,



Cheryl A. Dudley
Superintendent of Schools

CAD:jo

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We have amended our report based on the information submitted.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

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 claims auditing for further audit testing. In addition, we reviewed the District's internal audit function and information technology (IT) controls.

We focused on general and capital fund paid claims as well as travel and employee reimbursements. We reviewed claims for sufficient itemization, supporting documentation, authorization and proper approval prior to audit. We reviewed reasonableness of dollar limits for credit cards and purchase activity to ensure that claims for the purchase of goods/services were legitimate, reasonable and proper; properly reconciled; and receipted.

We focused on adherence to District policies and procedures, as well as pertinent laws and regulations related to purchasing. We examined the following records to determine the effectiveness of internal controls pertaining to the claims audit function and to identify any associated effect of deficiencies found in those controls:

- Warrants
- Vendor history reports
- Claim packets
- Applications for payments to contractors

When reviewing the internal audit function, we reviewed the independence of the contractual relationship between the Questar III and the District, total expenditures between the District and Questar III and potential independence issues.

We interviewed appropriate District officials to obtain an understanding of internal controls over the District's financial management system.

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 objective.

APPENDIX D

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

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