



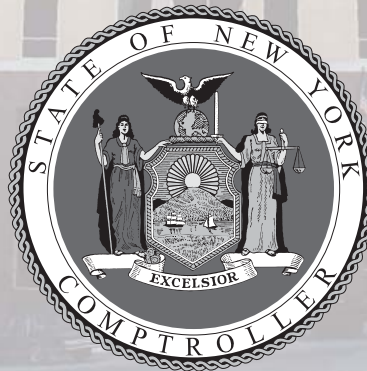
Hyde Park Central School District Financial Condition and Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2005 — June 30, 2007

2008M-139



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 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 Hyde Park Central School District, entitled *Financial Condition and 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 Hyde Park 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.

There are seven schools in operation within the District, with approximately 4,600 students and 800 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$69 million, which were funded primarily with real property taxes and State aid.

The District has undertaken various capital projects to upgrade its buildings and facilities. Most of these projects commenced in 2005, and bond issues and capital improvement projects are still ongoing. The District has been working with an architect, a project manager, and a financial management firm to manage these projects. According to the District's debt service schedule and available records, the District has undertaken over \$18 million in capital improvements, with plans for an additional \$14.9 million bond referendum.

Scope and Objective

The objective of our audit was to analyze the District's fund balance and to determine the adequacy of controls over capital project management, payroll, and information technology equipment and data for the period July 1, 2005 through June 30, 2007. Our audit addressed the following related questions:

- Are internal controls over capital project management appropriately designed and operating effectively to adequately safeguard District assets?
- Is the District's unreserved fund balance consistent with statutory requirements?
- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over the District's information technology system designed to effectively protect electronic equipment and data?

Audit Results

We found weaknesses in several of the District's financial operations caused by a lack of management oversight and attention to these operations. For example, the District did not have adequate recordkeeping procedures to account for and monitor capital project expenditures in the early phases of the District's facilities renovation project. Complete bidding documents for the first two phases of the project were not maintained by the District. We found payments totaling \$160,163 for which there was no evidence of competitive bids or quotes being sought. We also found inconsistencies in the accounting for awarded contract amounts and the subsequent change orders.

The District's unreserved, unappropriated fund balance in the general fund was reported at \$6.4 million as of June 30, 2007, which is over \$4 million more than the limit allowed by law. As a result, taxes may have been levied at a higher rate than necessary. According to the Assistant Superintendent for Business, the \$6.4 million fund balance resulted in part from special aid forms being filed that had not been filed in the past, resulting in unanticipated revenue to the District. He also stated that the District began controlling expenses through restructuring of operations, resulting in a reduction in costs.

The District made separation payments to two principals of \$43,005 and \$20,173, respectively, without documented Board approval. In addition, the District also paid \$5,561 for the additional cost of health insurance for one of the principals over a two-year period without Board approval.

Finally, District officials did not effectively address the safeguarding of the District's information technology (IT) assets, including computer data and equipment. Officials have not ensured that access to the District's financial software is restricted to only those functions required by individual employees' job duties and have not maintained inventory records to help protect and safeguard computer and technology equipment. In addition, audit logs are not maintained to track user changes, computer assets are not physically secured, backup tapes are not stored off-site and there is no disaster recovery plan to ensure that computerized data used in daily business operations is protected from loss. As a result, the District's IT systems 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 have initiated, or indicated they planned to initiate, corrective action.

Introduction

Background

The Hyde Park Central School District (District) is located in the Town of Hyde Park, and portions of the Towns of Poughkeepsie, Rhinebeck, Pleasant Valley, and Clinton in Dutchess County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Assistant Superintendent for Business, among other duties, is responsible for certifying the District's payroll.

There are seven schools in operation within the District, with approximately 4,600 students and 800 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$69 million, which were funded primarily with real property taxes and State aid.

The District has undertaken various capital projects to upgrade its buildings and facilities. Most of these projects commenced in 2005, and bond issues and capital improvement projects are still ongoing. The District has been working with an architect, a project manager, and a financial management firm to manage these projects. According to the District's debt service schedule and available records, from April 2005 through July 2006, the District had undertaken over \$18 million in capital improvements, with plans for an additional \$14.9 million bond referendum.

Objective

The objective of our audit was to analyze the District's fund balance and to determine the adequacy of controls over capital project management, payroll and information technology equipment and data. Our audit addressed the following related questions:

- Are internal controls over capital project management appropriately designed and operating effectively to adequately safeguard District assets?
- Is the District's unreserved fund balance consistent with statutory requirements?
- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard District assets?

- Are internal controls over the District’s information technology system designed to effectively protect electronic equipment and data?

Scope and Methodology

We examined the District’s fund balance and internal controls over capital projects, payroll, and information technology equipment and data for the period July 1, 2005 to June 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 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 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.

Capital Projects

Investments in school district capital projects can often run in the millions of dollars. It is imperative that complete and accurate capital project records are maintained to ensure public accountability. District management is also responsible for ensuring that capital projects are undertaken and completed in accordance with the district voters' authorization and the project budget. In order to permit effective monitoring of capital projects by district officials, an accurate record of project budgets, expenditures, bid documents,¹ and change orders² must be maintained.

In March of 2005, District voters approved a \$10.7 million major building construction project. This project encompassed infrastructure renovations and alterations, technology improvements, and upgrades for Americans with Disabilities Act (ADA), health, safety, and building code compliance. In 2006, the voters authorized the District to receive \$3.6 million in State EXCEL funding for an additional phase of the project. While the District's recordkeeping and reporting procedures for the EXCEL-funded phase of the project were adequate, the records maintained and oversight provided for the \$10.7 million portion of the project were not. In addition, due to unexpected costs and the bids received being higher than anticipated, the \$10.7 million project had cost overruns projected to total approximately \$4.3 million. These potential cost overruns were remedied by reducing the scope of the project by \$2.6 million and adding \$1.7 million of the cuts to the additional phase of the project.

Recordkeeping and Project Oversight

Records for capital projects must be kept in a manner that allows a ready comparison of the project budget, including its individual cost categories, with the actual costs incurred throughout the course of the project. Records need to be maintained in a form that allows for monitoring of individual contracts that have been awarded for the project to help ensure that contractors are paid in conformance with their agreements and need to accurately reflect all approved change orders to show their effect on contracts and the project budget. Effective monitoring also requires that the information contained in the records be reported to District management on a regular basis in a form that provides a suitable basis for determining the status of the project and comparing costs to date with the budget and contracts.

¹ Bid documents are a record of the public advertisement of the work to be bid upon, originals of all bids received, a record of the award of the contract, and, if applicable, the reason(s) why the lowest bidder was not awarded the contract.

² A change order is a modification of the construction contract to authorize a change in the work, an adjustment in the amount of the contract, or a change in the contract time.

We found that the District did not have adequate recordkeeping procedures to account for and monitor capital project expenditures. Capital projects entries were not recorded in the District's accounting system. Instead, the District relied on the financial information provided by its construction manager, and compiled by an outside financial services firm. The Assistant Superintendent for Business informed us that when he came to the District in February of 2006, he began maintaining manual financial records for the District's capital projects. Prior to that time, District officials did not maintain any capital projects records.

We also found discrepancies between the capital project records maintained by the construction manager and the District records that were maintained by the Assistant Superintendent for Business. For example, District records indicated \$897,752 more in expenditures than the construction manager's records. This discrepancy may have been caused by the different methods used by the Assistant Superintendent for Business and the construction manager in allocating costs.

According to one of the Board members, the Board only receives completion status updates to report on the progress of work on the capital projects. Budgetary information and actual expenditures to date are not provided in these reports. Regular reporting of the financial status of major capital projects is needed to help the Board stay informed about the costs and financing of the project and allows the Board to determine the project's financial status relative to what was originally estimated and authorized. Without accurate and regular financial reporting, the Board may not become aware of emerging problems affecting the successful completion of the project in a timely manner. For example, records generated by the construction manager indicated that the \$10.7 million project was projected to be \$4.3 million over budget in 2006. The records further indicate that this overage was addressed by reducing the scope of the original project by \$2.6 million and adding \$1.7 million of the scope cuts to the \$3.6 million EXCEL-funded phase of the project.

Bidding, Quotes, and Contracts

An effective procurement process helps to obtain necessary goods and services at reasonable cost and in compliance with Board and legal requirements. Both General Municipal Law and the District's procurement policy require that all public work contracts in excess of \$20,000 be publicly bid and awarded to the lowest responsible bidder. The District's procurement policy also establishes dollar thresholds for soliciting quotes for the procurement of goods and services that are not subject to competitive bidding requirements. The purpose of competitive bidding and the solicitation of quotes is to encourage competition in the procurement of supplies, equipment

and services which are paid for with public funds. The appropriate use of competition provides taxpayers with the greatest assurance that goods or services of desired quality are procured in the most prudent and economic manner. When competition is sought, all documentation needs to be retained on file.

The District has adopted sound purchasing policies that clearly outline when and how to use competitive bidding, and when to obtain quotes when purchasing goods or services. However, District officials did not always follow these policies, retain supporting documentation, or solicit competition when required for the capital project. As a result, the District may have paid more than necessary for goods and services.

In order to demonstrate compliance with competitive bidding statute, complete and accurate records of all bidding transactions must be maintained. However, the District did not maintain complete bidding documents for the first two phases of the project. District officials were able to provide the copies of the bids from the contractors that were awarded the various contracts, but they could not locate documentation relating to the bids received from other contractors that were not accepted. Because bid documentation was not available, the Board has no assurance that bids were awarded in a fair, unbiased manner or that the District awarded contracts to the lowest bidder.

To test for compliance with procurement requirements, we reviewed 18 capital project payments totaling approximately \$1.5 million. Of those 18 payments, we found six payments (33 percent), totaling \$160,163, for which there was no evidence of competitive bids or quotes being sought, and related contracts for these payments were not presented.

The failure to follow the Board's procurement policy and General Municipal Law increases the risk that goods and/or services will not be obtained at the lowest possible price or at the appropriate quality, and does not provide adequate assurance that the District has used public moneys in a prudent manner.

Change Orders

If changes to the original scope of a project are necessary, a change order form must be completed to define the addition or deletion in the scope of work and any change in contract price. Change orders often have the effect of revising a project's budget and/or changing the amount an individual contractor will ultimately be paid. Therefore, it is essential that this information be recorded in the formal accounting records. In general, change orders are approved by the construction manager, the architect, and a District representative. The District's

Assistant Superintendent for Business needs to record the approved changes to the contracts for budgeting purposes.

We found inconsistencies in the accounting for the change order dollar amounts for awarded contracts. We compared the records of the Assistant Superintendent for Business to the original change order documents and found discrepancies. For one phase of the project, the amount recorded in his records exceeded the dollar amount of the change order books by \$3,265. For a second phase of the project, the recorded amount was \$89,627 less than the amount in the change order books. These differences resulted from the lack of consistency in the approval and recording of change orders. Prior to the appointment of the Assistant Superintendent for Business, the Facilities Director acted as the District's representative in the change order approval process. After the Assistant Superintendent for Business was appointed, there was disagreement as to who had responsibility for approving change orders on the District's behalf. As a result, not all of the approved change orders were made available to the Assistant Superintendent for Business for recording.

In addition, the construction manager's records for change orders were also inaccurate. Rather than separately and distinctly recording individual contracts and change order amounts, the records simply adjusted the original contract amounts by the amount of any related change orders. The records also reflected the movement of items among phases of the project, or the reduction in its scope, in order to maintain a consistent overall budget amount. Therefore, the construction manager's records were an unreliable source of information for determining original contract amounts and change order totals.

The lack of an accurate record of change orders hinders the District's ability to monitor contractor compliance and total expenditures of the project, and to ensure that all change orders were warranted and properly approved.

Recommendations

1. District officials should ensure that adequate records are maintained for all capital projects. Accounting records should reflect original budgets and any adjustments made to those budgets and all actual revenues and expenditures of the project.
2. The Board should ensure that it is receiving adequate financial information throughout the construction of all capital projects. The Board should review this information and ensure that capital projects are being properly managed.
3. All bid documents should be kept on file.

4. District officials should comply with the provisions of the purchasing policy and General Municipal Law by soliciting competitive bids and quotes when necessary.
5. District officials should ensure that all payments to contractors are supported by approved change orders, when appropriate, and signed contracts.
6. Change orders should be maintained in a manner that allows for an accurate reporting of project costs to date.

Fund Balance

The responsibility for effective financial planning and management of the District rests with the Board, the Superintendent, and other officials including the Treasurer, who reports financial information to the Board. The Board and District officials must ensure that budgets are prepared, adopted, and amended based on reasonable and accurate assessments of resources that can be used to fund appropriations. They must also ensure that the District has effective policies, procedures, and personnel to accomplish the accurate and timely recording of the District's financial information.

An important aspect of budget preparation includes a reasonably accurate estimate of fund balance at the end of the fiscal year. The amount of unreserved fund balance available for appropriation has a direct impact on the amount of the tax levy needed to fund subsequent fiscal years' budgets. The reserved portion of fund balance represents moneys that the District has legally set aside, and may only use for specific purposes. The unreserved portion of fund balance is the amount that is uncommitted, and, therefore, available to fund programs in the next year's budget. Real Property Tax Law³ limits the unreserved fund balance a District can retain to a certain percentage of the ensuing year's budgetary appropriations. The portion of the unreserved fund balance that the District uses to fund programs is the appropriated fund balance.

We found that the District's unreserved fund balance was not consistent with statutory requirements. The District's unreserved, unappropriated fund balance in the general fund at June 30, 2007 totaled \$6.4 million, representing 8.6 percent of the \$74.1 million of budgeted appropriations for 2007-08, which is over \$4 million more than the amount allowed by law. This may have resulted in a higher than necessary tax levy.

According to the Assistant Superintendent for Business, the \$6.4 million fund balance occurred, in part, due to unanticipated special aid revenue in the 2006-07 fiscal year. He also indicated that the District began controlling expenses through the restructuring of operations, resulting in a reduction in costs. For example, total costs for the categories of instruction, and employee benefits, were approximately \$3 million less than the total amount budgeted.

³ Legislation was passed during 2007 which allows school districts to increase the amount of unappropriated fund balance that may be retained. For fiscal years prior to 2007-08, school districts were allowed to retain unappropriated fund balance equal to 2 percent of the next year's budget. This was increased to 3 percent for 2007-08 and 4 percent for 2008-09.

Recommendation

7. The Board and District officials should develop a plan to reduce the unreserved fund balance in the general fund. If the Board believes it is necessary to accumulate money for future planned purposes, it should consider formally establishing authorized reserves.

Payroll

Salaries and fringe benefits are the single largest expense category in the District's budget. In the 2006-07 fiscal year, salaries expenditures amounted to over \$31 million, or approximately 47 percent of the District's total general fund expenditures. District officials must ensure that appropriate payroll controls are established.

Our audit disclosed that internal controls over payroll need to be improved. We identified questionable payments resulting from addendums to collective bargaining agreements which lacked Board authorization. As a result, two administrators received compensation without Board approval and the District incurred unauthorized costs of \$68,739.

Separation Payments – Documentation of the Board's authorization of salaries, wages and fringe benefits in writing, by resolution, policy document, negotiated employee contract, or collective bargaining agreement is an important control over payroll and fringe benefit expenditures because it communicates the Board's intent and provides a framework for compensating officers and employees that is clearly understood by everyone involved in the process. A good system of internal controls over payroll and employee benefits helps ensure that employee payments are adequately calculated and agree with Board-authorized pay scales and benefit packages.

School districts establish the pay and benefits for professional employees and support staff in the written labor agreements they negotiate with employee bargaining units and some individual employees. School boards may also elect to supplement the terms of the labor agreements with written policies. Employment contracts, agreements and policies need to contain clear and unambiguous language to allow proper interpretation of their terms and conditions. The documentation and proper implementation of a district's labor contracts are essential aspects of internal control.

We identified 10 employees who left the District and received a total of 12 lump-sum separation benefits and payments for unused leave balances totaling \$334,244. In general, the District has designed appropriate internal controls over employee separation payments and those controls are operating effectively. Separation payments for eight of the employees were properly supported and calculated in accordance with the terms of their contracts. However, the separation payments made to two employees were not supported by documented Board approval.

We reviewed four payments totaling \$221,473 to two school principals that were the result of memorandums of understanding (MOUs) among each of the individual administrators, the Superintendent, and the President of the collective bargaining unit for the District administrators. We found that \$63,178 of the \$221,473 was paid without documented Board approval. One MOU permitted one of the principals to retire at the beginning of the fiscal year instead of at the contracted conclusion of the year. Under this MOU the administrator would receive all benefits as though she had served the entire year. The other MOU was to extend the other principal's tenure with the District while allowing her to maintain her health insurance benefit from the previous contract.

Civil Service and Public Officers' Law requires that in situations where additional funding is required, the Board must formally approve an addendum to the collective bargaining agreement. The Superintendent stated that she believed the Board was aware of the MOUs to the collective bargaining agreement for these two individuals, but was unable to provide evidence of Board approval for these individual stipulations. As a result, the District paid these two principals \$43,005 and \$20,173, respectively, without documented Board approval. In addition, the District also paid the additional cost of health insurance for one of these principals without Board approval. The total cost of this coverage for the 2005-06 and 2006-07 fiscal years was \$5,561.

Recommendation

8. District officials should ensure that separation payments made to District employees comply with the provisions of their employment contracts or applicable Board policy and/or resolutions. If exceptions are required, the Board should document its approval.

Information Technology

The District uses information technology (IT) to initiate, process, record, and report transactions. The pervasive use and complexity of these computerized functions produces internal control risks such as unauthorized access to data, unauthorized changes to master files, and the potential loss of data. The District can mitigate these risks through a combination of automated and manual controls including policies and procedures limiting user access to protect data from loss by intentional or unintentional manipulation. It is important that this system of internal controls address the review of audit logs, physical security of the system, systematic backup procedures to restore lost or damaged data as quickly and easily as possible and a disaster⁴ recovery plan.

District officials have not established adequate control policies and procedures to safeguard the District's financial computer data, which is essential to its operations. As a result, District's data and/or assets could be at risk for unauthorized access, loss, or misuse.

User Access

Access to computer operations must be restricted to only those functions required by individual employees' job descriptions and/or official duties and, when granted, needs to preserve proper segregation of duties. Strong access controls can help prevent users from handling mutually incompatible aspects of financial transactions.

The Technology Department administers the District's financial system software, but the software does not permit user access rights to be limited to job function. The software is only capable of limiting user access at the module level (i.e., purchasing, payables, payroll, and timekeeping), not the functions within each module. Also, employees who are not involved in a particular function have access to those modules. For example, from reviewing the user access rights listing, we found that five employees have full access to the payroll module. However, three of them have no part in payroll processing. Because the software does not produce an audit log, District officials cannot determine whether or not these employees have accessed the payroll module. Because the software allows access beyond that necessary for an individual's assigned duties, the District increases the risk that inappropriate, unauthorized or fraudulent payroll transactions could be initiated and remain undetected and uncorrected.

⁴ A disaster is defined as a sudden, unplanned catastrophic event that compromises the integrity and the data of the IT systems; this could include fire, flood, a computer virus, vandalism, or inadvertent employee action.

Inventory

A school district's inventory of computer and technology equipment represents a significant investment of resources. A good system of internal controls has policies and procedures to record and maintain inventory of computer and technology equipment, including details of the descriptions, the location and periodic checks to determine the existence and condition of the assets. These policies and procedures help to reduce the risks of loss, theft, misuse and obsolescence. Maintaining inventory records helps safeguard assets, provides a means of planning for future replacement, and a reference for the asset's location.

The District does not have policies or procedures for maintaining inventory to protect and safeguard computer and technology equipment, nor does the District maintain any inventory listing of computer and technology equipment assets. Without an inventory of computer and technology equipment, the District cannot ensure that the computer and technology equipment is protected from potential for loss, theft, misuse and obsolescence.

Audit Logs

A computerized financial system routinely identifies the individual accessing the system and the transactions that are processed. Specifically, an audit log is an automated mechanism for tracing individual accountability, reconstructing events, and monitoring problems. The audit log maintains a record of activity by system or application, identifying each person who accesses the system, recording the time and date of the access, identifying the activity that occurred and recording the time and date of logoff. Ideally, management reviews this audit log to monitor user activity.

Prior to December 2005, the District's used a software package that did not provide for an audit log function. In December 2005, the District contracted with a new software provider and purchased a new software package for approximately \$52,000 which offers an audit log function and advanced user access controls. However, almost two years later, in October 2007, the District still had not used the software. The Assistant Superintendent for Business indicated that it was difficult to transition into the new financial software because he and the Treasurer were new to the District and were trying to obtain an understanding of the processes, procedures and controls before making major changes within the Business Office. The inability to produce and review audit logs represents a significant internal control weakness, as management's ability to detect and properly address unauthorized activities is limited.

Physical Security

Another key component of an internal control structure over IT is the establishment and implementation of policies and procedures relating to physical security over computerized assets. It is important

that computerized data and assets are protected by limiting access to those assets, securing assets from fire and water damage, and ensuring assets are located in a climate-controlled environment. Physical security needs to be the District's first step in protecting its computerized data and assets.

District officials did not establish adequate policies and procedures over the physical security of its computerized assets. Interviews with the IT Coordinator and physical inspections of the District's IT equipment revealed that computer and technology equipment is vulnerable to theft and the District's servers are not secure. For example, we observed in one of the schools that the computer lab was unlocked, the exterior doors to the entrance of the building adjacent to the lab were propped open, and staff was not present. Further, the server and wiring closets are located in areas that are not secure from fire and water damage and are not climate controlled.

Without physical security, all other security measures may be meaningless. Physical threats, whether internal or external, malicious or inadvertent, could lead to damaged or stolen hardware and the release of personal or confidential information. These security breaches can cost thousands of dollars and countless work hours to correct and possibly lead to costly litigation.

Data Backup

It is important for District officials to back up (i.e., make and keep a copy) computer-processed data on a routine basis and store the copy at an environmentally and physically secure off-site location for retrieval in case of an emergency. The backup data needs to be periodically tested to ensure that the data could actually be restored in the event of a problem with the server.

Although the District performs routine data backups, it does not store the data backups in a secure off-site location. According to the Technology Coordinator, the data backups are kept in the server areas where the backups are created. In addition, the District does not periodically test the data backups for accuracy or completion.

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. The District risks losing computer-processed data if the system were to become compromised and backup files were not able to restore it to normal operations.

Disaster Recovery Plan

A system of strong internal controls also includes a disaster recovery plan that describes how an organization might deal with potential disasters. A disaster could be any sudden, unplanned catastrophic

event that compromises the integrity and the data of the IT systems; this could include fire, flood, a computer virus, vandalism, or inadvertent employee action. Contingency planning to prevent loss of computer equipment and data as well as the procedures for recovery in the event of an actual loss is crucial to an organization. The plan needs to address the roles of key individuals and include precautions to be taken to minimize the effects of a disaster so District officials will be able either to maintain or quickly resume day-to-day operations. The plan may also include significant focus on disaster prevention.

District officials have not developed a comprehensive disaster recovery plan. Although the District does perform some daily backups, in the event of a disaster, District personnel have no guidelines or plan to follow to prevent the loss of equipment and data or to appropriately recover data. The lack of a disaster recovery plan could lead to loss of important financial data along with a serious interruption to District operations, such as not being able to process checks to pay vendors or employees.

Recommendations

9. District officials should implement a procedure detailing mitigating controls to be used until the District's financial software can properly restrict user privileges.
10. The Board should adopt comprehensive policies and procedures requiring the maintenance of inventory records for computer and technology equipment and periodic updates to determine the existence and condition of computer and technology equipment.
11. District officials should make a decision on the installation the financial software containing the audit log capability. If the software is installed, they should ensure that this function is activated. District officials should also develop procedures to periodically review those logs.
12. District officials should safeguard computer data and assets from physical security issues relating to access to assets, securing assets from fire and water damage, and ensuring assets are located in a climate-controlled environment.
13. District officials should ensure that data is backed up and periodically restored to verify that it is valid and reliable.
14. District officials should develop a formal disaster recovery plan.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

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Assistant Superintendent
for Pupil Services

November 17, 2008

State of New York
Office of the State Comptroller
22 Computer Drive West
Albany, NY 12205

Dear Ladies and Gentlemen:

This letter is in response to the exit discussion and preliminary draft provided for review to the Hyde Park Central School District. The exit conference was held on October 16, 2008 and was conducted by [REDACTED], representatives of the Office of the State Comptroller. Also in attendance were a trustee, the district's internal auditor as well as district Administration.

The Hyde Park Central School District appreciates the efforts of the Office of the State Comptroller and the opportunity afforded for the review of our financial position. Most of the recommendations related to the issues were those we were already aware of and working on. The report supports our continuing efforts to strengthen internal controls and further improve the district's financial condition.

Capital Projects

Recommendation 1 (Implemented)

The district does agree with the historical issues surrounding the validity of the records maintained by the construction manager for the \$10.7 project. The firm referenced is no longer under contract with the district and great strides have been made with regard to the new construction manager. In addition, all financial records are kept by the district and have been since the hiring of the assistant superintendent for business in February 2006. It must be clear that the district never spent any monies beyond what the voters authorized for the \$10.7 and EXCEL projects.

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Recommendation 2 (Partially Implemented)

It is important to note that the board of education does receive monthly financial updates regarding the capital fund from the business office. The reports they receive include a trial balance, revenue status as well as a comprehensive budget report. The board will also receive status updates relating to all capital projects going forward. This is an area where improvements to the process are continuing.

Recommendations 3 and 4 (Immediately Rectified)

It was found that only the winning bid information was kept by the construction manager. This was immediately rectified in early 2006 and the district has been retaining all bid packages and results for all types of bidding processes. The district followed all general municipal law and policies when approving these bids and therefore never paid more for goods and services than necessary.

Recommendation 5 and 6 (Immediately Rectified)

As noted in the report, prior to the hiring of the assistant superintendent for business change orders were approved by the Facilities Director. This practice was changed immediately and all payments are supported by signed contracts and approved change orders. This provides for proper recordkeeping by the district.

Fund Balance

Recommendation 7 (Partially Implemented)

The district does recognize that the fund balance is more than the amount allowed by law. It is important to note that \$750,000 was used to reduce the tax levy in 2007-2008. Fund balance was used to purchase the district office at a cost of \$970,000 during 2007-2008. In addition, the 2008-2009 tax levy was reduced by \$1,650,000. Finally, by year end June 30, 2008, the district created several reserves with board approval to reduce the fund balance to the level as allowed by municipal law. These reserves are funded at a level that is acceptable by law. The district continues to strive toward the leveling of the fund balance.

Payroll

Recommendation 8 (Immediately Rectified)

The district did pay two administrators as stated in this section of the report. The board of education was aware of the surrounding circumstances regarding the employment contracts. No action was taken by administration without the board of education's knowledge. However, the board never formally acknowledged the existence of these special circumstances in a public forum. In the future, in the event of employment contract variations the district will ensure that the board take the appropriate public action. In addition the creation of the Personnel Department will ensure that the correct action be taken based on Board policy.

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Information Technology

Recommendation 9 (Partially Implemented)

User access as defined in the [REDACTED] system is inadequate for today's internal controls standards. The district is now in the process of changing vendors and implementing [REDACTED] financial software, which has full user access and audit control/logging capabilities. The transition to this new software will be completed by July 1, 2009. In the meantime, access to financial resources has been limited to individuals identified by the business department through setting rights and restrictions on the district server. This is reviewed on a monthly basis.

Recommendation 10 (Partially Implemented)

The technical services department utilizes a [REDACTED] database to track the description and location of technology assets in the district. The coordinator of technology is working with the business office to develop and implement complete policies and procedures for inventory control. The district will be undergoing a comprehensive inventory review as well as converting to a computer generated scanning system within the next fiscal year.

Recommendation 11 (Partially Implemented)

Audit logs are not available within the [REDACTED] system the district currently utilizes. The implementation of the new [REDACTED] product will update the district and allow for industry-standard auditing to take place. The deadline for full implementation of the new [REDACTED] system is July 1, 2009.

Recommendation 12 (Partially Implemented)

The district has analyzed and adjusted access to various data closets district-wide to ensure greater security. Locations have had locks added and / or doors repaired to provide intrusion protection. The technical services department will continue to work with the facilities department to make sure that all closets are secure from fire and water damage and evaluate current climate controls. Staff in each building continue to be reminded of the importance of protecting district technology assets including locking and securing computer lab areas.

Recommendation 13 (Partially Implemented)

The district has implemented a data backup system utilizing modern [REDACTED] server hardware and software called [REDACTED]. The system performs nightly backups of all district servers to centralized storage as well as transferring backup data to tapes. The tapes are then transported off site from FDR High School to District Office for storage in a fire-resistant safe. The district is also working with Dutchess BOCES as part of an offsite disaster recovery option to store backups at their Beta location located in Poughkeepsie. [REDACTED], the new district financial management system, is hosted by Broome-Tioga BOCES. Broome-Tioga BOCES maintains a separate comprehensive disaster recovery plan for the safety and security of the Hyde Park Central School District financial data.

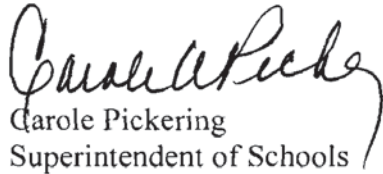
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Recommendation 14 (Partially Implemented)

A draft plan has been created and is modified as necessary to provide procedures and guidance in case of a disaster. The school district continues to modify and refine this plan as necessary.

Once again, the district appreciates the diligent work performed on its behalf by the representatives from the Office of the State Comptroller. The comments and discussion had at the exit interview highlighted the level of professionalism exhibited throughout the audit process. We take the responsibility of running an efficient business office and protecting the district's assets very seriously and thank you again for your efforts.

Very truly yours,



Carole Pickering
Superintendent of Schools

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 objectives and scope by selecting for audit those areas most at risk. We selected capital projects, fund balance, separation payments and payroll processing, and information technology for further audit testing.

Procedures for capital projects included the following:

- We interviewed District officials to determine if the Board is receiving the required financial reports.
- We reviewed policies and procedures for bidding and quoting public works projects, and examined contracts between the District and outside parties where available. We reviewed 18 disbursements and reviewed them for adherence to bidding and quotation requirements, change order documentation, and adherence to contracts.
- We examined practices for recordkeeping, including reviewing all change orders presented for the project and compared accounting records to source documentation to determine the reliability of the accounting records.

Procedures for fund balance included the following:

- We examined the financial trends for the general, school lunch, and special aid funds to determine the maintenance of fund balances, revenues and expenditures.
- We examined the District's general fund balance to determine if it was within allowable limits.

Procedures for payroll included the following:

- We selected 12 separation payments to determine if the payments were authorized and calculated in accordance with contracts, negotiated agreements, and/or Board approval.
- We examined payroll policies and procedures and interviewed District officials to determine whether internal controls over payroll procedures were adequate and operating effectively.

Procedures for IT included the following:

- We interviewed appropriate District officials to obtain an understanding of internal controls over the District's computerized financial system.
- We also reviewed reports of District employees' access rights to the computerized financial system in conjunction with their duties and responsibilities.

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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