



Manchester-Shortsville Central School District Internal Controls Over the Computerized Business Management System

Report of Examination

Period Covered:

October 1, 2006 — September 30, 2007

2008M-49



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
INTRODUCTION	5
Background	5
Objective	5
Scope and Methodology	5
Comments of District Officials and Corrective Action	6
COMPUTERIZED BUSINESS MANAGEMENT SYSTEM	7
Recommendations	9
APPENDIX A Response From District Officials	10
APPENDIX B Audit Methodology and Standards	13
APPENDIX C How to Obtain Additional Copies of the Report	14
APPENDIX D Local Regional Office Listing	15

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 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 Manchester-Shortsville Central School District, entitled Internal Controls Over the Computerized Business Management System. 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*

Introduction

Background

The Manchester-Shortsville Central School District (District) is located in the Towns of Manchester, Hopewell and Farmington in Ontario 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 is one school in operation within the District, with approximately 910 students and 175 employees. The District's budgeted expenditures for the 2007-08 fiscal year were \$15.5 million, which were funded primarily with State aid, real property taxes and grants.

The District has been using a computerized business management system comprised of five financial/personnel modules for more than ten years. The District subscribes to all five of the modules; general financial management, personnel/staffing, payroll, budget preparation and administrative.

Objective

The objective of our audit was to examine controls relating to financial system software information. Our audit addressed the following related question:

- Are internal controls over the District's computerized business management system designed appropriately?

Scope and Methodology

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the computerized business management system and, therefore, we examined internal controls over this system for the period October 1, 2006 to September 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 agreed with our findings and recommendations and indicated they have addressed the findings.

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*.

Computerized Business Management System

The use of information technology affects the fundamental manner in which the District initiates processes, records and reports transactions. An effective system of internal controls to safeguard computerized data includes policies and procedures adopted by the Board to minimize the loss or corruption of essential data. Sensitive job duties such as the signing of checks and the approval of purchases should be strictly limited to only those users explicitly authorized by the Board.

Adequate and deliberate protection of computer data is necessary for District operations to proceed smoothly. During our audit period, the District used a software package to process its financial transactions. The District's computerized financial system included five modules and was installed on computers in the Business Office. The following provides more specific areas where District officials could enhance internal controls to reduce the risk of errors or irregularities occurring and not being detected and corrected.

Controls Over Computerized Signature Stamps — District checks should be signed by the Treasurer, the District's fiscal officer, or by someone under the Treasurer's direct supervision. The Treasurer uses a computerized electronic signature stamp¹ to sign checks and to place approving signatures on purchase orders. The Treasurer should be required to enter her password in order to place her signature stamp on the checks as they are printed. However, District officials had not set specific user rights and system access levels to activate this control feature. As a result, the accounts payable clerk was able to print checks and approve purchase orders using the Treasurer's electronic signature stamp without the direct supervision of the Treasurer.

Access Rights — Policies and procedures should be established for the administration of the computerized business management system, including the approval levels necessary for adding users or applying access rights, and the access levels granted to individual users. District officials should also periodically review of access rights to ensure that each individual only has access to those modules and functions that are minimally necessary to perform their job duties. The technology coordinator is responsible for the administration of the

¹ An electronic signature stamp is a computerized image of a person's signature which is placed on paper stock of purchase orders and checks during the printing process, so that the person does not have to hand-sign each document. When the person enters a unique password, this signature is placed on documents. The system will only prompt a user to enter their password when the proper controls are turned on. Only specific authorized personnel are allowed to sign certain documents.

business management system and as such should assign access rights based upon job function and separate incompatible financial duties, or establish compensating controls. Administrative rights should not be granted to someone responsible for significant business functions and management approval should be required to change user access.

District officials have not established procedures for the administration of the system, including setting the approval levels necessary for adding users, establishing users' access rights or periodically reviewing access rights. As a result, District officials do not know what kind of access individual employees have and cannot determine whether users' access is properly restricted to the levels they need to perform their jobs. We tested all 16 system users and found that the Treasurer has full access to the general financial module. As a result, she has the ability to process nearly any financial transaction, including making appropriation transfers, creating and editing journal entries, and adding, deleting and editing vendor information. Although we noted that the Superintendent performs an independent review of journal entries, we found no indication that the District has established adequate compensating controls for the review of changes to vendor information. Access rights in the financial management module are set correctly for the other 15 users. When employees have greater access than necessary to perform their expected and authorized job duties, and when financial duties are not properly segregated, there is increased risk of fraud, waste, abuse or significant system errors.

Monitoring Reports — Management should review activity audit logs to provide a mechanism for individual accountability, reconstructing events and problem monitoring. However, the District's financial accounting system does not have the capability of producing desired monitoring reports,² such as audit logs, change reports or exception reports. The ability to generate these types of reports for independent review is important when, as in this case, users have full access to portions of the system due to the difficulty to fully segregate duties.³

Because of all the above internal control weaknesses, we reviewed judgmentally selected claims packets, warrants and canceled checks from November 2006 through February 2007. We reviewed 38 of the more than 800 claims and traced 38 checks, totaling \$41,951, of the 884 checks processed from November 1, 2006 through February 28,

² Monitoring reports may include audit logs that show when users enter and exit the system and what users did while in the system; change reports that show changes made to master data files, such as vendor information or employee data; and exception reports that identify instances where financial information has violated a pre-determined set of parameters.

³ Smaller school districts typically have limited segregation of duties due to a lack of funding to hire additional personnel and the necessity of cross training.

2007. We did not note any material payment or recording exceptions. Although our testing did not find any significant problems, District officials should correct the internal control weaknesses to reduce the risk of errors or irregularities occurring and not being detected and corrected.

Recommendations

1. District officials should activate system controls and password requirements to ensure that only the Treasurer or an employee under the Treasurer's direct supervision can apply the Treasurer's signature stamp to District checks.
2. The Board should adopt policies for system administration that:
 - limit users' access to the levels they need to perform their job functions
 - provide for proper segregation of duties or the establishment of compensating controls
 - require periodic review by District officials to ensure user rights are appropriate.
3. The Board and District officials should determine which monitoring reports need to be generated by the system for independent review. If the desired reports are unavailable, District officials should work with the system vendor to obtain these reports.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Manchester-Shortsville Central School District
"Red Jacket Schools"

1506 Route 21, Shortsville, NY 14548-9502
Phone (585) 289-3964 • Fax (585) 289-6660
Web Page: redjacket.org

Robert Leiby, Superintendent

e-mail – rleiby@redjacket.org

May 7, 2008

Office of the State Comptroller
The Powers Building
16 W. Main Street, Suite 522
Rochester, NY 14614

Dear Members of the Office of the State Comptroller:

An exit discussion with examiners from your office was held on April 23, 2008 concerning the preliminary draft findings of the recent examination of the Manchester-Shortsville Central School District.

Please be advised that the Manchester-Shortsville Central School District is in agreement with the findings and recommendations as set forth in this report.

At this time, the District has already addressed the findings and will submit a Corrective Action Plan, as required, upon completion.

Thank you for your assistance during this process.

Sincerely,

Robert Leiby
Superintendent



Manchester-Shortsville Central School District
"Red Jacket Schools"

1506 Route 21, Shortsville, NY 14548-9502
Phone (585) 289-3964 • Fax (585) 289-6660
Web Page: redjacket.org

Robert Leiby, Superintendent

e-mail – rleiby@redjacket.org

May 7, 2008

Office of the State Comptroller
The Powers Building
16 W. Main Street, Suite 522
Rochester, NY 14614

Re: Corrective Action Plan

Dear Members of the Office of the State Comptroller:

Corrective Action Plan

1. Controls Over Computerized Signature Stamp:

Specific user rights and system access levels have been implemented.
These rights have been BOE approved.

The Treasurer's computerized electronic signature is now on a disk, which is under the direct supervision of the Treasurer.

2. Access Rights

The IT administers the access rights. Policies have been established to administer and monitor the system.
These rights are BOE approved.

3. Monitoring Reports

██████████ the supplier of our financial accounting software, was contacted regarding audit logs. We now have the capability to produce and review the audit logs as recommended by the audit.

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. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected the computerized business management system for further audit testing.

To gain an understanding of how the business management system is routinely used, become familiar with access and limitations, and gain an understanding of what different controls look like and how the organization functions we:

- Physically verified the access rights for 16 individuals at their computer stations.
- Interviewed key business staff, District management, members of the audit committee and the system vendor.
- Reviewed computing processes and procedures within the financial system.

To identify unusual payments and verify that transactions were properly recorded and accounted for, we reviewed: Thirty-eight claims and cancelled checks on all warrants from November 1, 2006 to February 28, 2007, totaling \$41,951.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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

LOCAL REGIONAL OFFICE LISTING

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Room 1050
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates
counties

SYRACUSE REGIONAL OFFICE

Eugene A. Camp, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence counties

BINGHAMTON REGIONAL OFFICE

Patrick Carbone, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins
counties

GLENS FALLS REGIONAL OFFICE

Karl Smoczynski, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,
Montgomery, Rensselaer, Saratoga, Warren, Washington
counties

ALBANY REGIONAL OFFICE

Kenneth Madej, Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205-1695
(518) 438-0093 Fax (518) 438-0367
Email: Muni-Albany@osc.state.ny.us

Serving: Albany, Columbia, Dutchess, Greene,
Schenectady, Ulster counties

HAUPPAUGE REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau, Suffolk counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Orange, Putnam, Rockland, Westchester
counties